The art of steel that creates value

ÇAĞLAR BAŞYURT "The Function of Form"
Marmara University Faculty of Fine Arts
Honorable Mention

"This piece, where İ combine the internal dynamics of energy and movement with the power and nature of steel, is an interpretation of the plastic components created under the constructive influence of architecture."

ERDEMİR GROUP 2013 ANNUAL REPORT

ERDEMİR

www.erdemir.com.tr

Producing steel for life is like creating a work of art; it requires much work, patience and creativity.

ERDEMİR Group sees its business as an art that generates lasting value and the Company strives to bring to life flawless and high quality work.

This year, we are presenting ERDEMİR Group's annual operations and results accompanied by the works of the "Steel and Life Sculpture Contest" that we organized in 2013 for young university student artists, some of whom used ERDEMİR steel in creating their artwork.

ERDEMİR GROUP: INDUSTRIAL GIANT OF TURKEY

ERDEMİR Group continues to create value for Turkish industry with six Group companies and 12,801 employees.

ERDEMİR GROUP COMPANIES

	ERDEMİR	İSDEMİR	ERSEM	ERMADEN	ERDEMİR-RO	ERENCO
	EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.	İSKENDERUN DEMİR VE ÇELİK A.Ş.	ERDEMİR ÇELİK SERVİS MERKEZİ SAN. VE TİC. A.Ş.	ERDEMİR MADENCİLİK SAN. VE TİC. A.Ş.	ERDEMİR ROMANIA S.R.L.	ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.
	5 million tons	**3.5 million tons**	**500 thousand tons**	**1.5 million tons**	**70 thousand tons**	**160**
	With a production capacity of more than 5 million tons of flat finished products, ERDEMİR is one of the leading blue chip stocks of the Turkish equity market.	*With a major presence in flat steel production, İSDEMİR has a production capacity of 3.5 million tons of flat and 0.5 million tons of long finished products. İSDEMİR is also capable of producing 2.5 million tons of billets per year.*	*ERSEM put in operation its production lines at the company's Ereğli Plant with a capacity of 500 thousand tons.*	*ERMADEN's annual production capacity includes 1.5 million tons of pellet and 750 thousand tons of iron ore lumps.*	*With an annual production capacity of 70 thousand tons of electrical flat steel, ERDEMİR ROMANIA serves industries that produce electric motors, power transformers, generators and power distribution units.*	*With 160 employees, ERENCO offers Group companies a wide range of engineering and project management services, from planning to application.*
Founding Year	1960	1970	2001	2004	2002	2001
Location	Ereğli/Zonguldak	İskenderun/Hatay	Gebze/Kocaeli, İskenderun/Hatay, Manisa, Ereğli/Zonguldak	Divriği/Sivas	Targoviste/Romania	İstanbul
Activity Area	Flat steel production (hot and cold rolled, tin, chrome and zinc plated products and plates)	Flat and long steel production (hot rolled flat products, wire rod, billet and cast iron)	Processed flat steel (hot, cold rolled and galvanized products)	Iron ore production	Electrical flat steel production	Engineering, project, energy and environmental management services
Number of Employees	6,436	5,526	138	271	270	160
Web Site	www.erdemir.com.tr	www.isdemir.com.tr	www.ersem.com.tr	www.erdemirmaden.com.tr	www.erdemir.ro	www.erenco.com.tr

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Dear Shareholders,

The economic recovery that began gaining traction in the most industrialized countries, led by growth in the US economy, was the single most important development that charted the course of the world economy in 2013. Global capital flows into the advanced economies accelerated as the US Federal Reserve began tapering its monthly asset purchases in response to marked improvement in core US economic indicators. Meanwhile, the world's emerging markets, which until recently had been the center of attraction for international capital markets, began to experience external financing problems as a result of the Fed's action. In the Eurozone, the austerity programs pursued in debt saddled countries, such as Greece and Spain, and spearheaded by the European Stability Mechanism, eliminated the risk of contagion in the sovereign debt crisis.

Continued growth momentum in Turkey

Having been impacted by policies to cool down the economy after a sustained period of rapid growth and that accelerated capital outflows following the Fed's tapering decision, the Turkish economy still managed to expand by more than 3% in 2013. Maintaining its economic growth momentum even under these challenging circumstances, Turkey continued to instill confidence in real sector players, like ERDEMİR, thanks to strong economic fundamentals affirmed by credit ratings upgrades of the world's leading rating agencies, a young demographic composition and social structure, and the country's strategic geographic position.

Increased international competition due to excess global capacity

In 2013, global crude steel production increased 3.5% over the prior year and climbed to 1.6 billion tons. Competitive pricing stemming from excess capacity as well as national protectionist measures stood out during the year as the primary determinants of the supply-demand balance. China accounted for 47% of global production in 2013 and continued to lead the market. Turkey was the eighth largest producer globally with total production of 34.7 million tons. Due to the excess capacity-related pricing pressures and economic stagnation, the capacity utilization rate of the Turkish iron and steel industry came in at 69%. We believe that the sector will demonstrate stronger growth in the period ahead with the implementation of innovation-oriented initiatives in the flat products segment, on which Turkey remains import dependent, as well as the adoption of policies to reduce input costs, energy costs in particular.

One of the world's most profitable steel companies

Operating under the corporate umbrella of OYAK Holding, one of Turkey's most established private sector conglomerates, ERDEMİR Group, is one of the country's largest industrial enterprises in terms of total assets and is proud to have recorded strong financial and operational results in 2013. Despite the contraction in the world steel industry last year, ERDEMİR Group's sales increased 3% over 2012, climbing to 7.7 million tons of total finished products. ERDEMİR Group posted net profit of US$ 484 million (TL 920 million) in 2013, a 92% increase over the prior year, making it one of the most profitable listed steel companies in the world.

Standard & Poor's solidifies ERDEMİR Group's successful financial performance

According to the World Steel Association's crude steel production reports for 2012, ERDEMİR Group is the 35th largest steel manufacturer in the world and ranks fourth among European Union manufacturers. ERDEMİR Group produced 6.3 million tons of flat products and 1.4 million tons of long steel for a total of 7.7 million tons of finished products in 2013, making a major contribution to the Turkish economy in the process.

The international rating agency Standard & Poor's upgrade of the Company's credit rating to "B+" solidified ERDEMİR Group's excellent reputation among its stakeholders.

Innovation-oriented sustainability strategy

ERDEMİR Group managed to maintain its competitive edge in 2013 by developing an innovation-focused sustainability strategy in response to the fiercely competitive pricing environment prevailing in the global iron and steel industry. Under this new management strategy, we experienced the pride and satisfaction of implementing major energy efficiency and effective resource utilization initiatives in addition to undertaking modernization and product development investments.

We plan to focus on R&D efforts

Leveraging its rich portfolio of iron and steel products and a deeply-rooted corporate culture, ERDEMİR Group is committed to conducting its operations in line with the goal of creating significant value-added for the Turkish economy in the coming period. In order to achieve this objective in the face of increasing global competition, ERDEMİR Group plans to set up an advanced technology infrastructure that will energize its R&D efforts, help ERDEMİR Group focus on new target markets, and boost its export performance. Undoubtedly, ERDEMİR Group's 12,801-strong highly qualified human capital will be the primary contributor to accomplishing these goals.

I would like to thank all of our shareholders, business partners, employees and customers for supporting ERDEMİR Group's ventures during the 2013 fiscal year. I extend my wishes for continued and even greater success for ERDEMİR Group in the year ahead.

Respectfully yours,

Ali Pandır

Chairman of the Board and Managing Director

Ali Pandır
Chairman of the Board of Directors

"We are one of the largest industrial enterprises in Turkey. We have grand ambitions and we employ superior human capital to attain our goals. During a year of increasing global competition due to excess capacity, we managed to become one of the world's most profitable iron and steel companies thanks to our innovation-oriented growth strategy. We will continue to steer this giant ship with the same approach and with the agility of a racing boat in the year ahead. We are targeting a higher level of exports as a result of the new investments we will be making in R&D and in our production quality. Enhancing our logistical advantages with high value-added products consistent with the new technologies developed by our clients, we will continue to make strides toward becoming a best-in-class corporation of the world."

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. BOARD OF DIRECTORS

Ali Pandır
Chairman of the Board of Directors and Managing Director (Representative of OYTAŞ İç ve Dış Ticaret A.Ş.)

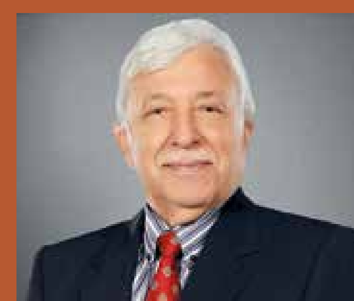
Nihat Karadağ
Vice Chairman of the Board of Directors and Managing Director (Representative of OYAK Girişim Danışmanlığı A.Ş.)

Dinç Kızıldemir
Member of the Board of Directors and Managing Director (Representative of OMSAN Lojistik A.Ş.)

Ertuğrul Aydın
Member of the Board of Directors (Representative of OYKA Kağıt Ambalaj San ve Tic. A.Ş.)

Fatma Canlı
Member of the Board of Directors (Representative of OYAK Pazarlama Hizmet ve Turizm A.Ş.)

Mehmet Sarıtaş
Member of the Board of Directors (Representative of Privatization Administration of Turkey)



Nazmi Demir
Independent Member of the Board of Directors

Atilla Tamer Alptekin
Independent Member of the Board of Directors

Emin Hakan Eminsoy
Independent Member of the Board of Directors

CONTENTS

ERDEMİR Group, Turkey's iron and steel powerhouse, is creating value for the Turkish economy with its manufacturing capability and accomplishments as one of Europe's top producers.

Maintaining a steady pace of growth, ERDEMİR Group ventures into new markets in line with new targets and continues to make capital investments uninterruptedly.

Closely following technology trends for future adoption, ERDEMİR Group offers value-added products in the marketplace and enjoys the pride of supplying customers with the best products and services.

One of Turkey's largest job creators with 12,801 employees, ERDEMİR Group constantly provides personnel with development opportunities and social benefits.

Employing clean production technologies at all its facilities, ERDEMİR Group undertakes environmental investments and improvements in order to attain the maximum recovery rate possible.

Boosting R&D investments in line with the company's innovative approach, ERDEMİR Group is gaining a competitive edge and developing a strong culture of innovation.

Turkey's iron and steel power

ERDEMİR was voted the most admired company in the iron and steel industry in the "2012 Turkey's Most Admired Companies" survey conducted by Capital Magazine.

ERDEMİR and İSDEMİR Collective Bargaining Agreement negotiations concluded
The 24th Term Collective Bargaining Agreement negotiations that began on February 25, 2013 between the Turkish Employers' Association of Metal Industries (MESS) on behalf of ERDEMİR and the Turkish Metalworkers' Union concluded with a consensus. The new labor contract was executed on July 26, 2013.

The 25th Term Collective Bargaining Agreement negotiations that began on January 25, 2013 between İskenderun Demir ve Çelik A.Ş. and the Turkish Steel Workers' Union also concluded with a consensus. The new labor contract was executed on August 5, 2013.

ERDEMİR's credit rating upgraded from "B" to "B+"
The international rating agency Standard & Poor's raised ERDEMİR's credit rating from "B" to "B+". In its announcement relating to the rating upgrade, S&P cited ERDEMİR's high level of profitability and strong cash position in 2012 and in first quarter 2013 as well as the Company's strengthening domestic market position, contrary to a weak business cycle in the global steel industry and large losses announced by many companies. S&P's note also emphasized the strong operational performance and high capacity utilization rate of ERDEMİR, which produces approximately 70% of the flat steel manufactured in Turkey.

ERDEMİR brings steel and art together
The award ceremony and exhibition opening for the "Steel and Life" National Steel Sculpture Student Competition, organized jointly by ERDEMİR and Mimar Sinan Fine Arts University, were held on May 13, 2013 at the Tophane-i Amire Center for Culture and Arts. Three achievement, 10 honorable mention and seven jury special selection awards were presented as part of the competition that received 68 total entries from artists at 12 universities. The exhibition displaying all works that entered the competition was held May 13 - 18 at Tek Kubbe Hall of the Tophane-i Amire Center for Culture and Arts. The works, which uniquely brought steel and art together, were well received by arts enthusiasts in Ereğli after the exhibition in Istanbul.

ERDEMİR is the most admired company in the industry
ERDEMİR was voted the most admired company in the iron and steel industry in the "2012 Turkey's Most Admired Companies" survey conducted by Capital Magazine.

ERDEMİR Group increases capital
Pursuant to resolution numbered 9189 dated February 19, 2013, ERDEMİR Board of Directors resolved to increase the Company's issued capital by TL 410,000,000, by 13.2686%, covered by capital restatement positive differences, special funds, and inflation difference from investment funds, from TL 3,090,000,000 to TL 3,500,000,000, within the upper limit of the Company's registered capital of TL 7,000,000,000. In addition, it was also resolved that the new shares created as a result of this capital increase shall be distributed to existing shareholders as bonus shares in proportion to their participation in the Company's share capital. This resolution was announced on the Public Disclosure Platform on February 20, 2013. Distribution of the bonus shares created by this transaction to the shareholders began on April 12, 2013.

ERDEMİR moves its head office to Istanbul
In accordance with the approval of the Capital Markets Board and the authorization of the Ministry of Customs and Trade, the proposal to amend Article numbered 5 of the Articles of Association to relocate the Company's head office to Istanbul was voted on and accepted with a majority vote at the Ordinary General Assembly Meeting held on March 29, 2013.

Turkey's Social Security Institution presents awards to ERDEMİR Group companies
ERDEMİR and İSDEMİR ranked fourth and eighth, respectively, among institutions making the largest social security premium contributions across Turkey; as a result, the companies received acknowledgement from the Social Security Institution of Turkey (SGK) with an award for their contributions to Turkey's labor market. ERMADEN (first in Sivas), İSDEMİR (first in Hatay) and ERDEMİR (second in Zonguldak) also garnered awards from the respective SGK Provincial Directorates for making their premium payments regularly and ranking among those institutions employing the largest number of registered workers.

Global production force

ERDEMİR Group continues to be Turkey's global iron and steel power thanks to its employees, customers, suppliers and shareholders.

ERDEMİR Group manufactures and delivers high-quality and reliable steel at high standards in facilities equipped with state-of-the-art technology with an experienced and dynamic staff. The largest as well as the only integrated flat steel manufacturer in Turkey, ERDEMİR Group is engaged in steel production and steel service center activities as well as in the mining and engineering business lines. Manufacturing long steel as well, ERDEMİR Group is the sole plate and tin producer in the country.

ERDEMİR Group ranks among the largest job creators in Turkey with a staff of 12,801.

Stock of Ereğli Demir ve Çelik Fabrikaları T.A.Ş., ERDEMİR Group's flagship enterprise, is a blue-chip that has traded on the Borsa Istanbul (BIST) since the stock exchange's establishment in 1986 and is a component of the BIST 30 stock index.

According to the 2012 crude steel production rankings, ERDEMİR Group ranked fourth among EU countries and 10th in Europe. In the 2012 ranking of the Turkey's top 500 companies survey (ISO 500) conducted by the Istanbul Chamber of Industry, ERDEMİR Group companies İSDEMİR, ERDEMİR and ERMADEN ranked seventh, eighth and 160th, respectively.

ERDEMİR Group, which owns two ports operating in Ereğli and İskenderun, the largest port facilities in their respective regions, strives for quality, excellence and sustainability in every area of its operations. ERDEMİR Group companies hold ISO 9001 Quality Management System Certification.

A model corporate citizen

ERDEMİR Group is a model corporate citizen with its organizational structure; sustainability approach and practices; unique corporate culture; and responsible and accountable management approach that emphasizes continuous improvement, innovation and open communications.

12,801 employees

ERDEMİR Group ranks among the largest job creators in Turkey with a staff of 12,801.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Sedat Orhan
General Manager

"Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (ERDEMİR) was established in 1960 pursuant to special legislation in order to produce flat steel desperately needed by Turkish industry but which the country was unable to manufacture at the time. The Company commenced operation in Karadeniz Ereğli in 1965 and has created value ever since for both the domestic and global economy by manufacturing high-quality, Turkish steel. Our goal is to meet the country's ever-growing need for flat steel and pave the way for the development and growth of Turkish industry as well as to increase the diversity of products and services, raise production of high value-added products and further improve our productivity. Continually upgrading its technology, ERDEMİR manufactures hot and cold rolled, tin, chrome and zinc plated products and plates at international quality standards. With a finished product capacity of 5 million tons, ERDEMİR serves the automotive, appliances, pipe and profiles, rolling, general manufacturing, electrical and electronics, machinery, energy, heating equipment, shipbuilding, defense and packaging industries."

İskenderun Demir ve Çelik A.Ş

Recep Özhan
General Manager

"Established in 1970 in Hatay's İskenderun district, İskenderun Demir ve Çelik A.Ş. (İSDEMİR) is an integrated iron and steel factory with the largest liquid steel production capacity in Turkey. İSDEMİR also began manufacturing flat products in 2008 with the Modernization and Transformation Capital Investments undertaken after İSDEMİR's acquisition by ERDEMİR that year. This largest single investment in the history of the Republic of Turkey served to mitigate the imbalance between long and flat steel production in the country. As Turkey's only integrated steel plant capable of manufacturing both long and flat products, İSDEMİR's capacity includes 3.5 million tons of flat and 0.5 million ton of long finished products. Also capable of producing 2.5 million tons of billets, İSDEMİR is engaged in manufacturing hot rolled flat products, wire rod, billet and cast iron."

ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş.

Emin Parıldar
Deputy General Manager

"Established in October 2001 and having commenced operations in Gebze in 2002, with a cold slitting line having 150 thousand tons of annual capacity and cold cut-to-length line having 100 thousand tons annual capacity, ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş. (ERSEM) operates as a steel service center at superior standards. ERSEM serves companies in the automotive, appliances, general machinery and manufacturing, heating, electrical and electronics, and similar industries. We meet the immediate demands of our customers; we ship the products at the desired grades and dimensions promptly to the desired locations; we manage the inventory; and we serve specialized demands such as manufacturing at very tight tolerances and delivery in small shipments. We commissioned our 700 thousand tons per year capacity hot cut-to-length lines at İSDEMİR in 2010; at the end of 2012, we also commissioned our 100 thousand tons annual capacity multiple cutting, 100 thousand tons yearly capacity oblique cutting, 150 thousand tons annual capacity hot slitting, and 150 thousand tons yearly capacity cold slitting lines at ERDEMİR. In addition, we render warehousing and shipment services at ERSEM Manisa, an 17.3-acre outdoor-only facility at the Manisa Organized Industrial Zone that commenced operation at year-end 2012."

ERDEMİR Madencilik San. ve Tic. A.Ş.

Halil Yıldırım
General Manager

"Commencing ore production in Sivas-Divriği in 1938, the company continued operations under the business name Demir Madenleri İşletmesi from 1940 and joined ERDEMİR Group in 2004. The company's nine iron and one manganese sites undertake 50% of all iron ore production in Turkey and meet 20% of the country's iron ore needs. In addition, we are Turkey's only pellet plant that serves the input material requirements of the iron and steel industry. Our annual production capacity includes 1.5 million tons of pellet and 750 thousand tons of iron ore lumps; we will also have the capability to manufacture 3 million tons of pellet per year after the completion of the ongoing Hasançelebi Iron Ore Enrichment Facility capital investment project."

ERDEMİR Romania S.R.L.

Cemal Erdoğan Günay
General Manager

"Located in Targoviste, Romania, ERDEMİR ROMANIA joined ERDEMİR Group in 2002. The company is engaged in electrical flat steel production. Our products serve industries that produce electric motors, power transformers, generators and power distribution units."

ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.

Uğur Yılmaz
Deputy General Manager

"ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. (ERENCO) offers ERDEMİR Group companies a wide range of engineering and project management services, from planning to application, in their capital investments undertaken to attain their profitability, product diversity and high-quality product manufacturing goals. We made a major contribution to bolstering ERDEMİR Group's competitive edge with the 87 projects we have carried out within the ERDEMİR Group totaling US$ 3.5 billion since we commenced operations in 2001."

Favorable expectations...

The Eurozone economies emerged from recession in the second quarter of the year and posted 0.3% growth.

Global Economy

Data released from around the world point to lackluster global economic activity in 2013. The primary reasons for this weakness include slowing economic growth rates in emerging markets, China in particular, and continued contraction in the Eurozone for most of the year. Furthermore, the United States Central Bank's announcement that it will gradually wind down the expansionary monetary policy in place since 2008 caused uncertainty in the markets and fluctuations in capital flows.

Data from the US economy, particularly in the second half of 2013, boosted favorable expectations of the economic recovery. Upward revision of third quarter growth data from 2.8% to 3.6%, steady improvement in the unemployment rate, and a positive outlook in the manufacturing industry data support the case of acceleration of economic output in the United States. In addition, the budget crisis that rattled international markets during 2013 was resolved in January 2014 with the approval of the budget by the US government and the resolution of the issue was met with a positive market response.

Economic risks

The economic contraction in the Eurozone that lasted throughout 2012 continued into the early months of 2013. While the Eurozone economies emerged from recession and posted 0.3% growth in the second quarter of the year, the pace of growth in the third quarter disappointed expectations and came in at 0.1%. Even though the countries in this region exited their respective bailout packages, economic risks persisted due to the lingering debt problem and the high unemployment rate in the Eurozone.

As economic recovery continues in the most industrialized countries over 2012 levels, data from China confirm a slowing economy there. After recording 7.7% growth in 2012, China, the world's second largest economy, is forecast to have expanded by 7.5% in 2013. Rapidly rising housing prices as well as accelerating total and non-performing loans growth prompted the Central Bank of China to take additional measures to cool economic activity. The monetary tightening policies in place for some time as well as the ongoing liquidity crunch have begun to take their toll on trade.

Economies in the Black Sea region experienced a major slowdown in 2013 and fell short of growth forecasts. As a fall in Russia's exports stood out, Ukraine continued to struggle with recession. Political uncertainties in Syria and other countries in the area continue to be a risk factor.

0.3%

While the Eurozone economies emerged from recession and posted 0.3% growth in the second quarter of the year, the pace of growth in the third quarter disappointed expectations and came in at 0.1%.

1.6 **billion tons**

As of year-end 2013, global crude steel production was up 3.5% compared to 2012 and totaled 1.6 billion tons.

1.5 **billion tons**

Global apparent steel use is forecast to have increased 3.1% in 2013 to 1.5 billion tons, with China accounting for 47% of total use.

78.1%

The global capacity utilization rate ticked up 1.9 percentage points over the prior year to 78.1% in 2013, during a time of increasing protectionist measures in the steel industry.

Turkish Economy

Performing favorably during the global financial crisis for the most part, the Turkish economy grew only 2.2% in 2012 as a result of the worldwide slowdown. After this period of economic rebalancing, growth picked up in 2013 and topped 3%.

As a result of moderate economic growth and the balancing in domestic and external demand, the country's foreign trade deficit also continued to decline. During the January-November period –excluding the gold account– Turkey's foreign trade deficit fell by US$ 4.3 billion compared to the same period a year earlier, to US$ 61 billion. However, due to the US$ 8 billion increase in the current account deficit during the January-July period, the Central Bank of Turkey implemented a major tightening in the monetary policy by narrowing the interest rate corridor in July and August. During a year when regional political tensions and fluctuations in foreign currency exchange markets made headlines, Turkey's total exports remained unchanged from a year ago while manufacturing exports grew noticeably, by 4.6% in 2013.

No crisis possibility

According to an assessment of the credit rating agency Fitch Ratings dated September 26, 2013, the slowdown in net capital inflows will reduce the pace of economic growth in Turkey but there is no possibility of a crisis thanks to the country's strong economic fundamentals. The assessment cited the large current account deficit, high inflation rate and weak international liquidity environment as the short term risks against the strengths of a low public debt-to-national income ratio of 38%, a sound banking system and a dynamic private sector.

In light of these developments, the Turkish economy is expected to expand 3-4% in 2014. As part of the government's Medium Term Program (2014-2016), structural policies as well as short term measures to raise economic expansion rates up to the potential growth levels will be implemented. Job creation capacity, a small budget deficit, low public debt burden, a sound banking sector, low-risk household and private sector balance sheets, export market diversification, and a flexible foreign exchange rate system are among the factors that underpin growth in the short and medium term while increasing the resilience of the Turkish economy against external shocks.

Performing favorably during the global crisis, the Turkish economy expanded more than 3% in 2013.

World Steel Industry

As of year-end 2013, global crude steel production was up 3.5% compared to 2012 and totaled 1.6 billion tons. China, which accounts for 48% of world steel production, produced 779 million tons of crude steel, 7.5% more than a year earlier. EU countries produced 166 million tons of crude steel, down 1.8%, while the Commonwealth of Independent States (CIS) produced 109 million tons, also declining 1.8%.

Global apparent steel use is forecast to have increased 3.1% in 2013 to 1,475 million tons, with China accounting for 47% of total use. Despite signs of economic recovery in the second half of the year in Europe, a market geographically close to Turkey, apparent steel use is not expected to grow there. Steel consumption is expected to increase 3% in the CIS countries.

The global capacity utilization rate ticked up 1.9 percentage points over the prior year to 78.1% in 2013, during a time of increasing protectionist measures in the steel industry. Turkey was also impacted by these protectionist policies and was subjected to investigation in many steel product categories by various countries.

2014 forecasts

Apparent steel consumption is forecast to rise 3.3% to 1.5 billion tons in 2014.

In 2014, China is expected to be the focus of attention of the steel industry. Every development in the Chinese steel sector will continue to impact global raw material and finished product prices across the world. Increasing air pollution in China and extremely low profit margins in the sector are forcing the government to keep a tight rein on the capacities in the steel industry. Capacity utilization rates are expected to decline in China, as steel use cannot keep pace with rising production.

Growth in the CIS is not expected to be robust enough to increase steel consumption in these countries in 2014. As a result, producers in the CIS region are anticipated to continue their export-oriented sales policies and remain active in the steel markets in Turkey's surrounding region.

Steel Action Plan

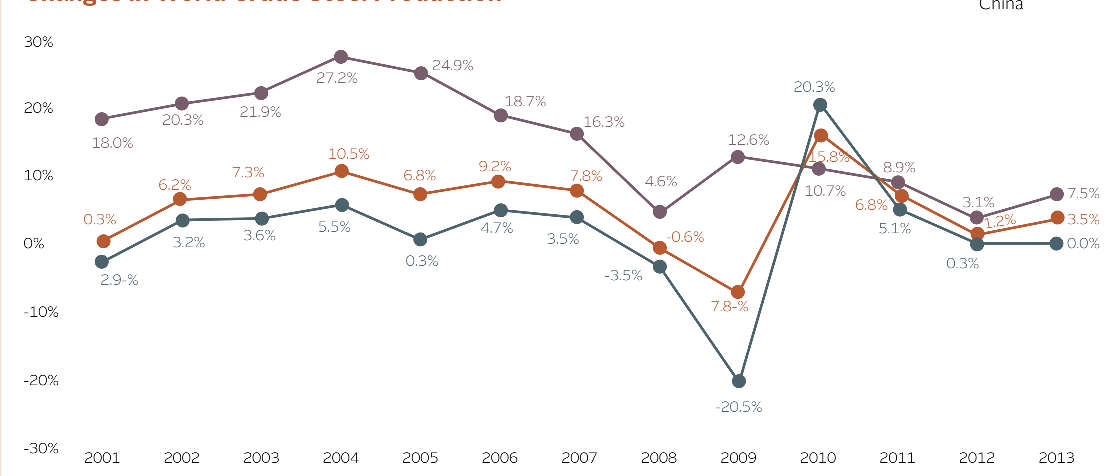
The policies that came to the fore with the approval of the Steel Action Plan in the EU Parliament during the year, aimed at protecting the industry, are expected to continue in 2014, along with the resultant adverse impacts on Turkey's steel sector.

In its industry assessment report for 2013, the European Steel Association (EUROFER) projects that Turkey will once again be the largest market for flat steel exports in 2014.

Country	2013 Production	2013 Ranking	2012 Production	2012 Ranking	Change in Ranking	% Change
China	779.0	1	724.7	1	→	7.5
Japan	110.6	2	107.2	2	→	3.1
USA	87.0	3	88.7	3	→	-2.0
India	81.2	4	77.3	4	→	5.1
Russia	69.4	5	70.4	5	→	-1.5
South Korea	66.0	6	69.1	6	→	-4.4
Germany	42.6	7	42.7	7	→	0.0
Turkey	34.7	8	35.9	8	→	-3.4
Brazil	34.2	9	34.5	9	→	-1.0
Ukraine	32.8	10	33.0	10	→	-0.5
World	1,607.2		1,552.9			3.5

Source: Worldsteel-World Crude Steel Production (January 23, 2014)

Changes in World Crude Steel Production



Source: Worldsteel-World Crude Steel Production

34.7 **million tons**

Turkey ended 2013 with 34.7 million tons of crude steel production.

69% **Capacity Utilization Rate**

İn 2013, Turkey's capacity utilization rate in crude steel production was 69%.

10% **increase**

Apparent steel use in Turkey increased 10% to 31.3 million tons in 2013.

Turkish Steel Industry

Turkey maintained its eighth place spot in the world steel producers rankings in 2013. After being the world leader in percentage increase of crude steel production in 2011 and 2012, Turkey ended 2013 with 34.7 million tons of crude steel production, down 3.4%. The decline was caused by labor strikes, pressure from imports due to excess capacity in the global steel industry, and the narrowing margin between scrap metal costs and finished product prices. According to Turkish Steel Producers Association data, the country's capacity utilization rate in crude steel production decreased from 73% to 69%.

Sector's tendency to grow will continue

Compared to the world's other major steel producing countries, Turkey has extremely low levels of steel inventory. This suggests that the steel industry still has potential for future growth and will continue to expand. Looking at the trend over past years reveals that the steel industry grows at about double the pace of the overall economy.

Performing successfully in recent years despite the ongoing contraction in the aftermath of the global crisis and increasing the country's share of the world steel consumption with each passing year, Turkey is solidifying its position near the top of the world steel rankings.

Apparent steel use in Turkey increased 10% to 31.3 million tons in 2013. Total consumption consisted of 14.6 million tons of flat products and 16.7 million tons of long products. Turkey's steel use is expected to rise to 33 million tons in 2014.

The Turkish steel industry is weighted toward long products in terms of finished product profile and toward arc furnace facilities in terms of manufacturing technology. With annual net exports of 11 million tons, Turkey ranks second after China in global trade in long products. The opposite is true in flat products: Despite boosting its installed capacity, Turkey still meets half of its flat steel consumption from imports.

Target market for net exporter countries

Even though Turkey has reached a point where it can supply all of its flat steel consumption from domestic production with existing capacities and new capital investments, imports remain elevated and have increased steadily over the years. Turkey has become a target market due to the Customs Union Agreement with European countries, geographic proximity of CIS markets that are net exporters due to their excess capacity, and Turkey's growing consumption of steel. Imports particularly from Europe are rising faster due to the contracting internal markets in that region. In its industry assessment report for 2013, the European Steel Association forecasts that Turkey will once again be the largest market for flat steel exports in 2014.

The performance of the steel industry in 2014 will be a function of the competitive edge of the sector, the course of domestic demand, the extent of recovery in export markets, and the potential protectionist measures to be imposed on Turkey.

creating value
for Turkey...

ERDEMİR Group, Turkey's iron and steel powerhouse, is creating value for the Turkish economy with its manufacturing capability and accomplishments as one of Europe's top producers.

SEYİDE SEMİRAMİS ÖZRUH "Silhouettes"
Mimar Sinan University, Faculty of Fine Arts
Honorable Mention Award

"We leave silhouettes from our life in various spaces during our lifelong journey. This work is a manifestation of the imprints left behind that join space and life."

EXPORT INITIATIVES

Creating value for Turkey

Enjoying a strong brand image within the international iron and steel industry, ERDEMİR Group exported 491 thousand tons of flat steel products and earned US$ 317 million from exports in 2013.

Focusing on expanding its target markets in light of effective sales and marketing strategies in response to a sluggish European market and political turmoil in the Middle East and North Africa (MENA) region, ERDEMİR Group exported to 40 different countries, from Thailand to Haiti, in 2013.

Ensuring the sustainability of the Company's international competitive advantage thanks to its product quality as well as a business excellence-oriented after-sale service approach, ERDEMİR Group continued to create value for international customers operating in the automotive, appliances, pipes and profiles, building and construction industries. ERDEMİR Group also continued to improve the product quality of exporting sectors that it served as a supplier in the domestic market thanks to its rich product portfolio.

CONTRIBUTION TO PUBLIC FINANCES

Fulfilling its responsibilities completely and promptly as a good corporate citizen, ERDEMİR Group is meticulous in meeting its tax obligations, which is the single most important source of public service funding.

Having played an indispensible role in Turkey's industrialization process, ERDEMİR Group ensured the growth of existing industrial sectors in accordance with performance targets while helping to establish and develop new industries. As Turkey's leading steel manufacturer, ERDEMİR Group continuously renewed the technology in use and boosted production capacity via capital spending in order to meet growing domestic demand for flat steel. The Modernization and Transformation Capital Investments undertaken by ERDEMİR Group at İSDEMİR as the largest single investment in the history of the Republic of Turkey served as a major milestone in addressing the structural imbalance between long and flat steel production in the Turkish iron and steel industry.

ERDEMİR has continuously undertaken capital investments to ensure the sustainability of the Company's growth since the day it was established. ERDEMİR Group's total capital expenditures amounted to US$ 107 million in 2013. One of Turkey's largest industrial enterprises by total assets, ERDEMİR Group is the fourth largest steel manufacturer among European Union countries and 35th largest in the world based on crude steel production in 2013. In addition, ERDEMİR Group is the largest steel company in Turkey.

Group companies İSDEMİR and ERDEMİR are ranked seventh and eighth, respectively, on the Istanbul Chamber of Industry 500 list. ERDEMİR Group's companies comprise 25% of Turkish steel industry's revenue.

ERDEMİR Group accounts for 24% of Turkey's total steel production. ERDEMİR Group is the market leader domestically with a 35% market share in flat steel and 21% market share in long products. Preferred by more than 120 companies in 50 countries over the last two years, ERDEMİR steel continues to be a respected brand name in Europe as well as across the entire globe.

Fulfilling its responsibilities completely and promptly as a good corporate citizen, ERDEMİR Group is meticulous in meeting its tax obligations, which is the single most important source of public service funding. The contribution of ERDEMİR Group companies to the state coffers in the form of tax payments amounted to TL 163.2 million in 2013. One of Turkey's leading institutions in terms of job creation, ERDEMİR Group's 12,801 personnel account for 40% of the country's total steel industry employment. ERDEMİR Group pays into its employees' social security benefits fund promptly and at the highest level in compliance with legal requirements. Commended by the Social Security Institution of Turkey every year for its performance in this area, ERDEMİR Group's companies contribute to workers' lives as well as public finances by paying employees' social security premiums promptly and at the highest level, both in their home bases and across the country. In 2013, ERDEMİR and İSDEMİR ranked fourth and eighth, respectively, among institutions making the largest social security premium contributions across Turkey; in addition, the two companies were acknowledged by the country's Social Security Institution (SGK) with an award for their significant contributions to workers' lives.

Procurement Rationalization

ERDEMİR Group continues to create value-added for Turkish industry through initiatives to increase the use of domestic sources of raw materials.

ERDEMİR Group's primary strategy in raw material procurement is to put together a supply portfolio that enables production at the quantities and costs consistent with changing market conditions. In order to determine procurement requirements accurately and to take necessary actions dynamically, ERDEMİR Group's internal sales and production departments as well as its external suppliers operate in constant contact with other market players.

Domestically mined minerals are of utmost importance both for Turkey and for ERDEMİR Group from the perspective of self-sufficiency. ERDEMİR Group continues to create value-added for Turkish industry through its initiatives to increase the use of domestic sources of raw materials.

creating value for shareholders...

Maintaining its steady pace of growth, ERDEMİR Group ventures into new markets in line with new targets and continues to make capital investments uninterruptedly.

AHMET YÖRÜK "Alabanda Pier"
Dokuz Eylül University Faculty of Fine Arts Exhibition

"İ tackled the issue of mankind, in its struggle to hang on to life in the midst of challenging waves of life, moving forward virtuously against storms in the vast ocean by riding the powerful, durable, agile and potent phenomena and splitting the waves."

ERDEMİR Group inspires confidence

Inspiring confidence with a robust financial structure, ERDEMİR Group stands out with its stable shareholders' equity. By increasing operational performance, the Group raised its net profit to US$ 484 million in 2013.

Key Financial Indicators

		2009	2010	2011	2012	2013
Net Sales Revenue	(TL million)	5,266	6,633	8,921	9,570	9,781
	(USD million)	3,404	4,427	5,339	5,340	5,142
Net Operating Profit	(TL million)	124	1,181	1,959	753	1,559
	(USD million)	80	788	1,172	420	820
EBITDA	(TL million)	393	1,443	2,073	1,083	1,878
	(USD million)	254	963	1,241	604	987
Net Profit	(TL million)	-166	780	1,021	452	920
	(USD million)	-107	521	611	252	484
Current Assets	(TL million)	3,730	6,325	6,025	5,854	6,008
	(USD million)	2,477	4,091	3,190	3,284	2,815
Fixed Assets	(TL million)	7,421	7,216	7,366	7,287	8,026
	(USD million)	4,929	4,668	3,900	4,088	3,760
Total Assets	(TL million)	11,150	13,541	13,391	13,141	14,034
	(USD million)	7,405	8,759	7,089	7,372	6,576
Short Term/Current Liabilities	(TL million)	1,581	3,716	2,415	2,818	2,475
	(USD million)	1,050	2,404	1,279	1,581	1,160
Long Term Liabilities	(TL million)	3,651	3,134	3,688	2,908	2,852
	(USD million)	2,425	2,027	1,952	1,631	1,336
Shareholders' Equity	(TL million)	5,762	6,511	7,087	7,205	8,467
	(USD million)	3,827	4,212	3,752	4,042	3,967
Market Capitalization (Annual average)	(TL million)	5,468	7,418	8,040	7,120	7,818
	(USD million)	3,535	4,950	4,812	3,972	4,110

NOTE 1: Pursuant to the sample financial statements and guidelines that took effect as of interim periods ending after March 31, 2013 for capital markets institutions that fall within the scope of the Capital Markets Board's "Communiqué on the Principles of Financial Reporting in Capital Markets" Series: II No: 14.1, in accordance with the Turkish Accounting Standards/Turkish Financial Reporting Standards published by the Public Oversight, Accounting and Auditing Standards Agency, reclassifications and restatements were made in the past consolidated financial statements due to the recognition of actuarial loss/income resulting from provisions for employee benefits in comprehensive income statements.

NOTE 2: The functional currency unit of ERDEMİR as well as its subsidiaries İSDEMİR and ERSEM was switched to the US dollar as of July 1, 2013.

Steady returns...

Ereğli stock became one of the year's best performers on the BIST on which it has been listed since the establishment of this exchange in 1986, as well as in the BIST 30 index, which Ereğli is a component of.

Performance of Ereğli Shares
Ereğli shares began the first trading day of 2013 with an opening price of TL 2.45. This opening price corresponds to TL 2.16 after taking into account the increased number of shares due to the capital increase, by way of issuing bonus shares, on April 12, 2013, from TL 3,090,000,000 to TL 3,500,000,000. As a result, Ereğli shares closed the year with a 19%, premium at TL 2.58. Moving in line with the BIST 100 index in the first half of the year, the stock diverged from the index positively due to relaxation of the market's act with deliberation for the global steel industry in the markets as well as ERDEMİR's successful financial results in the second half of the year.

19% premium

Ereğli shares closed 2013 with a 19% premium at TL 2.58.

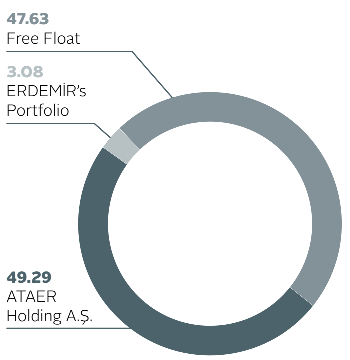
Impacted positively by the net dividend payments on May 30, 2013 and on November 20, 2013, Ereğli stock became one of the year's best performers on the Istanbul Stock Exchange (Borsa Istanbul), on which it has been listed since the establishment of this exchange in 1986, as well as in the BIST 30 index, which Ereğli is a component of.

Bond Issue
At its meeting dated February 19, 2013, Ereğli's Board of Directors resolved to issue a TL 200 million borrowing instrument with a two-year maturity. This TL 200 million placement is the first slice of a total of TL 500 million in borrowing instruments previously authorized within the shelf registration system of the Capital Markets Board pursuant to bulletin numbered 2013/05 and dated February 12, 2013.

The issuance document for the 728-day, TL 200 million nominal value floating-rate bonds, intended for direct placement to qualified investors without being offered to the public, was approved by the Capital Markets Board on March 1, 2013. Bids were collected for this TL 200 million bond issue on March 12-13, 2013 and the transaction closed on March 13, 2013.

Total demand for the TL 200 million nominal value Ereğli bonds amounted to TL 265,850,000. Bonds were directly allocated to 72 domestic and overseas qualified investors.

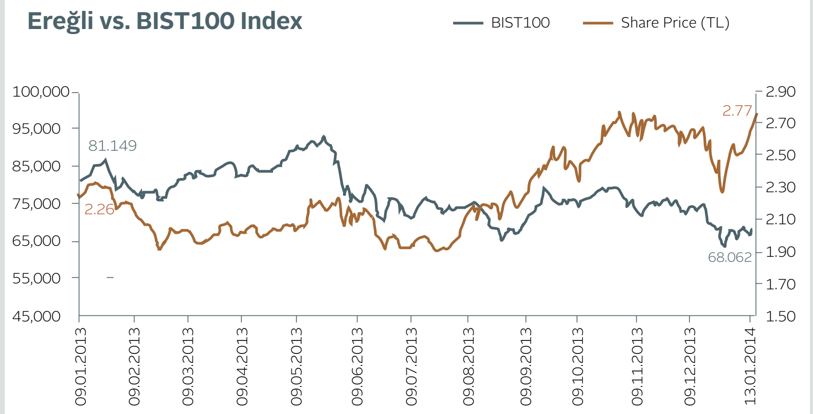
Shareholding Structure (%)



Stock Tickers
Borsa Istanbul: EREGL
Bloomberg: EREGL TI
Reuters: EREGL.IS

Investor Relations Activities
Two analyst meetings were organized in 2013, relating to the Company's year-end and mid-year financial results. In addition, a conference call was held after the announcement of the financials of each quarter to brief analysts and fund managers and to address their questions. As part of its investor relations activities, the Company took part in four conferences and two roadshows in Turkey and abroad and met with 115 firms. In addition, 27 in-person and teleconference meetings were held.

Ereğli vs. BIST100 Index



creating value for customers...

Closely following technology trends for future adoption, ERDEMİR Group offers value-added products in the marketplace and enjoys the pride of supplying its customers with the best products and services.

NERGİZ YEŞİL "Relation"
Mimar Sinan Fine Arts University Achievement Award

"Establishing the material-life relationship, this work emphasizes the nesting between the interlocking, modular and repeating geometric patterned iron and steel structure and the amorphous, natural space construct."

State-of-the-art technology and superior performance...

Accelerating its R&D investments to develop high value-added products in 2013, ERDEMİR Group constantly strives for optimal resource utilization using state-of-the-art technology and a strong human capital base.

Manufacturing 24% of all crude steel produced in Turkey, ERDEMİR Group continued to conduct its operations in 2013 in line with the principles of minimum cost, maximum productivity and high quality production. 2013 was a year full of new records in production for ERDEMİR Group, which successfully continued production, operation, maintenance and modernization initiatives in all of its facilities.

ERDEMİR Group increases its operational performance day-by-day thanks to the use of state-of-the-art technology; employees who prioritize quality and conservation at every stage of the production process; and effective resource, cost and cash management.

24% of all crude steel produced in Turkey

ERDEMİR Group operates at maximum productivity.

PRODUCTION (thousand tons)	2009	2010	2011	2012	2013
Hot Metal	**5,933**	**6,551**	**6,812**	**7,172**	**7,603**
Ereğli	3,339	3,196	3,039	2,934	3,412
İskenderun	2,594	3,355	3,773	4,238	4,191
Liquid Steel	**6,619**	**7,311**	**7,656**	**8,042**	**8,447**
Ereğli	3,798	3,634	3,480	3,328	3,865
İskenderun	2,821	3,677	4,176	4,714	4,582
Crude Steel	**6,465**	**7,116**	**7,473**	**7,867**	**8,268**
Ereğli (Slabs)	3,715	3,539	3,372	3,236	3,761
İskenderun (Slabs)	854	2,135	3,288	3,093	3,103
İskenderun (Billets)	1,896	1,442	813	1,538	1,403
Flat Finished-Products	**4,812**	**5,373**	**6,119**	**5,983**	**6,427**
Ereğli Tin Plates	166	238	227	237	257
Ereğli Galvanized	285	263	321	305	303
Ereğli Cold Rolled	1,139	999	1,104	1,056	1,284
Ereğli Hot Rolled	2,356	1,840	1,872	1,785	1,812
Ereğli Plates	48	66	247	248	253
İskenderun Hot Rolled	818	1,967	2,348	2,352	2,518
Long Finished-Products	**1,869**	**1,420**	**794**	**1,519**	**1,356**
Billets	954	715	344	945	775
Wire Rods	517	445	446	574	581
Other	398	260	4	-	-
Electrical Flat Steel	**47**	**62**	**64**	**61**	**51**
Iron Ore	**2,334**	**2,705**	**2,862**	**2,832**	**2,646**
Pellets	1,371	1,493	1,495	1,543	1,480
Other	963	1,212	1,367	1,288	1,166

ERDEMİR produced 2.1 million tons of hot rolled and 1.8 million tons cold rolled flat steel while İSDEMİR produced 2.5 million tons hot rolled flat steel, for a Group total of 6.4 million tons.

6.4 million tons

In 2013, ERDEMİR produced 2.1 million tons of hot rolled and 1.8 million tons of cold rolled flat steel while İSDEMİR produced 2.5 million tons of hot rolled flat steel, for a Group total of 6.4 million tons of flat finished products.

2.6 million tons

ERDEMİR Group produced 1.48 million tons of pellets in 2013. The total output of products such as lump ore, fine ore, byproducts and pellet cakes amounted to 1.20 million tons. As a result, overall iron ore production was 2.68 million tons.

16.6 US$ million

ERDEMİR Group carried out 22.5 million tons of loading/unloading services, 2.44 million tons of which was for third parties, at its ports in 2013 and earned port operation revenues of US$ 16.6 million as of year-end 2013.

ERDEMİR's capacity utilization rate was 90.3% in 2013. Overall Equipment Effectiveness (OEE), which measures the level of effectiveness and productivity of manufacturing operations and used for tracking operational performance, came in at 87.6% at ERDEMİR. The labor hours spent for production of finished-products corresponded to 3.3 person hours/ton at ERDEMİR and 2.5 person hours/ton at İSDEMİR.

Flat steel production

In 2013, ERDEMİR produced 2.1 million tons of hot rolled and 1.8 million tons of cold rolled flat steel while İSDEMİR produced 2.5 million tons of hot rolled flat steel, for a Group total of 6.4 million tons of flat finished products. ERDEMİR ROMANIA produced 51 thousand tons of electrical flat steel.

Long steel production

ERDEMİR Group manufactured 775 thousand tons of billets and 581 thousand tons of wire rods, for a total of 1.35 million tons of long finished products in 2013.

Iron ore production

ERDEMİR Group produced 1.48 million tons of pellets in 2013. Total output of products such as lump ore, fine ore, byproducts and pellet amounted to 1.2 million tons.

Steel service center

Of the 360 thousand tons of output manufactured at steel service centers in 2013, Gebze's center produced 126.4 thousand tons, İSDEMİR's steel service center produced 123.8 thousand tons, and ERDEMİR's center produced 109.8 thousand tons.

Engineering and project management services

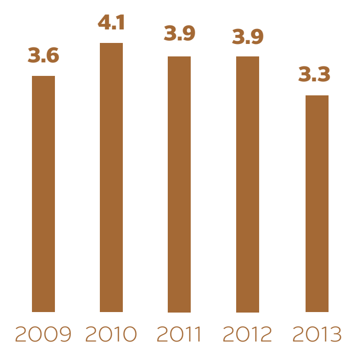
ERENCO continued to manage the capital investment projects of ERDEMİR Group in 2013. As part of its Energy Efficiency and Environmental Management program, ERENCO carried out the following initiatives: Energy Efficiency (EE) consultant to four OYKA projects; EE consultant to LED Project for ERDEMİR; EE consultant to LED Project and Variable Frequency Drive (VFD) Project for İSDEMİR; carbon footprint determination for Aslan Çimento; Aslan Çimento Carbon Certification; ERDEMİR Carbon Certification; and carbon footprint determination for ERDEMİR and İSDEMİR.

Port operations

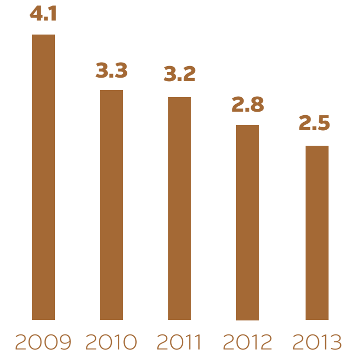
ERDEMİR carried out 10.13 million tons of loading/unloading services, 0.74 million tons of which was for third parties, at its ports in 2013 and earned port operation revenues of US$ 7.7 million as of the end of the year.

İSDEMİR provided 12.4 million tons of handling services, 1.7 million tons of which was for third parties, at its port facilities and earned service revenues of US$ 8.9 million.

ERDEMİR Finished-Product Workforce Productivity (person hours/ton)



İSDEMİR Finished-Product Workforce Productivity (person hours/ton)



Contributing to customer success

7.4% increase

According to Turkish Steel Producers Association data, steel consumption was up 10% in 2013. Flat steel products, the main product category of ERDEMİR Group, posted 7.4% consumption growth.

135 new customers

Enjoying a 35% market share in flat steel and a 21% share of the long products market, ERDEMİR Group continued to broaden the customer base and made sales to 135 new clients in 2013.

5.9 million tons

According to Turkish Steel Producers Association (TÇÜD) data, ERDEMİR supplied 5.9 million tons of the total domestic flat steel consumption of 14.6 million tons.

Customer-oriented service approach

ERDEMİR Group prioritizes customer satisfaction in all its operations while acting in line with the principle of valuing its customers in light of the Company's sustainable growth objective. Ranked among the "World's Best Steel Producers," ERDEMİR Group owes this accomplishment to strong and effective management as well as long-term customer relationships based on trust.

Striving to help its customers succeed, ERDEMİR Group believes that the Company's own success depends on closely listening to customers, understanding their needs and expectations, and being able to offer them the most suitable products and services in light of these findings. With its vast marketing and sales organization structured according to steel user industries, ERDEMİR Group provides customers with products and services tailored to each individual industry while constantly reinforcing customer satisfaction and loyalty.

Turkey's economic growth of more than 3% in 2013 boosted demand for steel, the prime input for construction, infrastructure investments, automotive and machinery manufacturing industries, particularly in the second and third quarters of the year. According to Steel Producers' Association of Turkey data, steel consumption was up 10% in 2013. Flat steel products, the main product group of ERDEMİR Group, posted 7.4% consumption growth.

During 2013, as competition grew fiercer both in Turkey and internationally, ERDEMİR Group focused on superior product quality; improving customer relations; constantly expanding sales and marketing activities; and ensuring the sustainability of the surge in sales volume that the Company had attained in recent years. To this end, capital investments in service centers to meet the in-time deliveries and processed product needs of customers commenced operation.

Value-added products

With rising sales of value-added products, ERDEMİR Group continues to invest in this direction. Recording increases in the sales of high value-added products as a result of development projects at hot rolling mills, ERDEMİR Group plans to continue initiatives and capital investments in value-added products such as automotive outer panel sheets, petroleum and linepipe flat steel grades, and high strength flat steel grade in 2014 and beyond.

With the customer relationship management (CRM) application put in operation in 2013, ERDEMİR Group consolidated customer relations tasks under a central system and posted major gains in customer satisfaction.

Enjoying a 35% market share in flat steel and a 21% share in the long products market, ERDEMİR Group continued to broaden the customer base and made sales to 135 new clients in 2013. As a result of these efforts, ERDEMİR Group increased flat steel shipments by 8.1% and maintained its market leadership position in an environment where the overall Turkish flat steel market expanded 7.4%. According to Turkish Steel Producers Association (TÇÜD) data, ERDEMİR supplied 5.9 million tons of the total domestic flat steel consumption of 14.6 million tons. In addition, shipments by ERSEM, which plays a major role in serving the processed materials needs of customers, soared by 43%.

43%

Shipments by ERSEM, which plays a major role in serving the processed materials needs of customers, soared by 43%.

ERDEMİR Group owes its own success to effective management as well as long-term customer relationships based on trust.

ERDEMİR, the largest supplier to Turkish industry, sold 1.24 million tons of cold rolled products, 255 thousand tons of tin plate, and 4.3 million tons of hot rolled flat steel in 2013, resulting in a new shipment record.

Flat products

The flat products sales volume of ERDEMİR Group was up 6% compared to 2012 and totaled 6.3 million tons in 2013. Domestic sales of flat products increased 9.4% to 5.9 million tons. Total flat steel sales revenue in 2013 amounted to US$ 4.2 billion.

ERDEMİR Group's flat steel sales in 2013 were comprised of 71% hot rolled and plate products, 20% cold rolled products, 5% galvanized products and 4% tin plate. Through direct exports as well as flat steel sales to exporting industries, ERDEMİR Group made a major contribution to the 4.6% increase in Turkey's manufacturing exports in 2013.

300 kg of flat steel

Based on steel shipments in 2013, 300 kg of the 750 kg of flat steel used on average in every vehicle manufactured in Turkey originated from ERDEMİR.

ERDEMİR Group Sales

Industry	Sales Volume	Market Share
Pipes	2 million tons	40%
Automotive	550 thousand tons	35%
Tin Plate	255 thousand tons	70%
Appliances	180 thousand tons	35%

ERDEMİR Group made 35% of its flat steel sales to the steel pipe-manufacturing sector, one of the largest exporting sectors in Turkey. ERDEMİR continued to be the most important supplier to the sector with its support for export-oriented sales and attractive financing rates.

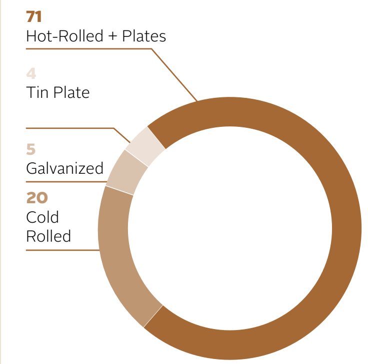
ERDEMİR Group made direct shipments of 550 thousand tons to the automotive industry in 2013 and posted an 11% increase in sales to that sector, which in turn enjoyed 6% growth in output and a 15% rise in exports. As a result of its capital investments, ERDEMİR Group increased the production and shipment of steel used in outer panel sheets of vehicles. Taking into account ERDEMİR Group's steel shipments to just the main sectors of the automotive industry in 2013, 300 kg of the 750 kg of flat steel used on average in every vehicle manufactured in Turkey originated from ERDEMİR. If wheel rims and other auto parts industries are included, this figure surpasses 300 kg. In light of the importance ERDEMİR Group's companies give to the automotive industry, ERDEMİR, İSDEMİR and ERSEM hold the ISO/TS 16949 Automotive Industry Quality Management System Certification.

Record shipments

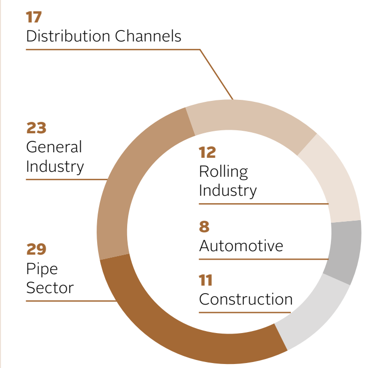
Increasing cold product shipments by 13% thanks to the new cold rolled materials developed internally, ERDEMİR Group continued to be the main supplier of appliance and panel radiator manufacturers. ERDEMİR, the largest supplier to Turkish industry thanks to its close tracking of customer needs, product quality and innovations in the services area, sold 1.24 million tons of cold rolled products, 255 thousand tons of tin plate, and 4.3 million tons of hot rolled flat steel in 2013, resulting in a new shipment record.

SALES (thousand tons)	2009	2010	2011	2012	2013
Flat Finished Products	**5,118**	**5,131**	**5,856**	**5,980**	**6,338**
Ereğli Tin Plate	177	222	214	253	255
Ereğli Galvanized	268	190	213	155	126
Ereğli Cold Rolled	1,108	899	883	948	1,018
Ereğli Hot Rolled	2,467	1,672	1,583	1,623	1,669
Ereğli Plates	56	53	219	234	222
İskenderun Hot Rolled	835	1,839	2,317	2,309	2,432
Electrical Flat Steel	97	61	63	61	52
ERSEM Sales	110	195	364	397	564
Ersem Galvanized	*40*	*58*	*95*	*126*	*169*
Ersem Cold Rolled	*63*	*88*	*148*	*145*	*210*
Ersem Hot Rolled	*7*	*49*	*121*	*126*	*185*
Long Finished Products	**1,858**	**1,393**	**791**	**1,468**	**1,346**
Billets	964	722	331	913	754
Wire Rods	522	439	450	555	591
Other	372	232	10	-	-
Iron Ore	**2,100**	**2,774**	**2,904**	**2,895**	**2,399**
Pellets	1,324	1,468	1,477	1,556	1,463
Other	776	1,306	1,427	1,339	936

Breakdown by Product (%)



Breakdown by Industry (%)



ERDEMİR Group broke an all-time record with 591 thousand tons of wire rod sales in 2013. In addition the Group continued to increase the share of high value-added products in total shipments.

50 countries

Preferred by more than 120 companies in 50 countries over the last two years, ERDEMİR steel continues to be a respected brand name in Europe as well as across the entire globe.

491 thousand tons

ERDEMİR Group exported 491 thousand tons of flat steel products in 2013.

275 thousand tons

ERDEMİR Group exported 275 thousand tons of long products in 2013. Egypt was the largest recipient of ERDEMİR Group's long steel exports this year.

Record shipment in long products

With an all-time high volume of long finished products shipped in 2013 as well, ERDEMİR Group broke a record with 591 thousand tons of wire rod sales. ERDEMİR Group also continued to increase the share of high value-added products in total shipments. Shipping 1.35 million tons of long products including billet sales of 760 thousand tons, ERDEMİR Group earned US$ 784 million from these sales.

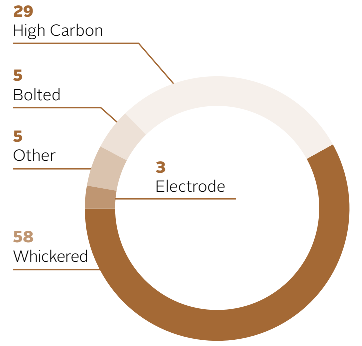
International supplier

Doing repeated business with international customers is extremely important for ERDEMİR Group. Exporting flat and long products from its extensive product portfolio to international customers operating in the automotive, appliances, pipes and profiles, steel service center, and building and construction industries, ERDEMİR Group's high quality production is penetrating many of the world's markets including Europe, Middle East, Africa, USA, Canada and Brazil. Preferred by more than 120 companies in 50 countries over the last two years, ERDEMİR steel continues to be a respected brand name in Europe as well as across the entire globe.

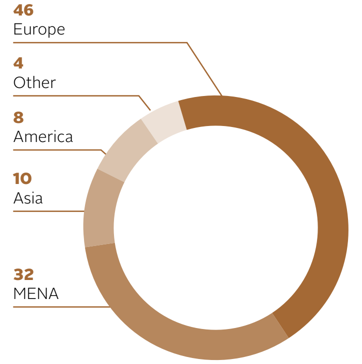
Even after allocating a great majority of production capacity to domestic shipments in order to meet growing domestic demand, ERDEMİR Group managed to export 491 thousand tons of flat steel in 2013. Despite the sluggish European market, ERDEMİR Group exported to 40 different countries, from Thailand to Haiti, thanks to diversification of its export markets during the year.

Although export opportunities to the Middle East and North Africa (MENA) region were limited due to political turmoil, ERDEMİR Group exported 275 thousand tons of long products to a wide geography from the Dominican Republic to Indonesia in 2013. Egypt was the largest recipient of ERDEMİR Group's long steel exports this year.

Wire Rods Breakdown by Industry (%)



Exports (%)



87% **increase**

Increasing its sales in 2013 by 43% over the prior year to 564 thousand tons, ERSEM also posted 87% growth in processed product sales, which totaled 251 thousand tons.

2.4 **million tons**

ERDEMİR Group made sales of 1.46 million tons in pellet and 936 thousand tons in other ore (lump ore, fire ore, byproducts and pellet cakes), for a total of 2.4 million tons in iron ore sales in 2013.

784 **US$ million**

Shipping 1.35 million tons of long products, including billet sales of 760 thousand tons, ERDEMİR Group earned US$ 784 million from these sales.

Desired grade-Just in time delivery

ERDEMİR Group's Steel Service Center (ERSEM) provides processed steel to desired dimensions at tight tolerances to customers with the assurance of desired quality and just in time delivery. ERSEM's specialization in supply chain management services such as orders, domestic and overseas inventory and logistics management allows end-use customers to save on capital, machinery, time and workforce resources and take advantage of scale economies.

Understanding the demands of customers very well thanks to the frequent client visits conducted by its regionally structured sales and marketing organization, ERSEM provides high-quality service under optimal terms with the assurance of the ERDEMİR brand and before- and after-sales service. The Company is also capable of delivering the orders of domestic as well as overseas customers directly to their doors.

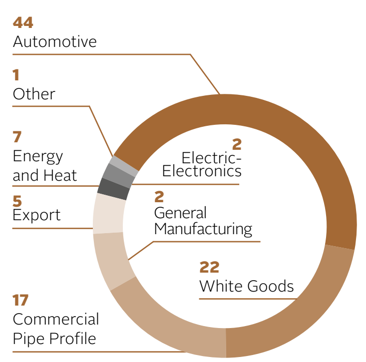
Operating out of three facilities in Gebze, İskenderun and Ereğli, as well as providing warehousing service in the outdoor Manisa facility, ERSEM saves its customers, who are mostly in the automotive, appliance and general manufacturing industries but who span the entire economy, from holding excess inventory, allowing them to minimize inventory costs.

Increasing sales by 43% compared to the previous year to 564 thousand tons in 2013, ERSEM also recorded 87% growth in processed product sales, which totaled 251 thousand tons.

Iron ore sales

ERDEMİR Group made sales of 1.46 million tons of pellet and 936 thousand tons of other ore (lump ore, fire ore, byproducts and pellet cakes), for a total of 2.4 million tons of iron ore sales in 2013.

ERSEM Steel Service Center Breakdown by Industry



INFORMATION TECHNOLOGY

ERDEMİR Group conducts its operations in line with the principle of providing customers and employees with the most innovative and up-to-date IT applications in accordance with ERDEMİR Group's strategies and goals.

Placing a very high priority on the Company's information technology infrastructure since the day it was founded, ERDEMİR Group conducts its operations in line with the principle of providing customers and employees with the most innovative and state-of-the-art IT applications that make work life easier in accordance with ERDEMİR Group's strategies and goals.

Employing an information technology working model based on globally accepted standards and approaches, ERDEMİR Group supports all processes and operations, production and sales processes in particular, with the fastest, most effective and most productive IT applications. The Company's highly talented team of IT professionals closely follows the new developments in the industry and implements those that add the most value as soon as deemed appropriate.

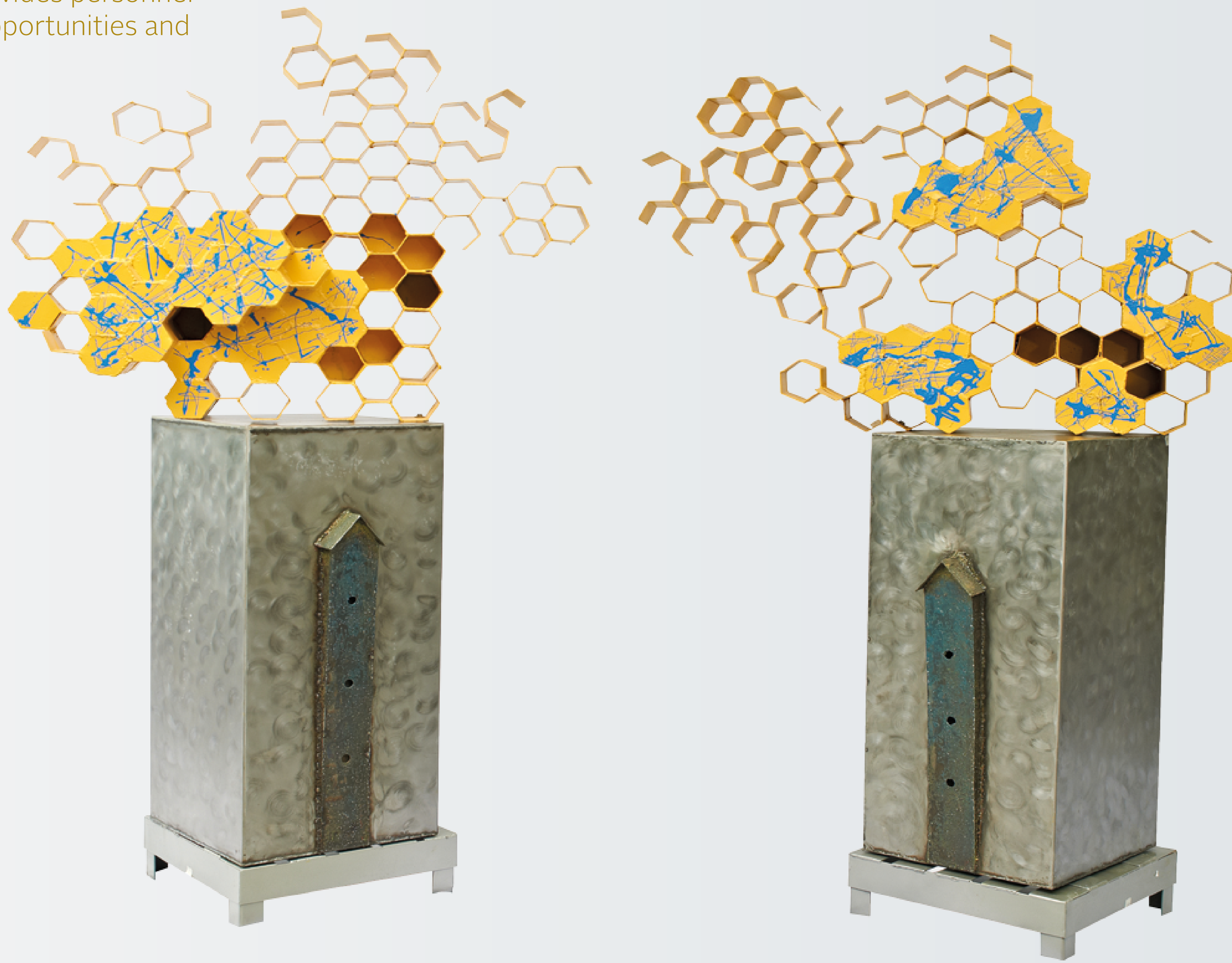
Innovative and state-of-the-art IT applications

ERDEMİR Group Information Technology Division lends software, hardware and communication support to the IT departments of ERDEMİR and its subsidiaries. Operating with a focus on service quality and customer satisfaction, the Information Technology Division's responsibilities include ensuring compliance and integrity in IT, as well as studying, recommending, installing, operating on a 24/7 basis, maintaining, securing, improving and upgrading the systems featuring continuity, speed and ease of use.

During the year, the Division successfully undertook infrastructure installation, improvement, operation, maintenance, support and technological transformation activities in order to provide users with uninterrupted and secure service. The Information Technology Division will continue to support and maintain the applications under its responsibility in 2014.

creating value
for employees...

One of Turkey's largest job creators with 12,801 employees, ERDEMİR Group constantly provides personnel with development opportunities and social benefits.



RAŞİDE BAKİŞ "Colorful Lives"
Atatürk University, Faculty of Fine Arts
Jury Special Selection Award

"The Steel and Life sculpture competition acquainted me with hexagonal architecture that honeybees create to meet their vital needs such as shelter, nutrition and forming a colony. Setting out with the magnificent, sensitive and aesthetic architectural structure created by the bees, I redesigned the hives with an artistic perspective from a different material in an unconventional fashion."

A safe working environment...

Implementing occupational health and safety practices that boost work motivation, ERDEMİR Group is committed to acting in accordance with the principles stipulated in its Occupational Health and Safety (OHS) policy.

ERDEMİR Group takes every opportunity to make employees feel that they are highly valued by the Company and that they are the real architects of ERDEMİR Group's successful performance. This is achieved by providing professional and personal development opportunities; healthy and safe working environments; and social use facilities to increase employee motivation, to enrich the lives of personnel and their families and to hold corporate events.

Having embraced the principle that every accident is preventable, ERDEMİR Group companies operate with the objective of minimizing risks and engaging in accident-free production. Employing occupational health and safety practices that boost work motivation such as rewarding exemplary behavior and equipping employees with world-class protective gear, ERDEMİR Group is committed to acting in accordance with the principles stipulated in its Occupational Health and Safety (OHS) policy:

- Manufacturing steel accident-free by employing risk management;
- Safeguarding employee health by ensuring working environment safety;
- Ensuring that employees take ownership of the sustainable safety culture.

Industry pioneer

Examples of activities conducted under the TS 18001 (OHSAS) Occupational Health and Safety Management System, which is employed by ERDEMİR Group's companies, include OHS council meetings, unit OHS committee and subcommittee meetings, safety tours with or without notice, "yellow card" and "near-accident" applications, emergency drills, employing OHS engineers directly at the units, and the OHS bulletin.

Having effectively undertaken initiatives stipulated in Occupational Health and Safety Law No. 6331 that took effect on June 30, 2012 since 2004, ERDEMİR Group pioneers the industry with its occupational health and safety practices.

Industry pioneer

ERDEMİR Group pioneers the industry with its occupational health and safety practices.

One of the best applications in Europe

At the 2013 A+A Occupational Safety & Health at Work Trade Fair, the world's largest OHS expo, held in Dusseldorf on November 5-8, 2013, ERDEMİR presented the ERDEMİR Risk Assessment System Application (ERDS), which was voted as one of the Best Applications in Europe in 2009, on behalf of the Ministry of Labor and Social Security of Turkey.

In 2013, 22 employees from ERDEMİR and eight personnel from İSDEMİR obtained the A certification, which is the highest level of specialization in occupational safety and which allows the holder to work at even the riskiest workplaces and job sites.

Highly qualified workforce...

ERDEMİR Group's human resources approach is based on the following elements:

- To be an exemplary Group, where everybody wants to work, where the best employees prefer to work, and where employees are proud to work;
- To acquire and retain a highly qualified workforce;
- To create a healthy and safe working environment for employees;
- To invest in the personal and professional development of employees, to offer a participatory environment that allows them to use their potential for the Company's productivity;
- To track the performance of employees, to plan their careers effectively, and to maximize the loyalty, satisfaction and motivation of employees through competitive and performance-based compensation policies.

ERDEMİR Group employees:

- Have embraced ERDEMİR's corporate culture, mission, vision and values;
- Are pioneering, proactive, knowledge producers, problem solvers and investigators;
- Focus on ERDEMİR Group's goals, their work and the future;
- Are active participants, believe in open communications and teamwork, create synergy and value;
- Are market and customer-oriented;
- Are competent, dynamic, professional and qualified;
- Are difference-makers and innovative;
- And most importantly, are happy and contented workers.

A large corporate family

To be an ERDEMİR employee is synonymous with being a member of a leading family that is held up as an example in every area. Employees of ERDEMİR Group feel that they are a part of this large corporate family from their first day at work.

As of December 31, 2013, ERDEMİR's workforce includes 9,267 blue collar, 3,478 white collar and 56 contract employees for a total of 12,801 personnel.

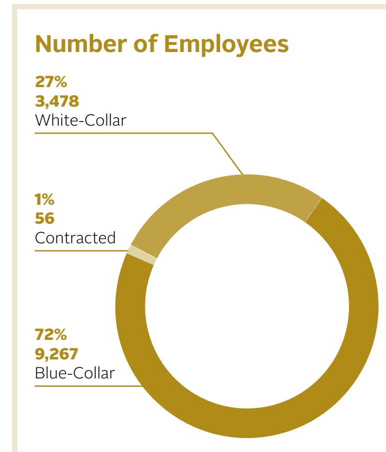
PERFORMANCE MANAGEMENT SYSTEM

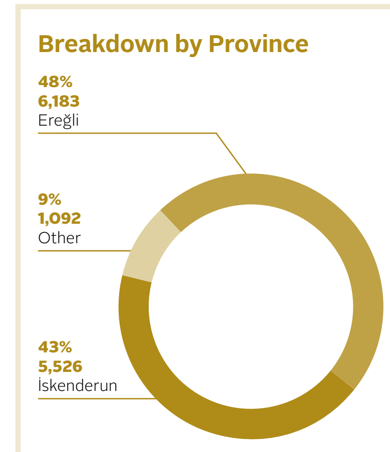
ERDEMİR Group employs a performance management system in order to align employee goals with corporate objectives, assess employee contributions to ERDEMİR Group's business, plan staff members' development needs, and enhance work productivity by recognizing the contributions of Company personnel. Outcomes of the performance management system constitute input to training and development plans, career development plans, and termination of employment contracts.

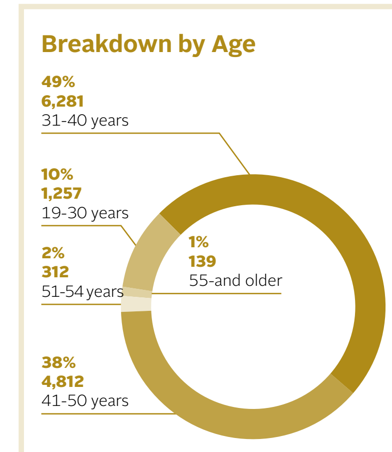
HEALTH AND SOCIAL SERVICES

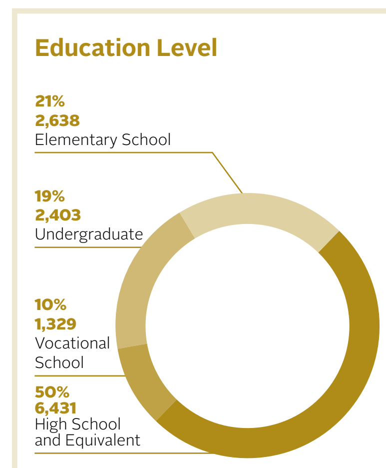
Providing a healthy and safe working environment for employees is among ERDEMİR Group's highest priorities. ERDEMİR Group carries out preventive medical services, new employee health examinations, periodic examinations, initiatives to prevent occupational accidents and diseases, follow-up care services for recovering employees, first aid and emergency treatment services at the fully-equipped health centers located within the Ereğli and İskenderun plant premises. ERDEMİR Group also administers first aid certification trainings on an ongoing basis.

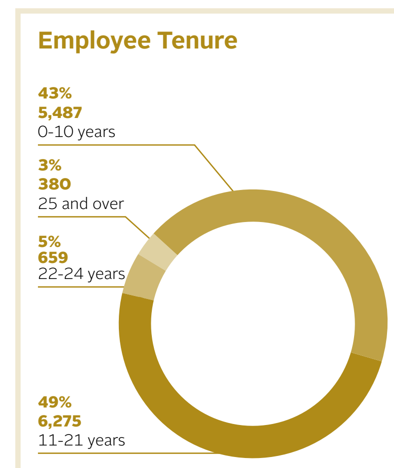
ERDEMİR Group provides social facilities for the exclusive use of employees on the Ereğli and İskenderun campuses. In addition to employee housing, personnel and their families also have access to a wide range of recreational facilities and services including childcare centers, restaurants, athletic and cultural activity areas, guesthouses, beaches and swimming pools.











In order to increase professional know-how and experience and to expand its competent, participatory and open-to-innovation workforce profile, ERDEMİR Group gives priority to professional and personal training opportunities.

TRAINING INITIATIVES

In order to increase the professional know-how and experience of personnel and to expand the competent, participatory and open-to-innovation workforce profile, ERDEMİR Group gives priority to providing employees with professional and personal training opportunities at every stage of their tenure at ERDEMİR Group.

ERDEMİR Group companies continued to administer training programs for employees in a wide range of areas including professional, personal, and occupational health.

In addition, ERDEMİR Group launched the "ERDEMİR Executive Development Project" in order to improve the management and leadership skills of managerial-level employees; create a shared management culture; make a difference in corporate performance; develop the leaders who will spearhead ERDEMİR Group to future accomplishments; and sustain ERDEMİR Group's development and growth.

Safety first

In line with its focus on occupational health and safety, ERDEMİR Group administered a total of 181,273 participant-hours of OHS training to 22,397 participants at ERDEMİR and a total of 49,848 participant-hours of OHS training to 8,164 participants at İSDEMİR, including contractor company employees and interns, as of year's end. The share of OHS training in total training-related activities amounted to 48.8% and 26 hours of training per employee at ERDEMİR, and 23.8% and nine hours of training per employee at İSDEMİR in 2013.

Participation in congresses, conferences and seminars

Some 876 ERDEMİR employees and 291 İSDEMİR personnel attended congresses, conferences and seminars during the year.
In order to support employees' professional development and to help staff keep up-to-date with new technologies, ERDEMİR Group provided personnel the opportunity to become familiar with the products and technologies of various domestic and overseas companies during the year.
In addition, ERDEMİR Group representatives met with students during various university career days and informed them about the career opportunities available at ERDEMİR.

Distance learning method

Under the ERDEMİR Academy E-Learning Project, a distance learning method that allows employees to reach knowledge quickly at any time and from any place, ERDEMİR administered 340 training sessions to 257 personnel at the Ereğli location and 2,356 training sessions to 287 staff members at the Istanbul location. These distance learning type initiatives have become part of the fabric of everyday life and have turned training into a daily workday routine for ERDEMİR employees.

A dynamic learning model

ERDEMİR and İSDEMİR employ the Intra-Unit Training System as a dynamic learning model where information and experience resulting from continuous questioning and improvement of on-the-job business conduct are shared. As part of this effort, 1,269 instructors administered training courses to 5,467 Group company employees.

Internship programs

With 1,106 students completing internships in 2013, ERDEMİR Group implemented applications for tracking the competencies of interns to recruit them to the Company in the future.

CONTINUOUS IMPROVEMENT

Actively encouraging employee participation in improvement initiatives with a questioning approach, ERDEMİR Group fosters working environments conducive to continuous improvement becoming part of business conduct and successfully employs Suggestion Systems and Improvement Teamwork Initiatives. Making improvements in a large number of areas, from occupational health and safety to customer satisfaction, productivity to sustainability, as part of this effort, ERDEMİR Group created US$ 13 million of value-added in 2013.

Professional and Personal Development Training

Company	Participants	Hours
ERDEMİR	31,704	287,857
İSDEMİR	29,174	207,414
ERMADEN	271	6,085
ERENCO	305	5,097

Occupational Health and Safety Training

Company	Participants	Hours	Share in Total Training (%)	Average Training Hours per Employee
ERDEMİR	22,397	181,273	48.8	26
İSDEMİR	8,164	49,848	23.8	9

ERDEMİR Group companies continued to administer training programs for employees in a wide range of areas including professional, personal, and occupational health.

creating value
for society...

Employing clean production technologies at its facilities, ERDEMİR Group undertakes environmental investments and improvements in order to attain the maximum recovery rate possible.

CANER ŞENGÜNALP "In the Midst of Life"
Marmara University Institute of Fine Arts
Jury Special Selection Award

"This work was designed as a composition that highlights the key points in ERDEMİR's historical development. It allows the viewer to read the highlighted dates from the Company's establishment to today, and the events that transpired on those dates. ERDEMİR supports social life and development via the Company's contributions to the Turkish economy and the employment opportunities it creates. The composition emphasizes that humanity and a state of togetherness are at the center of history and the life cycle; that in turn signifies ERDEMİR's intimate ties with life and mankind."

Environmentally friendly production...

Respecting the environment, embracing and spreading environmental awareness, using all resources effectively and efficiently, encouraging multi-faceted communications, contributing to the awareness level and development of stakeholders, continuously improving the Company's environmental performance, and leaving behind an inhabitable world for the future generations all form the foundation of ERDEMİR Group's corporate culture.

ERDEMİR Group is committed to acting in accordance with the principles stipulated in its environmental policy, namely:

- Reducing waste, encouraging recovery, and collecting and disposing of waste properly;
- Using natural resources effectively;
- Employing clean production technologies in its capital investments in line with the Company's sustainable development goal;
- Taking necessary measures to minimize the impacts of industrial accidents on people and the environment.

Constantly monitoring the environmental performance of its companies via internal and external audits under the ISO 14001 Environmental Management System, ERDEMİR Group uses the feedback it receives from the audits to structure improvement initiatives.

Leading with its intellectual capital

ERDEMİR Group participates in symposiums, conferences, seminars and business networking events organized on a wide variety of platforms in Turkey and abroad, and shares the Company's intellectual capital, successful practices and innovations. As part of this initiative, ERDEMİR Group shared its know-how and experience on "Waste Management at ERDEMİR" at the Waste Management Symposium held in Antalya on April 14-18, 2013; on "ERDEMİR Environmental Performance Index and Sustainability Initiatives" at the Konya Selçuk University Sustainable Practices Conference held on March 22, 2013; and on "Environmental Performance Index and Environmental Management Process" at the Izmir Sustainable Development Dialog Conference held on February 15, 2013.

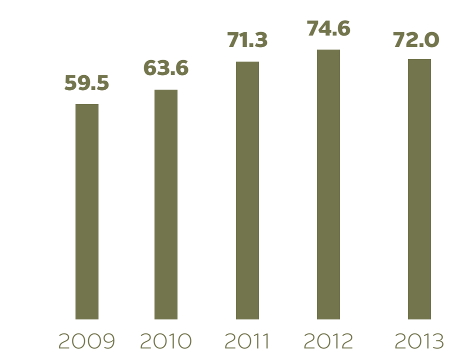
Informed employees

Acting with the awareness that well-informed employees play an active role in increasing the Company's environmental performance, ERDEMİR Group administers training programs for personnel on classifying and collecting waste, global warming and climate change, large-scale industrial accidents, the ERDEMİR Environmental Management System and recycling of waste, water and energy conservation. ERDEMİR Group provided training for 1,189 employees in 2013 in an effort to internalize environmental protection awareness.

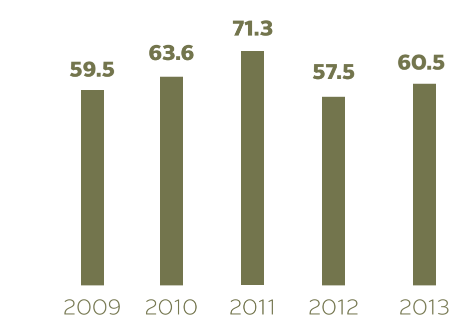
1,189

ERDEMİR Group provided training for 1,189 employees in 2013 in an effort to internalize environmental protection awareness.

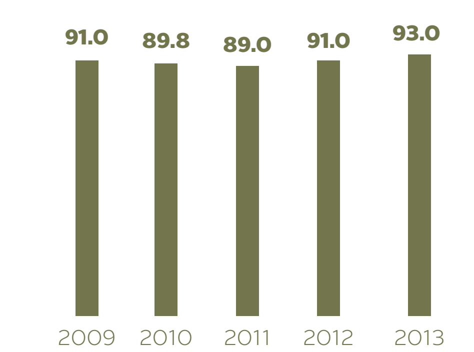
ERDEMİR Facilities Solid Waste Recovery Rate (%)



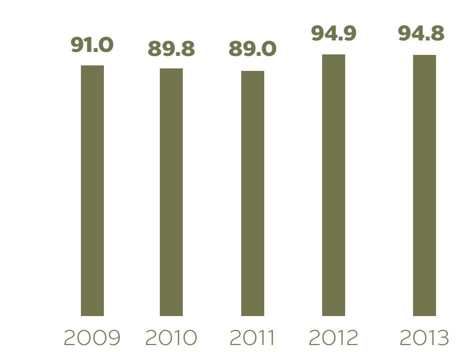
İSDEMİR Facilities Solid Waste Recovery Rate (%)



Rate of Recirculated Water Use at ERDEMİR Facilities (%)



Rate of Recirculated Water Use at İSDEMİR Facilities (%)



ERDEMİR Group companies rank among the most successful firms in the iron and steel industry in terms of specific energy consumption, a major performance indicator in the sector.

With the close oversight and strong support of management, ERDEMİR Group sees energy efficiency as an important area for capital investment. Operating in the steel industry, which is a heavy user of energy, ERDEMİR Group's companies constantly work to improve their energy management approach and their related performance due to its importance for sustainability of both production and the environment.

ERDEMİR Group is committed to act in accordance with the principles stipulated in its energy policy, namely:

- İmplementing innovations in technology that enhance energy efficiency;
- Taking maximum advantage of byproduct gasses and waste heat resulting from manufacturing processes;
- Minimizing energy losses via systematic measurement and monitoring.

Both ERDEMİR and İSDEMİR, for which energy costs comprise a major portion of input costs, hold ISO 50001 Energy Management System Certification.

Competitive advantage from energy conservation

In energy-intensive sectors such as the steel industry, economical use and reduced consumption of energy leads to competitive advantage. To this end, ERDEMİR Group companies use all byproduct fuels from their manufacturing processes to replace the consumption of primary energy sources to the maximum extent possible.

ERDEMİR and İSDEMİR have the capacity to generate nearly all of the electricity they use in their facilities. However, the companies monitor electricity market prices interactively and purchase their power requirements from the grid rather than generating internally during the hours it is more cost effective to do so.

Energy recovery projects

Initiating energy recovery projects to take advantage of waste heat as part of its energy conservation investments, ERDEMİR successfully completed the Renewal of Sinter Main Fan and Motor Systems, Sinter Circular Cooler Waste Heat Boiler and Descale Pump AC Driver capital investments. The company will achieve another round of major energy savings when the Cogeneration Plants, Additional Combustion System for the Waste Heat Boilers, Third Slab Furnace Modernization, Evaporative Cooling System (ECS) Modernization, and Blast Furnace Gas TRT System projects commence operation. Completing the economic feasibility study for switching to LED lighting, ERDEMİR Group formulated the implementation plans for ERDEMİR and İSDEMİR.

Superior quality standards

The superior environmental quality standards that ERDEMİR's production facilities have reached as a result of the energy management initiatives the company has carried out uninterruptedly for many years and its laser focus on this key area were acknowledged with the "Most Efficient Thermal Plant" award presented at the 2011 International Energy and Environment Exhibition and Conference, held for the first time in Turkey.

ERDEMİR Group has constructed nine schools for Turkey to date.

ERDEMİR Group plans and implements its contributions to social development with the dual goal of reaching wider audiences and increasing the impact of the Company's projects.

Focusing on developing voluntary cooperation with state enterprises and public institutions as well as non-governmental organizations in education, health care and the environment, with a particular emphasis on educational oriented initiatives, ERDEMİR Group has constructed nine schools for Turkey to date.

Supporting efforts to improve the physical conditions and technical equipment of educational institutions as well as the scientific research activities of universities in their respective regions, ERDEMİR Group's companies offer internships to high school and university students, and organize trainings and competitions to raise awareness on occupational health and safety and the environment.

Taking Science to Society Project

This year, ERDEMİR introduced elementary and middle school students in Karadeniz Ereğli to the "Taking Science to Society Project" launched by Middle East Technical University's Society and Science Research and Application Center. The project teaches the importance of science, acquaints students with the achievements of scientific thought, and reinforces learning through experimentation.

Steel and Life Sculpture Competition

In order to draw attention to the presence of steel in our lives using art as the conduit, to support young sculptors, and to contribute to art education, ERDEMİR Group held a National Steel Sculpture Student Competition around the theme "Steel and Life" for students in university sculpture departments in cooperation with Mimar Sinan Fine Arts University. The competition received 68 entries from 12 universities.

Children's Theatre

ERDEMİR organized a children's theatre for elementary school students to instill a love of live dramatic performances in youngsters who do not have access to a theatre facility in Ereğli. The project aimed to contribute to the intellectual and emotional development of youth by way of the arts, and help them acquire a taste for dramatic art, develop a sense of aesthetics, and foster social skills all at a young age. Held during the week of the April 23rd National Sovereignty and Children's Day, this event was attended by nearly 800 area children. The Company also contributed to the Art Science Language Days activity of the Ereğli District National Education Directorate.

Other projects

ERDEMİR Group continues to undertake blood donation campaigns, with record participation by employees, as well as food, clothing and fuel assistance to the members of the community who are in need.

ERDEMİR Group companies also take active part in rescue efforts during and after fires, floods, overflows, landslides and other natural disasters and provide support to public entities and municipalities with their specially-equipped vehicles, trailers, rescue teams, construction machinery and trained personnel.

creating value
for the future...

Boosting its R&D investments in line with the Company's innovative approach, ERDEMİR Group is gaining a competitive edge and developing a strong culture of innovation.

IŞIK ÖZÇELİK "x3"
Marmara University Institute of Fine Arts
Jury Special Selection Award

"Cube is order. X number of cubes is related to each other in a countless number of combinations. Cosmos in chaos links to each other with integrity within life. Colorful stirrings of life stand with steel bonds."

Value-added created by R&D...

ERDEMİR Group continues its investments in line with the Company's strategy of undertaking multi-dimensional initiatives in order to manufacture new products, increase productivity and gain market share.

R&D, QUALITY AND TECHNOLOGY
R&D is of critical importance to meet the growing needs of various sectors that use steel as an input, and it transforms new product developments into subsequent applications of steel users. ERDEMİR Group strives to ensure the sustainability of its competitive superiority by investing in R&D. ERDEMİR Group's R&D Department, in conjunction with the Quality and Operations groups, continually carry out the studies of new ideas, products and process on behalf of customers, creating a competitive edge for ERDEMİR Group in the marketplace.

R&D investments for the future
ERDEMİR Group is the industry leader thanks to its R&D initiatives. In these projects, ERDEMİR Group closely monitors developments and technology use in the industry, works in cooperation with customers from the get-go in up-coming projects, leverages Company technical know-how and experience for product development, identifies the new products that the industry will need in years ahead, and plans capital investments proactively.

ERDEMİR Group is currently in the process of constructing a R&D Center, which will feature material characterization and product development simulation devices, where all of ERDEMİR Group's R&D operations will be conducted.

As a result of the joint efforts of the R&D and Quality groups, the number of flat and long steel grades in the ERDEMİR Group product portfolio at present are 395 and 239, respectively.

ERDEMİR Calibration Laboratory was accredited by TÜRKAK in accordance with the ISO 17025 Laboratory Management System standard. İSDEMİR also holds ISO 17025 Laboratory Management System Certification.

Continuing the Company's product development, grade approval and outer panel sheet manufacturing efforts with Fiat-Tofaş, Ford Otosan and Renault, the leading companies in the automotive industry, ERDEMİR Group increased the number of FIAT Auto-approved grades to 10 and Renault-France-approved grades to 21. (The number of grades manufactured exclusively for Renault is 12.)

In addition to the existing 13 grades approved by Ford Otosan, ERDEMİR Group reached the final approval stage for the galvanized DP600 grade on the global scale. ERDEMİR Group is also expending efforts to increase its share in the vehicles that are currently being manufactured by Tofaş, Oyak Renault and Ford Otosan as well as to become the main supplier for the new vehicle projects of these companies. Further, ERDEMİR Group continues to carry out intensive industrial experimentation initiatives in many grades and sizes with other domestic and overseas appliance manufacturers.

Innovation-oriented cooperation with TÜBİTAK
Having embraced the principle of developing cooperations with universities and scientific organizations that undertake innovation-oriented initiatives in Turkey, ERDEMİR submitted three TÜBİTAK-TEYDEB applications and received approval for two projects in 2013.

ERDEMİR plans to complete the "Separation of Oil from Oxides Using Various Solvents and Recovery of Oxides" project in 2014 that is being carried out by the Raw Materials and Iron Production R&D Department with the support of TÜBİTAK-TEYDEB. ERDEMİR Group also aims to complete the "Conserving Ferro-Manganese in Steel Production" initiative, being undertaken by the Steel Production and Casting Technologies R&D Department with the support of TÜBİTAK-TEYDEB, in the last quarter of 2014.

Always boasting the latest technology since the day it was first established, ERDEMİR Group continues to undertake efforts to increase the Company's production capacity by using state-of-the-art technology in parallel with the growing need for flat steel in Turkey. Having become an industrial conglomerate since the early 2000s by acquiring existing plants in addition to establishing new companies, ERDEMİR Group has made significant investments in these facilities to reach the position the Company enjoys today.

ERDEMİR Group continues its investments in line with its strategy of undertaking multi-dimensional initiatives in order to manufacture new products, increase productivity and gain market share. ERDEMİR Group, which currently has ongoing environmental, energy and cost-reduction investments as well as new product development initiatives, incurred capital investment expenditures of US$ 107 million in 2013.

107 US$ million

ERDEMİR Group, which currently has ongoing environmental, energy and cost-reduction investments as well as new product development initiatives, incurred capital investment expenditures of US$ 107 million in 2013.

Completed and ongoing capital investment projects of ERDEMİR, İSDEMİR and ERMADEN are listed in the table below.

Completed and Ongoing Investments in 2013

Investment Projects		2013		2014		2015		2016		2017		2018	
Project Name	**Company**	**1. H**	**2. H**	**1. H**	**2. H**	**1. H**	**2. H**	**1. H**	**2. H**	**1. H**	**2. H**	**1. H**	**2. H**
A-Completed Investments													
1) Circular Sinter Cooler Waste Heat Recovery Boiler	ERDEMİR												
2) Derindere Waste Storing Dam Capacity Increase	ERMADEN												
3) Galvanizing Line Air Knife Modernization	ERDEMİR												
4) New Turbo Blower	ERDEMİR												
B-Ongoing Investments													
1) The Installation of an External Combustion System at the Co-generation Power Plants	ERDEMİR												
2) The Integration of the No. 3 Coal Grinding Plant into the Coal Injection Plant (PCI)	ERDEMİR												
3) No. 7 Air Separation Plant	ERDEMİR												
4) Investments at the BOF Shop and Continuous Caster and Other Facilities related to Blast Furnace Renewal Program	ERDEMİR												
5) Modernization of Electrolytic Tinning Line Automation Systems	ERDEMİR												
6) Environmental Investments	İSDEMİR												
7) Alternative Reladling Pit and Changing Crane Girders	İSDEMİR												
8) Hot Slitting Line	İSDEMİR												
9) No.3 Slab Furnace Modernization and Evaporative Cooling System (ECS)	ERDEMİR												
10) Ereğli Steel Service Center	ERDEMİR												
11) Modernization of the BOF(Basic Oxygen Furnace) and Continuous Casting 3 & 4 Plants Level 1 and Level 2 Systems	ERDEMİR												
12) Harbor Investments (2nd Stage) – "Coast Protection Structure" First Phase	İSDEMİR												
13) Hasançelebi Iron Ore Enrichment and Pelletizing Plant	ERMADEN												

H: Half Year

Land acquisition efforts are ongoing for ERMADEN's Hasançelebi Iron Ore Enrichment and Pelletizing Plant Project. The Environmental Impact Assessment positive report and incentive certification have been obtained for this project.

Initiatives regarding the equipment to be installed in the ERSEM Manisa Steel Service Center are also ongoing.

ERDEMİR Group is undertaking efforts to manufacture steel, which is essential to modern life and critical to industry, in better and more efficient ways without harming the environment.

Sustainability, which includes development in every area, is one of the most often cited business related concepts today along with globalization. According to the definition put forth by the United Nations World Commission on Environment and Development in 1987, sustainable development is the "ability of mankind to meet its current needs without endangering the ability of future generations to meet their needs, having the capability to ensure the sustainability of development."

The concept of sustainable development began to come up frequently on global platforms in response to growing concerns about climate change, food security, and energy efficiency. Coming together at the United Nations and at various other multilateral organizations, government officials as well as private sector executives and NGO representatives strive to create an economic development model that also encompasses environmental impacts and social justice by formulating common strategies and policies based on sustainability.

Seeing sustainability as one of the most important elements of its corporate governance approach, and as one of the most deep-rooted industrial enterprises in Turkey, ERDEMİR Group assesses development in every area on the basis of sustainability, from steady financial and operational performance to corporate social responsibility projects and effective resource utilization strategies.

Environmental sustainability initiatives

Putting a special emphasis on environmental sustainability initiatives, ERDEMİR Group develops special projects for effective utilization of water and energy, which are the primary inputs of the iron and steel industry. Supporting local development in the regions where its companies do business, ERDEMİR Group also focuses on designing and implementing social development-oriented projects in conjunction with stakeholders who are within ERDEMİR Group's sphere of influence.

Sustainability-based production

ERDEMİR Group assesses development in every area on the basis of sustainability, from steady financial and operational performance to corporate social responsibility projects and effective resource utilization strategies.

It is very important for ERDEMİR Group that its employees have an awareness of environmental sustainability. To this end, ERDEMİR Group administered 2,184 hours of environmental training in 2013.

Sustainable Development Policy
ERDEMİR Group embraces the Sustainable Development Policy of the World Steel Association, of which the Company is a member. This policy consists of the following principles:

- We operate our businesses in an efficient and financially sustainable way in order to supply steel products and solutions that satisfy our customer's needs and provide value to our stakeholders.
- We optimize the eco-efficiency of our products through the product life cycle. We are committed to the promotion of the recovery, reuse and recycling of steel.
- We foster the well-being of employees in the steel industry and provide them with a safe and healthy working environment.
- We demonstrate social responsibility by promoting values and initiatives that show respect for the people and communities associated with our businesses.
- We conduct our business with high ethical standards in our dealings with employees, customers, suppliers and the community.
- We engage our stakeholders and independent third parties in constructive dialogue to help fulfill our sustainable development commitments.
- We build on our knowledge of sustainability and willingly share it with others. We will be open and active in our communications and help steel companies and organizations in the supply chain to implement sustainable practices.


worldsteel ASSOCIATION

worldsteel.org

2012 SIGNATORIES TO THE
SUSTAINABLE DEVELOPMENT CHARTER
OF THE WORLD STEEL INDUSTRY

We operate our business efficiently and in a financially sustainable way, to supply steel products and solutions that satisfy customers' needs and provide value to stakeholders.

We strive to optimise the eco-efficiency of products throughout their life cycle. We promote the recovery, reuse and recycling of steel.

We foster the well-being of employees and provide a safe and healthy working environment.

We promote values and initiatives that show respect for the people and communities associated with our business.

We conduct our business with high ethical standards in our dealings with employees, customers, suppliers and the community.

We engage our stakeholders and independent third parties in constructive dialogue to help fulfil our sustainable development commitments.

We build and share our knowledge of sustainability through open and active communications. We help others in the supply chain to implement sustainable practices.

Giovanni Arvedi, **Acciaieria Arvedi S.p.A.**
Gianpietro Benedetti, **Acciaierie Bertoli Safau S.p.A.**
Takahiro Fujioka, **Aichi Steel Corporation**
Xiaogang Zhang, **Anshan Iron & Steel Group Corporation**
Lakshmi N. Mittal, **ArcelorMittal**
Carolin Kramer, **Badische Stahlwerke GmbH**
Lejiang Xu, **Baosteel Group Corporation**
Norbert Bergs, **Benteler Tube Management GmbH**
Paul O'Malley, **BlueScope Steel Limited**
Francesc Rubiralta, **CELSA Group**
Jo-Chi Tsou, **China Steel Corporation**
Giuseppe Marzorati, **Cogne Acciai Speciali S.p.A.**
Joseph Alvarado, **Commercial Metals Company (CMC)**
Ivan Flores, **Compania Siderurgica Huachipato S.A. (CAP ACERO)**
Tadashi Shimao, **Daido Steel Co., Ltd.**
Raul Gutierrez, **DEACERO, S.A. de C.V.**
Karl Haase, **Deutsche Edelstahlwerke GmbH (DEW)**
Karlheinz Blessing, **Dillinger Hüttenwerke AG**
Soo-Il Lee, **Dongbu Steel Co. Ltd.**
Sae-Joo Chang, **Dongkuk Steel Mill Co., Ltd.**
Antonio Gozzi, **Duferco S.A.**
Mukesh Bhandari, **Electrotherm India Ltd.**
Serif Coskun Ulusoy, **Eregli Iron and Steel Works, Co.**
Prashant Ruia, **Essar Steel Ltd.**
Alexander Frolov, **Evraz Group**
George Matta, **EZZ Steel**
Jürgen R. Grossmann, **Georgsmarienhütte Holding GmbH**
André Bier Gerdau Johannpeter, **Gerdau S.A.**
George Skindilias, **Halyvourgiki Inc.**
Rolf Höffken, **Hüttenwerke Krupp Mannesmann GmbH (HKM)**
Seung-Ha Park, **HYUNDAI Steel Company**
Hajime Bada, **JFE Holdings**
Vikrant Gujral, **Jindal Steel and Power Limited (JSPL)**
Sajjan Jindal, **JSW Steel Limited**
Hiroshi Sato, **Kobe Steel, Ltd.**
Igor Syry, **Metinvest Holding LLC**
Vivek Kamra, **NatSteel Holdings Pte Ltd.**
Shoji Muneoka, **Nippon Steel Corporation**
Kazuta Sugimori, **Nippon Yakin Kogyo Co., Ltd.**
Daniel R. DiMicco, **Nucor Corporation**
Geoff Plummer, **OneSteel Limited**
Mika Seitovirta, **Outokumpu Oyj**
Tom Erixon, **Ovako AB**
Joon-Yang Chung, **POSCO**
Ali Bin Hassan Al Muraikhi, **Qatar Steel Company (Q.S.C.)**
A.P. Choudhary, **Rashtriya Ispat Nigam Ltd. (VIZAG Steel)**
Sakari Tamminen, **Rautaruukki Oyj**
Fabio Riva, **RIVA FIRE S.p.A.**
Klaus Harste, **Saarstahl AG**
Hassan Al-Ghannam Al-Buainain, **SABIC-Saudi Basic Industries Corporation (HADEED)**
Win Viriyaprapaikit, **Sahaviriya Steel Industries Public Company Limited (SSI)**
Alexey Mordashov, **Severstal**
Tibor Simonka, **SIJ Slovenian Steel Group**
Martin Lindqvist, **SSAB AB**
Chandra Shekhar Verma, **Steel Authority of India Ltd. (SAIL)**
Hiroshi Tomono, **Sumitomo Metal Industries, Ltd.**
Karl-Ulrich Köhler, **Tata Steel Europe**
Hemant Nerurkar, **Tata Steel Limited**
Paolo Rocca, **Techint Group**
Daniel Novegil, **Ternium**
Heinrich Hiesinger, **ThyssenKrupp AG**
Jan Czudek, **TŘINECKÉ ŽELEZÁRNY, a.s.**
John P. Surma, **United States Steel Corporation**
Wilson Nélio Brumer, **USIMINAS – Usinas Siderúrgicas de Minas Gerais S/A**
Philippe Crouzet, **Vallourec**
Wolfgang Eder, **voestalpine AG**

Major environmental sustainability initiatives carried out by ERDEMİR Group companies in 2013 are found below.

ERDEMİR
Major energy efficiency projects undertaken by ERDEMİR, the flagship company of the ERDEMİR Group with its production and sales performance, within the last three years include:

- Renewal of sinter plant main fan and motor systems,
- Sinter circular cooler waste heat boiler project,
- Designing of the second slab furnace rail pipes based on 225 mm slabs and switch to an evaporative cooling system,
- AC driver application on the first hot rolling plant and plate rolling plant descale pump motors,
- Continuous annealing line waste heat boiler installation,
- Using metal halide lamps in place of mercury vapor fixtures in lighting,
- Vapor lines simplification project.

Distinguishing itself from the competition with an effective resource utilization strategy, ERDEMİR is setting an example for stakeholders by investing in technologies that perform energy conservation and production at the same time. As part of this effort, the company began using waste heat thanks to the efficiency project implemented in the circular cooler of the Sinter Plant in 2013. Establishing a technology infrastructure that produces 10-12 tons/hour of steam, ERDEMİR increased its electricity generation by 15,200,000 KWh per year as a result.

Making major improvements in projects geared toward the efficient use of water, a major input of the iron and steel industry, ERDEMİR conserved 337,046,409 cubic meters of water in 2012 and 357,064,714 cubic meters of water in 2013. Armed with the awareness about the importance of forests, also known as carbon sinks, in combating global warming, ERDEMİR remains committed to its efforts to safeguard existing green areas as well as planting new trees. In pursuit of this goal, the Company undertook 20,000 square meters of forestation in 2012 and 18,000 square meters of forestation in 2013.

It is very important for ERDEMİR Group that employees have an awareness of environmental sustainability. To this end, ERDEMİR Group administered 2,184 hours of environmental training in 2013.

Putting a particular emphasis on environmental sustainability initiatives, ERDEMİR Group develops special projects for effective utilization of water and energy, the primary inputs of the iron and steel industry.

2,621

İSDEMİR administered a total of 41,923 hours of training to its own personnel and 2,621 hours of training to contractor firm employees in 2013.

6,500

ERMADEN planted 6,500 trees in 2013.

İSDEMİR

İSDEMİR conducts all of its production operations with a view toward the company's environmental impacts. Generating environmental sustainability projects in many areas with a particular focus on energy efficiency, the company has implemented 10 energy efficiency projects within the last three years. Taking heed of protecting biodiversity at the manufacturing facility sites as well as in all areas where the Company operates, İSDEMİR planted 3,200 trees in 2012 and 4,370 trees in 2013.

İSDEMİR contributes to its bottom line by actively managing the company's energy consumption thanks to ISO 50001 Energy Management Certification. Striving to encourage employee participation in environmental sustainability activities, İSDEMİR administered a total of 41,923 hours of training to its own personnel and a total of 2,621 hours of training to contractor firm employees in 2013.

ERMADEN

ERMADEN, the mining company of ERDEMİR Group, stands out with a strong production infrastructure as well as the company's environmental sustainability activities. Boasting production capacity of 1.5 million tons of pellets and 750 thousand tons of lump ore, ERMADEN develops effective projects and achieves energy conservation by using the recycled water that is accumulated in reservoirs after being used in the production processes.

ERMADEN is very committed to minimizing the environmental impact of its production operations.

4,370

Taking heed of protecting biodiversity at the manufacturing facility sites as well as in all areas where the Company operates, İSDEMİR planted 3,200 trees in 2012 and 4,370 trees in 2013.

Undertaking systematic forestation initiatives, the company returns mining areas to their natural state while contributing to the fight against global warming.

Placing great importance on the environmental awareness of the company's human capital, ERMADEN provided 132 hours of training to staff members in 2013 on Waste Oils, Energy and Emergency.

TEMA Foundation's Carbonmeter values were used in calculating CO_2 Emissions based on the number of trees. This method stipulates that each planted tree eliminates 0.38866 tons of CO_2 emissions.

FOR THE FUTURE

INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS, STATUTORY AUDITORS AND EXECUTIVES OF ERDEMİR; ERDEMİR GROUP GENERAL MANAGERS

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Members of the Board of Directors and Statutory Auditors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

OYTAŞ İÇ VE DIŞ TİCARET A.Ş. (Representative: Ali PANDIR)	Chairman of the Board of Directors - Managing Director	Elected as Independent Member of the Board of Directors of ERDEMİR on September 20, 2012 and reelected as Independent Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013, Ali PANDIR resigned from his position as Independent Member of the Board of Directors as of November 14, 2013. Elected as Member of the Board of Directors on September 11, 2012 and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013, ATAER HOLDING A.Ş. resigned from this position as of May 27, 2013. Fatih Osman TAR, who was serving as the real-person representative of OYTAŞ İÇ VE DIŞ TİCARET A.Ş., which was elected as a Member of the Board of Directors to fill the position vacated by the resignation of ATAER HOLDING A.Ş. on May 27, 2013 and appointed as Chairman of the Board of Directors - Managing Director, resigned from his duty as of August 14, 2013. Ali PANDIR has been serving as real-person representative of OYTAŞ İÇ VE DIŞ TİCARET A.Ş. since November 15, 2013 to fill the position vacated by Fatih Osman TAR's resignation from the same position.
OYAK GİRİŞİM DANIŞMANLIĞI A.Ş. (Representative: Nihat KARADAĞ)	Vice Chairman of the Board of Directors - Managing Director	Elected as Member of the Board of Directors of ERDEMİR on September 30, 2009, Nihat KARADAĞ resigned from his position as Member of the Board of Directors as of September 12, 2012. Since that date, Nihat KARADAĞ has been serving as the real-person representative of OYAK GIRIŞIM DANIŞMANLIĞI A.Ş., which was elected as Member of the Board of Directors and appointed as Vice Chairman of the Board of Directors - Managing Director on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013 and appointed as Vice Chairman of the Board of Directors - Managing Director.
OMSAN LOJİSTİK A.Ş. (Representative: Dinç KIZILDEMİR)	Member of the Board of Directors – Managing Director	Elected as Member of the Board of Directors of ERDEMİR on February 27, 2006, Dinç KIZILDEMİR resigned from his position as Member of the Board of Directors as of September 11, 2012. Since that date, Dinç KIZILDEMİR has been serving as the real-person representative of OMSAN LOJİSTİK A.Ş., which was elected as Member of the Board of Directors and appointed as Member of the Board of Directors - Managing Director on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013 and appointed as Member of the Board of Directors - Managing Director.

PRIVATIZATION ADMINISTRATION OF TURKEY (Representative: Mehmet SARITAŞ)	Member of the Board of Directors	Ahmet AKSU, who was serving as the real-person representative of the PRIVATIZATION ADMINISTRATION OF TURKEY, which in turn was elected as Member of the Board of Directors of ERDEMİR on September 20, 2012, resigned from his duty as of January 3, 2013. Mehmet SARITAŞ, who was appointed to the vacant position of real-person representative on January 4, 2013, serves as the real-person representative of the PRIVATIZATION ADMINISTRATION OF TURKEY, which was reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013.
OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş. (Representative: Ertuğrul AYDIN)	Member of the Board of Directors	Elected as Member of the Board of Directors of ERDEMİR on March 31, 2008, Ertuğrul AYDIN resigned from his position as Member of the Board of Directors as of September 12, 2012. Since that date, Ertuğrul AYDIN has been serving as the real-person representative of OYKA KAĞIT AMBALAJ SANAYİİ VE TİCARET A.Ş., which was elected as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013.
OYAK PAZARLAMA HİZMET VE TURİZM A.Ş. (Representative: Fatma CANLI)	Member of the Board of Directors	Elected as Member of the Board of Directors of ERDEMİR on March 9, 2010, Fatma CANLI resigned from her position as Member of the Board of Directors as of September 13, 2012. Since that date, Fatma CANLI has been serving as the real-person representative of OYAK PAZARLAMA HİZMET VE TURİZM A.Ş., which was elected as Member of the Board of Directors on the same date; and reelected as Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013.
Nazmi DEMİR	Independent Member of the Board of Directors	Elected as Independent Member of the Board of Directors of ERDEMİR at the Extraordinary General Assembly Meeting held on June 29, 2012 and reelected as Independent Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013, Nazmi DEMİR continues to serve as Independent Member of the Board of Directors.
Atilla Tamer ALPTEKİN	Independent Member of the Board of Directors	Elected as Independent Member of the Board of Directors of ERDEMİR at the Extraordinary General Assembly Meeting held on June 29, 2012 and reelected as Independent Member of the Board of Directors at the Ordinary General Assembly Meeting held on March 29, 2013, Atilla Tamer ALPTEKİN continues to serve as Independent Member of the Board of Directors.
Ahmet Türker ANAYURT	Statutory Auditor	Ahmet Türker ANAYURT was elected as Statutory Auditor of ERDEMİR on March 9, 2010. His duty in this position ended at the Ordinary General Assembly Meeting held on March 29, 2013.
Ünal TAYYAN	Statutory Auditor	Ünal TAYYAN was elected as Statutory Auditor of ERDEMİR on March 31, 2011. His duty in this position ended at the Ordinary General Assembly Meeting held on March 29, 2013.
Emin Hakan EMİNSOY	Independent Member of the Board of Directors	Emin Hakan EMİNSOY was appointed as Independent Member of the Board of Directors of ERDEMİR on March 4, 2014 to fill the position vacated by the resignation of Ali PANDIR on November 14, 2013.

ERDEMİR GROUP GENERAL MANAGERS

Sedat ORHAN	General Manager of EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.	After the resignation of Fatih Osman TAR, who had been serving as the Acting General Manager since July 2, 2012, from his duty in this position as of August 14, 2013, Sedat ORHAN was appointed as General Manager on August 16, 2013.
Recep ÖZHAN	General Manager of İSKENDERUN DEMİR VE ÇELİK A.Ş.	Appointed as Acting General Manager of İSKENDERUN DEMİR VE ÇELİK A.Ş. on July 2, 2012, Recep ÖZHAN has been serving as the General Manager since November 21, 2012.
Uğur YILMAZ	Acting General Manager of ERDEMİR MÜHENDİSLİK, YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.	After the resignation of Fikret BAŞBUĞ, who had been serving as General Manager of ERDEMİR MÜHENDİSLİK, YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş. since October 1, 2010, from his duty in this position as of January 31, 2014, Uğur YILMAZ was appointed as Acting General Manager on February 1, 2014.
Emin PARILDAR	Acting General Manager of ERDEMİR ÇELİK SERVİS MERKEZİ SANAYİ VE TİCARET A.Ş.	After the resignation of Mustafa Ayhan KALMUKOĞLU, who had been serving as Acting General Manager of ERDEMİR ÇELİK SERVİS MERKEZİ since February 1, 2013, from his duty in this position as of February 3, 2014, Emin PARILDAR was appointed as Acting General Manager on February 3, 2014.
Cemal Erdoğan GÜNAY	General Manager of ERDEMİR-ROMANIA S.R.L.	Cemal Erdoğan GÜNAY has been serving as General Manager of ERDEMİR-ROMANIA S.R.L. since September 27, 2010.
Halil YILDIRIM	General Manager of ERDEMİR MADENCİLİK SANAYİ VE TİCARET A.Ş.	After the resignation of Sedat ORHAN, who had been serving as General Manager of ERDEMİR MADENCİLİK SANAYİ VE TİCARET A.Ş. since October 12, 2006, from his duty in this position as of August 16, 2013, Mustafa AYDIN was appointed as Acting General Manager as of the same date. Following the resignation of Mustafa AYDIN from this duty on September 2, 2013, Halil YILDIRIM was appointed as General Manager to fill this position that was vacated by the resignation of Mustafa AYDIN as of the same date.

ERDEMİR Group Coordinators

Bülent BEYDÜZ	Financial Affairs Coordinator of ERDEMİR Group	Bülent BEYDÜZ has been serving as ERDEMİR Group's Financial Affairs Coordinator since April 11, 2011.

Başak TURGUT	Marketing and Sales Affairs Coordinator of ERDEMİR Group	After the resignation of Mustafa Ayhan KALMUKOĞLU from his duty as ERDEMİR Group's Acting Marketing and Sales Affairs Coordinator on February 1, 2013, Başak TURGUT was appointed to this position as of the same date. Başak TURGUT has been serving as Marketing and Sales Affairs Coordinator of ERDEMİR Group since June 10, 2013.
Öner SONGÜL	Information Technology Coordinator of ERDEMİR Group	Appointed as Acting Information Technology Coordinator of ERDEMİR Group on August 12, 2010, Öner SONGÜL has been serving as ERDEMİR Group's Information Technology Coordinator since December 19, 2011.
Oğuz Nuri ÖZGEN	Production Coordinator of ERDEMİR Group	Oğuz Nuri ÖZGEN has been serving as ERDEMİR Group's Production Coordinator since July 2, 2012.
Şevkinaz ALEMDAR	Purchasing Coordinator of ERDEMİR Group	After the resignation of Ahmet Samim ŞAYLAN, who had been serving as ERDEMİR Group's Acting Purchasing Coordinator since July 12, 2012, from his duty in this position on May 18, 2013, Şevkinaz ALEMDAR was appointed to this position as of the same date. Şevkinaz ALEMDAR has been serving as Purchasing Coordinator of ERDEMİR Group since November 7, 2013.
Uğur YILMAZ	Technology Coordinator of ERDEMİR Group	Uğur YILMAZ has been serving as ERDEMİR Group's Technology Coordinator since July 2, 2012.
Aylin OLSUN	Human Resources Coordinator of ERDEMİR Group	Aylin OLSUN has been serving as ERDEMİR Group's Human Resources Coordinator since February 10, 2014.

General Manager and Assistant General Managers of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Sedat ORHAN	General Manager	After the resignation of Fatih Osman TAR, who had been serving as the Acting General Manager since July 2, 2012, from his duty in this position as of August 14, 2013, Sedat ORHAN was appointed as General Manager on August 16, 2013.
Kaan BÖKE	Human Resources Assistant General Manager	Kaan BÖKE has been serving as Human Resources Assistant General Manager since April 2, 2012.
Mehmet Mücteba BEKCAN	Technical Services and Investments Assistant General Manager	Mehmet Mücteba BEKCAN, who was appointed as Technical Services and Investments Acting Assistant General Manager on July 14, 2010, has been serving as Technical Services and Investments Assistant General Manager since March 14, 2011.
Esat GÜNDAY	Operations Assistant General Manager	Esat GÜNDAY, who was appointed as Operations Acting Assistant General Manager on July 13, 2006, has been serving as Operations Assistant General Manager since January 1, 2007.
Sami Nezih TUNALITOSUNOĞLU	Financial Affairs Assistant General Manager	Sami Nezih TUNALITOSUNOĞLU has been serving as Financial Affairs Assistant General Manager since April 11, 2011.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

SECTION I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Ereğli Demir ve Çelik Fabrikaları T.A.Ş., one of the public companies in Turkey with the broadest base, enjoys a leading position in its field in the Turkish industry, and is well aware of its responsibilities towards its stakeholders. Transparency, accountable management approach, compliance with ethical and legal codes is integral components of the corporate management. ERDEMİR has always fulfilled its responsibilities, arising from legislations, in an accurate and prompt manner.

In order to fulfill liabilities arising from the Capital Market Legislation and ensure coordination for compliance with "The Principles of Corporate Governance", published by the Board and raising the level of harmonization, our Company has assigned qualified personnel awarded with 'Advanced License for Capital Market Activities' and 'Corporate Management Ranking Specialist License', duly deemed mandatory pursuant to the Capital Markets Board Communiqué Serial: IV, No: 41.

Within the year 2013, our Company has been continued its endeavors to ensure full compliance with the mandatory or optional regulations of the Corporate Governance Principles within the scope of Communiqué Serial: IV, No: 56 "Regarding Determination and Implementation of Corporate Governance Principles" and Communiqué numbered II-17.1 "Corporate Governance" - the details of which are presented below. The Extraordinary General Assembly held in 2013 modified our Articles of Association as the Communiqué required. In addition, the procedures for designating independent candidates and making public disclosures were completed and candidates were elected according to regulations. The committees established under the BoD began functioning effectively. The information that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating preferred shares, voting rights and organizational changes, as well as the CVs of BoD membership applicants and the reports and announcements that need to be prepared for related party transactions, all of which were provided to our investors three weeks prior to the General Assembly. In addition, the Company's website and annual report were reviewed and revisions required to comply with the principles were made. The policies formed under the scope of the Corporate Governance Principles and the working directives of the committees are published on our website.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. believes in the importance of ensuring full compliance with the Principles of the Corporate Governance. However, a number of obstacles stand in the way of compliance. There are a number of difficulties in the national and international arena concerning compliance, failure to ensure an overlap with the market and the current structure of the Firm. These are the difficulties which have caused possible delays in practice for the operations within the firm and a number of arguments in Turkey. Thus, full compliance has not yet been achieved as to a number of non-mandatory principles. An array of efforts and undertakings towards the goal of ensuring full compliance promptly are in progress. This goal will have been achieved upon the completion of administrative, legal and technical infrastructure projects. The said goal also includes the monitoring of the recent developments including the Capital Markets Board, which are to be issued, concerning the limited number of principles that have not been put into practice. The Principles of the corporate governance in practice and those which have not yet been harmonized are presented below.

SECTION II-THE SHAREHOLDERS

2.1. Investor Relations Department

The relationships with our partners, corporate investors and analysts are carried out systematically in a fashion that supports Company value. In line with this very purpose, the Company organizes meetings with the domestic and the foreign investors and announces material disclosures to the public immediately. Additionally, the Company fulfills its responsibilities towards regulatory bodies such as the Borsa Istanbul and the Capital Markets Board, and provides prompt replies to the queries of the partners, the analysts and the portfolio managers. In 2013, Investor Relations Department answered per month around 300 questions received from shareholders, institutional investors and analysts of investment firms by phone and e-mail.

Inquiries made by our shareholders by telephone and e-mail within the year are responded to. Such inquiries are concerned with the entry into the registration system, the general assembly and the dividend distribution. Depending on the nature and the content of the requested information in case of necessity, the query is shared with the independent auditors of the Company and the relevant responses are submitted to the enquirer.

The remarks concerning the Financial Statements and the Footnotes as well as the material disclosures are announced to the investors of the Borsa Istanbul and to the public via Public Disclosure Platform. The Financial statements, The Footnotes and the material disclosures are also published on the Company website.

Investor Relations Department has been formed which reports directly to ERDEMİR Group Chief Financial Officer Bülent Beydüz. The relevant contact information is available in the annual report and on the Company website.

Investor Relations Department

Name	Title	Telephone	E-mail
Avni Sönmezyıldız	Manager (Acting)	+90-216-578 80 61	asonmezyildiz@erdemir.com.tr
İdil Önay	Assistant Manager	+90-216-578 81 49	ionay@erdemir.com.tr

Uğur Cudi Gül, who holds CMB Advanced Level Licence and Corporate Governance Rating Specialist Licence, took the responsibility arising from capital markets legislation and coordination of corporate governance practices.

Investor Relations Department prepares an activity report, at least annually, to the BoD. 2013 activity report presented in BoD meeting dated 13 February 2014.

The table below presents activities performed within 2013 so that investors could be informed in-depth concerning the operations of the Company:

Number of investor meetings attended in Turkey and abroad	33
Number of investors and analysts who have been contacted	422
Number of tele-conferences held regarding financials	4
Number of analyst meetings held	2

2.2. Exercise of Shareholders' Rights to Obtain Information

Pursuant to the inquiry policy of our Company, all shareholders, potential investors and analysts shall be treated equally and fairly with regard to their right of the use of request and enquiry of information. It is also essential that our disclosures be passed onto everyone simultaneously with the same content. All information sharing is to be made in line with the content announced to the public earlier. Within the framework of the sharing of information, the shareholders and the market players are informed regarding all types of information along with material disclosures. The retrospective material disclosures are published on the Company website.

Loads of written and verbal requests for information from the shareholders are responded to promptly under the supervision of the Investor Relations Department and in line with the provisions of the Capital Markets Board Legislation. For the purpose of extending the shareholders' right to enquiry, any information that might harbour an impact on the shareholders' right of use under the principles of the Corporate Governance is updated and published on the website. The information on our website is published in Turkish and English, and duly allows fair use for both domestic and foreign shareholders. The company's activities are audited by an Independent Auditor(s) and statutory auditor, appointed by the General Assembly/Board, regularly and periodically. The independent auditing procedures for the year 2013 were carried out by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (i.e. A Member Firm of Ernst & Young Global Limited)

The request of shareholders allowing the appointment of a special auditor has not been drawn out as an individual right as per our Articles of Association. Accordingly, no request concerning the appointment of a special auditor has, yet, been received by our Company.

2.3. General Assembly Meetings

Ordinary General Assembly shall be held within three months from the end of the Company's activity period and at least once in a year, discussing and resolving upon the subjects of agenda. Extraordinary General Assembly shall be held whenever required by the Company's business in compliance with the provisions written in the law and Articles of Association.

The Ordinary General Assembly Meeting for the year 2012 was held on March 29, 2013 in Ankara and 48.88% of the shares were represented in the General Assembly.

The first Extraordinary General Assembly of the Company was held on June 28, 2013 in İstanbul and 54.99% of the shares were represented in the General Assembly.

The second Extraordinary General Assembly of the Company was held on October 30, 2013 in Ankara and 59.82% of the shares were represented in the General Assembly.

Invitations to the General Assembly Meetings are issued by the BoD in compliance with the TCC, Capital Markets Code and Company's Articles of Association. The public is informed immediately of the BoD's decision to hold the General Assembly Meeting through the Public Disclosure Platform and Electronic General Meeting System (e-GEM). It is also published in the Turkish Trade Registry Gazette and national newspapers. General Assembly announcements are made in a way that complies with legal regulations as well as made on our website at www.erdemir.com.tr no later than 21 days prior to the General Assembly in order to reach the highest number of shareholders possible.

Prior to the General Assembly Meeting, the agenda items and related documents are announced to the public in compliance with all legal processes and regulations. Balance sheets, income statements and annual reports are prepared prior to the General Shareholders' Meetings and made available to shareholders within the period determined in the applicable regulation via the website, at the Ereğli branch and at the Head Office of the Company in İstanbul and a copy of the above documents are provided upon request. The General Assembly Meeting Minutes and information documents which Company is obliged to provide as per corporate governance principles, are made available for uninterrupted access to our shareholders at www.erdemir.com.tr.

Open ballot voting is used in the General Assembly for voting on agenda articles simply by raising hands. Chairman of the General Assembly Meeting is responsible from managing the meeting efficiently and providing usage of shareholders' rights.

A number of shareholders intended to raise their concerns outside of the agenda during the speeches they delivered at the Ordinary and Extraordinary General Assembly Meetings. They addressed queries relating to the Company's performance and strategies. Such questions were replied by the Assembly Chairman and the relevant executives under the guidance of the Chairman. No shareholders submitted a written question to the Investor Relations Department on the basis of not having received an answer at the General Assembly.

During the Ordinary and Extraordinary General Assembly Meetings held in 2013, the company did not receive any requests from shareholders for any additional items to be included on the agenda.

The minutes and the list of attendants of the General Shareholders' Meetings are disclosed to public via the Company's website, Electronic General Meeting System (e-GEM) and published in the Turkish Trade Registry Gazette pursuant to the relevant regulations. Consequently, media members and other stakeholders cannot attend the general shareholders' meetings.

General Assembly meetings are held at Company Headquarters and Electronic General Meeting System to facilitate attendance at meetings. Under conditions stipulated in the Articles of Association, meetings may be held in Ankara or Karadeniz Ereğli. The location of the General Assembly meeting is selected to enable easy access to all shareholders. Proxy forms were placed on our website and announced to shareholders in a newspaper for shareholders wishing to be represented through proxy at the meeting. Resolutions made by the Board of Directors for the convention of General Shareholders' Meetings are shared with the public via disclosures.

A separate item on the General Assembly agenda regarding the donations and the aids offered in the period is included. Within the framework of the Company's policy, the Shareholders were kept informed of the donations and aids realized in 2011 and 2012, which amounted to 366,519 TRY and 379,526 TRY, respectively.

2.4. Voting Rights and Minority Rights

The shareholders or their proxies who present in the Ordinary and Extraordinary General Assembly meetings shall exercise their voting rights pro rata to the total nominal value of the shares. Each share has only one voting right. In the meetings of General Assembly, shareholders may cause to represent themselves through other shareholders or proxies assigned from outside of the Company. Proxies who are also company shareholders have the authority to cast the votes of shareholders to whom they represent, in addition to their own votes.

Shareholders may participate in General Assembly meetings via electronic environment pursuant to Article 1527 of Turkish Commercial Code. Company may setup an electronic general assembly system which will enable Shareholders to participate in the General Assembly meetings, to communicate their opinions, to furnish suggestions and to cast their votes or may purchase service of systems set up for such purposes pursuant to the provisions of Regulation on General Assembly meetings of Joint-Stock Companies to be held via Electronic Environment.

The capital is divided into shares Group A and Group B. 1 share of certificate, issued to the bearer amounting to 1 Kr is Group A and 349,999,999,999 share of certificates amounting to 3,499,999,999.99 Turkish Liras is Group B.

Resolutions regarding any amendment in the Articles of Association which are likely to affect, directly or indirectly, the obligations in the Share Sale Agreement in respect of investment and employment, and, the rights granted to ERDEMİR Group A shares in connection with those obligations as well as the amendments which are to affect the quorum for meeting and resolution of Board of Directors and the rights belonging to ERDEMİR Group A shares,

- Resolutions regarding closedown or sales of or an encumbrance upon the integrated steel production facilities and mining facilities owned by the Company and/or its subsidiaries or a resolution on reduction in capacity of such facilities,

- Resolutions regarding closedown, sales, demerger or merger or liquidation of the Company and / or its subsidiaries owning the integrated steel production facilities and mining facilities,

can be passed only through affirmative votes of the usufructuary in representation of Group A shares. Otherwise, the resolutions passed shall be invalid.

No cross shareholding relations exist in the capital of the Company. Minority shares are not represented in the management. Minority rights are not determined less than one in twenty by the Articles of Association.

2.5. Dividend Right

The Articles of Association do not grant any privileges regarding participation in the company's profits. Each share has an equal dividend right.

The dividend distribution policy, as disclosed to shareholders at the General Assembly, is in the activity report. In addition, the policy is posted on the Company website, along with a short history of dividend distribution and detailed information about capital accumulation.

The distribution of the company profit is stated, in compliance with the arrangements of the Capital Markets Board, following the Article 34 of the Articles of Association, titled "Determination and Allocation of the Profit."

As for the estimation of the rate to be allocated to our shareholders in cash and/or in the form of bonus shares from the Net Distributable Profit for the Period estimated by not ignoring the minimum distribution level of Capital Markets Legislation and according to the procedure described in the related clause of the Articles of Association, our Company aims at achieving the maximum distribution of the profit to the extent allowed by the financial leverage rates in accordance with the principles of corporate governance, exerting efforts to establish a balance between the financial burden resulting from the investment expenditures and the Corporate Governance expectations of the shareholders.

As mentioned above, the regulations of the Capital Markets Board are abided by while calculating and distributing the profit. The dividend distribution is performed within the legal period and the shareholders are informed of all matters concerning the dividend distribution at the General Assembly Meeting.

At March 29, 2013 dated Ordinary General Assembly, it has been decided to distribute TRY 120 million cash dividend based on 2012 financial results and as of May 30, 2013 dividend distribution has started. Furthermore, at October 30, 2013 dated Extraordinary General Assembly, it has been decided to distribute TRY 405 million cash dividend from retained earnings and as of November 20, 2013 dividend distribution has started.

2.6. Transfer of Shares

There is no restriction regarding the transfer of our Company's shares in the Articles of Association, and the provisions of the Turkish Commercial Code shall be applicable on this matter.

SECTION III-THE PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Its Contents

Erdemir's corporate website (www.erdemir.com.tr) is actively in use both in Turkish and English. The website includes the following issues under the Investor Relations heading:

- Annual Message from Management
- Corporate Governance
- Corporate Governance Principles Compliance Report
- Board of Directors
- Management
- Capital Structure
- Trade Registry Information
- Articles of Association
- Minutes of General Assembly
- Information About Golden Shares
- General Assembly List of Attendees
- Safe Harbor Statement
- Code of Business Ethics
- Internal Directive on the Operation Principles and Procedures of the General Assembly
- Credit Ratings
- Annual Reports
- Interim Reports
- Financial Statements
- Summary Information for Investors
- Presentations
- Financial and Operational Highlights
- BIST Disclosures
- Dividend Payments and Capital Increases
- Analyst Information
- Policies and Directives
- Forms
- Frequently Asked Questions
- Contact

Complete information required by the CMB Corporate Governance Principles is available on our company website.

3.2. Annual Report

The Ereğli Demir ve Çelik Fabrikaları T.A.Ş. annual report is prepared in detail and according to CMB Corporate Governance Principles to ensure that complete and accurate information about the Company's operations reaches the public.

3.3. Disclosure Policy

Disclosure activities are carried out in compliance with our Company's "Disclosure Policy," the Capital Markets Legislation, the Capital Markets Board decisions and other related legislations. The issues which require explanation or announcement are disclosed to the public explicitly, accurately and promptly.

In line with this objective, it is essential that the necessary information and explanations, barring commercial secrets, be forwarded to all beneficiaries including shareholders, investors, employees and customers in an accurate, complete, correct, prompt, comprehensible and plain fashion, at the lowest cost under equal and fair conditions.

The Board of Directors is authorized in preparing of our Company's disclosure policy and changes to be made in this policy. After the disclosure policy and the alterations to be made in the policy are approved by the Board of Directors, they are published on the Company website and submitted to the shareholders in the succeeding General Assembly Meeting. The Investors Relations Department, which details such name and title given in Article 2.1., is in charge of carrying out the requirements of the disclosure policy.

Considering the fact that the Company is publicly-held and is expected to act accordingly in view of this arising responsibility, the necessary announcements in relation to all the developments under the scope of a Communiqué regarding Material Disclosures are undertaken promptly both to the investors and to the public. All changes and developments that may arise are constantly updated and shared with the public. A total of 78 material disclosures were made by the Company in 2013.

In addition, the investors are provided with an email account with which they can address all sorts of queries and requests. The Investors Relations Department is in charge of responding to the questions addressed by the shareholders in compliance with our Company's disclosure policy whose principles of integrity require accurate, complete and fair responses.

SECTION IV-STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders such as the company employees, the customers, the suppliers, the trade unions, the non-governmental organizations, the state and the prospective investors are provided, upon request, with written or verbal information on the issues concerning them besides the information included in the financial statements and the reports disclosed to the public as per the legislations of the Capital Markets Board.

The Company employees are informed regarding the company practices through news bulletins and intranet announcements.

The demands and expectations of our customers are received through customer visits, and activities for developing new qualities are carried out depending on the changing demands that may emerge in the market. The customer complaints are delved into in the field and the required corrective actions are taken accordingly.

The tender system is practiced for all procurement of the domestic goods and services. The tenders are disclosed through fax and e-mail messages. The specifications are also published on the Company website. On the other hand, cooperative actions are carried out to assist the manufacturer suppliers in our region to expand their business in turn.

Additionally, our Company exchanges ideas with the potential customers and suppliers during the exhibitions and fairs.

The recommendations and ideas of our employees are received through the ERDEMİR Recommendation System (ERÖS) and the Performance Management System. The required upgrading and improvement actions are practiced accordingly.

The Company has set up a mechanism which allows the stakeholders to convey transactions against the company legislation and non-ethical behaviors to the Ethical Committee and/or the Ethical Consultant. For this purpose, contact addresses are provided on the Company website under the heading of the Code of Business Ethics.

4.2. Participation of Stakeholders in Management

No particular regulation exists for the stakeholders' participation in the management. However, our affiliates, employees and the other stakeholders are informed through meetings. All of the Board Members are elected by voting in General Assembly with the attendance of stakeholders.

4.3. Human Resources Policy

Operating in an industry where competitive market conditions prevail, ERDEMİR Group has established its human resources policies and practices on forming, improving and retaining qualified labour force equipped with skills of producing knowledge, identifying solutions to problems, taking initiative by assuming responsibility, being open to improvement and suitable for teamwork.

For this main objective, ERDEMİR Group is attentive to employing staff members who are appropriate for ERDEMİR Group's strategies and objectives. ERDEMİR Group also pays due notice to offering training opportunities to the current employees so that they can have the means of enriching their professional experience.

ERDEMİR Group effectively identifies the needs of its white and blue collar employees for training and improvement as well as the added-value they create through the Performance Management System. Moreover, ERDEMİR Group carries out processes of assignments and appointments in a manner that would maximize business productivity in line with objective criteria.

Relations with unionized workforce are carried out through the representatives of the trade union. For white-collar employees, there is no extra trade union representative. However, the required divisions such as the Human Resources, the Training, the Administrative Affairs, the Occupational Health and Safety have been established within ERDEMİR Group in order to carry out relations with our employees. ERDEMİR Group did not receive any complaints from the employees in relation to any cases concerning discrimination in 2013 or the previous years.

The following issues regarding the employees of our company have been laid out in the Personnel Regulations: working order, relations between subordinates and supervisors, responsibility, safeguarding the benefits of the company, relations with customers and business owners, attendance requirement, handover and delegation, keeping secrets, commercial operation, employment prohibition (for other companies and business entities), family relationship, promulgation regarding the business, occupational safety, requests and complaints.

The Company has created written procedures and regulations regarding all human resources processes and all these documents are made available to all employees at an easily-accessible corporate portal. Furthermore, employees are also informed via e-mail.

4.4. Code of Ethics and Social Responsibility

The fundamental principles of the business conduct have been determined by the business ethical codes, which are disclosed to the public through the Company's website. These ethical codes of business constitute the common values and creeds of our Company along with the changes occurring in legal, societal and economic conditions.

Our Company fulfills its responsibilities towards the society. While creating value for the economy of the region and the country, ERDEMİR Group operates through its goods and services. Furthermore, ERDEMİR Group subsidiaries maintain their contributory activities for the societal development in a broad range, which is considered an integral part of the business processes.

For ERDEMİR Group, contributing to social issues voluntarily and effectively by coming up with solutions is a significant principle. Accordingly, ERDEMİR Group maintained its activities regarding social responsibility in cooperation with the local authorities and the non-governmental organizations in 2013. In order to provide a number of activities: improving the physical conditions and technical equipment of the health and education institutions, philanthropic undertakings, supporting arts and sports activities, supporting scientific studies of universities, offering opportunities of internship to the university and vocational school students can be listed all pursuant to ERDEMİR Group's adherence to the principle of social responsibility.

SECTION V-BOARD OF DIRECTORS

5.1. Structure and Formation of Board of Directors

Within the scope of Articles of Association which was changed in the Extraordinary General Assemblies dated 29.06.2012 and 28.06.2013, Board of Directors consists of minimum five and maximum nine members to be selected by the General Assembly of Shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law. Members of Board of Directors are appointed for three years and the independent members are appointed for one year; the members with expired tenure may be re-elected.

Nine members, there of whom would be independent members, were elected at the Ordinary General Assembly Meeting dated March 29, 2013. Our Chairman, Vice/Deputy Chairman of the Board and one Board Member were appointed as the Managing Directors. Although there is no executive board in the Company, Mr Ali Aydın Pandır, Mr Dinç Kızıldemir and Mr Nihat Karadağ serve as the Managing Directors. Sedat Orhan was appointed as Chief Executive Officer of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. in 16.08.2013.

The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting, as well as duties, rights and authorities of Board of Directors are subject to provisions of Turkish Commercial Code and related legislation.

Board of Directors		Date Effective from
OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ali Aydın PANDIR)	Chairman-Executive Director	27.05.2013
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman-Executive Director	12.09.2012
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı (Represented by: Mehmet SARITAŞ)	Board Member	04.01.2013
OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member - Executive Director	11.09.2012
OYKA Kağıt Ambalaj San. ve Tic. A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	12.09.2012
OYAK Pazarlama Hizmet ve Tur. A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012
Nazmi DEMİR	Independent Board Member	29.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member	29.06.2012
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014

ERDEMİR Chairman OYTAŞ İç ve Dış Ticaret A.Ş. Representative Osman Fatih Tar left all his duties in ERDEMİR Group as of 14 August 2013. Ali Aydın Pandır who was one of the Independent Board Members had resigned on 14 November 2013. Depending on the resolution of Board of Directors, dated 15 November 2013 and numbered 9261, Ali Aydin Pandır was appointed as representative of the Board Member OYTAŞ İç ve Dış Ticaret A.Ş and this was registered in Trade Registry and promulgated in Turkey Trade Registry Gazette in accordance with provisions of article 364 of the Turkish Commercial Code numbered 6102.

Three applications to our Company were evaluated in 2013 for Independent Board Member position. In our Company tasks of Candidate Nomination Committee are carried out by Corporate Governance Committee. The Committee reports, prepared by the Committee on January 21, 2013, pertaining to the candidacy of Mr Ali Aydın Pandır, Mr Atilla Tamer Alptekin and Mr Nazmi Demir as the independent board members were submitted to the Board of Directors on January 21, 2013. Due to being members of ERDEMİR Group 1 within the scope of Corporate Governance Principles, the application was submitted to the Capital Markets Board in line with the required process pertaining to the independent board members. No opposing or dissenting view was received for this. Due to the resignation of Mr Ali Aydın Pandır on November 14, 2013, Emin Hakan Eminsoy was appointed as an independent board member on March 04, 2014. The independence declarations of the Independent Board Members are included in the Appendix of the Board of Directors' Activity Report. In 2013, no situation has occurred for violation of the independency.

The members of the Board of Directors are not prevented from assuming other duties outside the company. The Board Members' résumés and duties outside of the Company, are published on the Company website, under the scope of the Corporate Governance Principles No: 1.3.1.

Except the Independent Board Members, Board of Directors consists of legal persons and Company has a woman member who is the proxy of a legal person.

5.2. Principles of Activity of the Board of Directors
The Board of Directors meets at the Company headquarters or at a different location, determined by the Board, at least six times a year or as often as business requires. The Board of Directors elects a chairman among its members during the first meeting of the year. In the absence of the chairman, a deputy chairman is also elected by the Board of Directors to act on behalf of the chairman. The procedure applied for assembling the Board of Directors, the quorum for the meeting, the resolution and voting as well as the task, rights and powers of the Board of Directors are subject to the Turkish Commercial Code and the provisions of relevant legislation.

The decisions of the Board of Directors are written down on the decision book and signed by the Chairman and the members. Reserving the Article 22 of the Articles of Association, the rights and powers assigned to ERDEMİR Group A, the Board of Directors can delegate all or a number of the representative and administrative powers of the Company to one member of the Board of Directors or to several managing directors, other than the independent board members.

The development of investment projects is reflected on the annual report of Board of Directors in detail. Furthermore, no resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 37 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the usufructuary to represent ERDEMİR Group A shares. The requests of the members of the Board and the managers are taken into consideration concerning the items on agenda, whereas the meeting agenda of the Board of Directors is formed by the Chairman of the Board. 10 meetings were held by the Board of Directors in 2013. The attendance rate was 99% for these meetings. The date for the following Board meeting is set based on the requirement of the company and on the requests arising from the members. The members are invited to the meeting via e-mail messages. The secretariat, set up in accordance with the Corporate Governance Principles under the body of the Board of Directors, informs the Board members on the meeting agenda and forwards them the relevant documents on the agenda. Neither the Chairman nor the members of the Board have a weighted voting right. All members, including the Chairman, have equal voting rights. Dissenting opinions and votes, disclosed at Board of Directors' meetings, are written down in the minutes.

It shall be observed the Corporate Management Principles, the implementation of which is made obligatory by Capital Markets Board. The transactions made and the resolutions passed without observing the obligatory principles are held invalid and deemed contrary to the articles of association.

With regard to the implementation of the Corporate Management Principles, the regulations of Capital Market Board on corporate management are observed in the transactions deemed to have an important nature and any related party transactions of the company, which are of important nature as well as the transactions for giving security and establishing pledge and mortgage in favor of third persons.

The amount of the insurance, which covers personal responsibilities of Board Members arising from the legal obligations, is US$ 75 million. The insurance compensates for the legal expense and indemnity.

5.3. Number, Structure and Independence of the Committees Established under the Board of Directors
The Audit Committee, The Early Detection of Risk Committee and The Corporate Governance Committee were set up so that the Board of Directors is able to perform their tasks and responsibilities more effectively. By considering the structure of the Board of Directors, the fulfilling of the power, the duty and the responsibility foreseen for The Candidate Nomination Committee and the Remuneration Committee was delegated to and passed onto the Corporate Governance Committee upon the Board of Directors' decision Numbered 9148, dated June 29, 2012. The frequency of gathering for the committees, their activities and procedures to be followed while carrying out the activities are stated in the regulations published on our website. The decisions made as a result of work carried out independently by the committees are submitted to the Board of Directors as proposals and the ultimate decision is reached conclusively by the Board of Directors.

Our Company has ensured the structuring of the management within the framework of the Communiqué regarding the Corporate Governance Principles. One member is assigned for more than one committee due to the condition that requires the Auditing Committee to be made up of completely independent board members and the chairmen of the other committees to be comprised of the independent board members.

Ali Aydın Pandır who was one of the Independent Board Members had resigned on 14 November 2013. Due to the resignation, Emin Hakan Eminsoy was appointed as an independent board member on March 04, 2014.

Audit Committee

Name-Surname	Title	Relation with the Company	Details
Atilla Tamer Alptekin	Chairman	Board Member	Independent / Not Executive
Nazmi Demir	Member	Board Member	Independent / Not Executive

Early Detection of Risk Committee

Name-Surname	Title	Relation with the Company	Details
Nazmi Demir	Chairman	Board Member	Independent / Not Executive
Emin Hakan Eminsoy	Member	Board Member	Independent / Not Executive

Corporate Governance Committee

Name-Surname	Title	Relation with the Company	Details
Emin Hakan Eminsoy	Chairman	Board Member	Independent / Not Executive
Atilla Tamer Alptekin	Member	Board Member	Independent / Not Executive

5.4. Risk Management and Internal Control Mechanism
Under the body of the Board of Directors, The Early Detection of Risk Committee was set up and the working directives of the Committee were published on the company website.

Risks are monitored and managed in compliance with the regulation and procedures related with management of the market and customer risks which are directed towards measuring the risks ERDEMİR Group is exposed to and developing hedging methods to keep these risks within risk tolerances.

Almost all of our receivables are guaranteed with the Direct Debit System and the Credited Direct Collection System. Risk positions of our customers are monitored daily and when exceeding the limits, a margin call is issued.

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks ERDEMİR Group is exposed to and the amount of gain / loss, which may arise possible interest rate changes, is measured using a sensitivity analysis. Additionally, the ratio of total amount of loans with a floating interest rate to whole credit portfolio of ERDEMİR Group is monitored and actions are taken to keep this ratio within a defined limit. According to firm and market situation, derivative instruments are recommended to executives and also bank offers are analyzed for compliance test.

Similarly, with regards to liquidity risk management, credit usage and paybacks and cash flow projections are monitored and necessary actions are taken.

Financial valuation and technical assessment report of investments is presented to the Consolidation and ERDEMİR Group Risk Management Center. According to the investment amount and duration of investment, production and sales volumes, the expected net cash flows of the project, the net present value, internal rate of return and Payback Period, Consolidation and Group Risk Management Center evaluates the results of the financial affairs and reports to Finance Coordinator. Investment advices not approved by Consolidation and Group Risk Management Center will not be offered to the Board of Directors.

The degree and state of satisfaction and the procedure of our company's internal control systems are carried out by the Business Processes Analysis and Supervision Directorate who reports to the Board of Directors.

5.5. Strategic Targets of the Company

Our Company has been directed in line with the ERDEMİR Strategic Management Model since 1999. The ERDEMİR Group Strategies and Business Plan were determined and approved by the Board of Directors in 2005. In later years, the decision that required the business plan to be approved by the General Management was reached. Accordingly, the business plans formed in line with the approved strategies are drawn up each year for the following year.

The objectives in the business plan containing strategic and operational targets set in association with strategies approved by the Board of Directors, are safeguarded by all the units utilizing the target spread system and the result is spread towards individual targets. Moreover, our business plans are reviewed by preparing quarterly assessment reports. The condition of the company as to meeting the objectives, relevant remarks and explanations are submitted to the management appearing in the year-end assessment reports.

5.6. Financial Rights

All types of rights, benefits and fees vested upon the board members and executives, and the criteria deemed to determine such rights, benefits and fees as well as the compensation basics are published under the Compensation heading of our Company website. The Board Members are paid in accordance with the decision of General Assembly based on the Articles of Association of the Company, which is also disclosed to the public through the general assembly minutes published on the Company website. The fees remitted to the executives are determined by the General Assembly. The payments effected to the executives are disclosed to the public and included in the footnotes of the financial statements.

According to the decisions made by the General Assembly Meeting held on March 29, 2013, the Board Members elected in representation of the B Group shares shall not be paid. The Board Members elected in representation of the A Group Shares shall be paid TL 2,200 per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid TL 5,000 per month (at the beginning of the relevant month, paid in advance, net).

No loans were offered to either a board member or an executive within the period. No loan utilization was granted directly or through a third party. Furthermore, no collaterals such as bails were offered in favor.

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

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY-31 DECEMBER 2013 AND AUDITOR'S REPORT

CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH INDEPENDENT AUDITOR'S REPORT

Building a better working world

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CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH

INDEPENDENT AUDITOR'S REPORT

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

Introduction
We have audited the accompanying consolidated balance sheet of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (the Company) and its Subsidiaries (together will be referred to as the "Group") as at 31 December 2013 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards (Note 2).

Other Matters
We draw attention to the matter in note 17 to the accompanying consolidated financial statements: The court cases related to CMB's claim that the Company had prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB in prior years were concluded against the Company at Council of State and such conclusions declared to the Company via notifications received in July 2012. On August 1, 2012, the Company has applied to Administrative Court to remove the conflicting decisions of these courts; however there is no development regarding with this issue. The lawsuit, which was commenced by the Privatization Administration ("PA") of the Turkish Republic for the cancellation of the resolution of the Company's General Assembly dated March 30, 2006 regarding the dividend distribution, is still pending.

We draw attention to the matter in note 2.1 to the accompanying consolidated financial statements: The Group management determined to change the functional currency of the Company and its subsidiaries; İskenderun Demir ve Çelik A.Ş. and Erdemir Çelik Servis Merkezi A.Ş. from TRY to US Dollars in accordance with TAS 21 ("The Effects of Foreign Exchange Rates") effective from the reporting periods as of July 1, 2013 and prepared its consolidated financial statements as of December 31, 2013, accordingly. Our conclusion is not qualified for these matters.

Reports on independent auditor's responsibilities arising from other regulatory requirements
In accordance with Article 402 of the Turkish Commercial Code ("TCC"); the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit, additionally, no significant matter has come to our attention that causes us to believe that the Group's bookkeeping activities for the period 1 January – 31 December 2013 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.

Pursuant to Article 378 of TCC, Board of Directors of publicly traded companies are required to form an expert committee, and to run and to develop the necessary system for the purposes of: early identification of causes that jeopardize the existence, development and continuity of the company; applying the necessary measures and remedies in this regard; and, managing the related risks. According to subparagraph 4, Article 398 of the code, the auditor is required to prepare a separate report explaining whether the Board of Directors has established the system and authorized committee stipulated under Article 378 to identify risks that threaten or may threaten the company and to provide risk management, and, if such a system exists, the report, the principles of which shall be announced by the POA, shall describe the structure of the system and the practices of the committee. This report shall be submitted to the Board of Directors along with the auditor's report. Our audit does not include evaluating the operational efficiency and adequacy of the operations carried out by the management of the Group in order to manage these risks. As of the balance sheet date, POA has not announced the principles of this report yet so no separate report has been drawn up relating to it. On the other hand, the Group has formed the mentioned committee on September 24, 2012, which comprised of 2 members. The committee has met 3 times since its formation to the reporting date for the purposes of early identification of risks that jeopardize the existence of the company and its development, applying the necessary measures and remedies in this regard, and managing the risks, and has presented the relevant studies to the Board of Directors.

Additional paragraph for convenience translation into English
As at December 31, 2013, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

Güney Bağımsız Denetim
ve SMMM A.Ş.

Ethem Kutucular, SMMM
Partner
Istanbul, February 13, 2014

TABLE OF CONTENTS

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

	Note	(Audited) Current Period 31 December 2013	(Audited-Restated) (*) Previous Period 31 December 2012	(Audited-Restated) (*) Previous Period 31 December 2011
ASSETS				
Current Assets		**6.008.498.444**	**5.854.230.082**	**6.024.733.105**
Cash and Cash Equivalents	4	761.111.225	1.829.716.171	1.102.710.213
Other Short Term Financial Assets	5	7.373.780	543.101	9.232.974
Trade Receivables	8	1.708.538.168	1.047.300.360	1.141.698.002
Due From Related Parties	*30*	*36.693.787*	*17.941.389*	*9.723.604*
Other Trade Receivables	*8*	*1.671.844.381*	*1.029.358.971*	*1.131.974.398*
Other Receivables	9	4.181.400	296.045	277.962
Inventories	10	3.383.086.889	2.848.119.207	3.628.497.829
Prepaid Expenses	11	18.115.211	18.404.660	42.506.830
Other Current Assets	19	126.091.771	109.850.538	99.809.295
Non Current Assets		**8.025.985.849**	**7.287.190.543**	**7.365.849.568**
Other Receivables	9	22.711.009	43.225.706	43.206.240
Financial Investments		-	84.594	66.086
Other Long Term Financial Assets	5	72.656.640	9.579.245	47.475.443
Investment Properties	12	51.646.848	46.577.264	46.577.264
Property, Plant and Equipment	13	7.673.555.919	6.997.897.584	6.911.644.581
Intangible Assets	14	159.150.181	152.910.729	164.152.691
Prepaid Expenses	11	28.428.931	22.841.651	41.870.745
Deferred Tax Assets	28	17.836.321	14.073.770	110.735.816
Other Non Current Assets		-	-	120.702
TOTAL ASSETS		**14.034.484.293**	**13.141.420.625**	**13.390.582.673**

(*) Detailed information about restated consolidated financial statements is given in note 34.

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 FINANCIAL POSITION
AS OF 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

	Note	(Audited) Current Period 31 December 2013	(Audited-Restated) (*) Previous Period 31 December 2012	(Audited-Restated) (*) Previous Period 31 December 2011
LIABILITIES				
Current Liabilities		**2.475.405.792**	**2.817.904.101**	**2.415.353.191**
Financial Liabilities	6	198.608.086	867.824.521	394.588.121
Short Term Portion of Long Term Financial Liabilities	6	1.281.188.311	1.154.609.147	1.093.280.760
Other Current Financial Liabilities	7	14.581.592	4.180.528	558.936
Trade Payables	8	504.185.643	428.055.750	533.658.501
Due to Related Parties	*30*	*14.443.149*	*11.727.235*	*9.852.736*
Other Trade Payables	*8*	*489.742.494*	*416.328.515*	*523.805.765*
Other Payables	9	6.255.648	7.784.500	9.499.032
Deferred Revenue	20	92.988.073	95.524.729	133.991.395
Current Tax Liabilities	28	44.989.957	12.209.061	44.693.617
Short Term Provisions	17	205.026.407	113.061.323	77.424.150
Payables for Employee Benefits	16	108.794.189	101.317.114	98.046.626
Other Current Liabilities	19	18.787.886	33.337.428	29.612.053
Non Current Liabilities		**2.852.258.782**	**2.907.604.439**	**3.687.681.410**
Financial Liabilities	6	2.020.282.825	2.396.318.269	3.289.928.316
Other Non Current Financial Liabilities	7	12.290.194	14.576.726	10.400.444
Provisions for Employee Benefits	16	392.231.844	346.248.924	273.178.661
Deferred Tax Liabilities	28	427.102.170	150.043.899	113.234.445
Other Non Current Liabilities	19	351.749	416.621	939.544
EQUITY	**21**	**8.706.819.719**	**7.415.912.085**	**7.287.548.072**
Equity Attributable to Equity Holders of the Parent		**8.466.789.905**	**7.204.811.565**	**7.086.723.062**
Share Capital		3.500.000.000	3.090.000.000	2.150.000.000
Inflation Adjustment to Capital		156.613.221	342.195.166	731.967.735
Treasury Shares (-)		(116.232.173)	(103.599.856)	(74.637.969)
Share Issue Premium		106.447.376	106.447.376	231.020.042
Other Comprehensive Income/ Expense Not to be Reclassified to Profit/ (Loss)		(43.554.737)	(28.869.742)	(619.453)
Revaluation Reserve of Tangible Assets		*23.254.736*	*26.813.595*	*27.228.155*
Actuarial (Loss)/ Gain funds		*(66.809.473)*	*(55.683.337)*	*(27.847.608)*
Other Comprehensive Income/ Expense to be Reclassified to Profit/ (Loss)		835.320.304	(30.193.496)	(15.272.360)
Cash Flow Hedging Reserves		*(9.343.974)*	*(29.878.279)*	*(14.783.355)*
Foreign Currency Translation Reserves		*844.664.278*	*(315.217)*	*(489.005)*
Restricted Reserves Assorted from Profit		500.949.412	432.878.502	550.543.376
Retained Earnings		2.607.272.495	2.943.936.846	2.493.154.042
Net Profit for the Period		919.974.007	452.016.769	1.020.567.649
Non-Controlling Interests		**240.029.814**	**211.100.520**	**200.825.010**
TOTAL LIABILITIES AND EQUITY		**14.034.484.293**	**13.141.420.625**	**13.390.582.673**

(*) Detailed information about restated consolidated financial statements is given in note 34.

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
AS OF 31 DECEMBER 2013

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

	Note	(Audited) Current Period 1 January- 31 December 2013	(Audited- Restated)(*) Previous Period 1 January- 31 December 2012
OPERATING INCOME			
Revenue	22	9.780.751.418	9.570.396.709
Cost of Sales (-)	22	(7.921.852.193)	(8.541.548.522)
GROSS PROFIT		**1.858.899.225**	**1.028.848.187**
Marketing, Sales and Distribution Expenses (-)	23	(107.997.466)	(105.941.627)
General Administrative Expenses (-)	23	(201.944.792)	(175.981.440)
Research and Development Expenses (-)	23	(3.862.074)	(1.517.122)
Other Operating Income	25	160.926.849	119.385.286
Other Operating Expenses (-)	25	(146.817.851)	(111.457.573)
OPERATING PROFIT		**1.559.203.891**	**753.335.711**
Finance Income	26	105.330.342	228.117.052
Finance Expense (-)	27	(416.373.024)	(299.969.934)
PROFIT BEFORE TAX		**1.248.161.209**	**681.482.829**
Tax Expense	28	(287.753.636)	(197.907.277)
- Current Corporate Tax Expense		(195.979.505)	(53.282.231)
- Deferred Tax Expense		(91.774.131)	(144.625.046)
PROFIT FOR THE PERIOD		**960.407.573**	**483.575.552**
- Non-Controlling Interests		40.433.566	31.558.783
- Equity Holders of the Parent		919.974.007	452.016.769
EARNINGS PER SHARE (TRY 1 Nominal value per share)	**29**	**0,2628**	**0,1291**

(*) Detailed information about restated consolidated financial statements is given in note 34.

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 OTHER COMPREHENSIVE INCOME
AS OF 31 DECEMBER 2013

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

	Note	(Audited) Current Period 1 January- 31 December 2013	(Audited- Restated)(*) Previous Period 1 January- 31 December 2012
PROFIT FOR THE PERIOD		**960.407.573**	**483.575.552**
Other Comprehensive Income/(Expense):			
Not to be reclassified subsequently to profit or loss			
Change in Revaluation Reserve of Tangible Assets		(3.558.859)	(414.560)
Change in Actuarial (Loss)/ Gain		(14.281.389)	(36.032.589)
Tax Effect of Changes in Actuarial (Loss)/ Gain		2.856.278	7.206.517
To be reclassified subsequently to profit or loss			
Change in Cash Flow Hedging Reserves		27.826.380	(20.367.149)
Tax Effect of Change in Cash Flow Hedging Reserves		(5.565.276)	4.073.430
Change in Foreign Currency Translation Reserves		849.489.881	173.788
OTHER COMPREHENSIVE INCOME/ EXPENSE FOR THE PERIOD (AFTER TAX)	**28**	**856.767.015**	**(45.360.563)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1.817.174.588**	**438.214.989**
Distribution of Total Comprehensive Income			
- Non-controlling Interests		46.371.776	29.369.645
- Equity Holders of the Parent		1.770.802.812	408.845.344

(*) Detailed information about restated consolidated financial statements is given in note 34.

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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

						Other comprehensive income/ expense not to be reclassified subsequently to profit or loss		Other comprehensive income/ expense to be reclassified subsequently to profit or loss						
	Note	Share Capital	İnflation Adjustment to Capital	Treasury Shares (-)	Share İssue Premium	Revaluation Reserve of Tangible Assets	Actuarial loss/ (gain) funds	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings and Net Profit	Equity Attributable to the Parent	Non-controlling İnterests	Total Shareholders' Equity
(Audited)														
1 January 2013 (previously reported)		3.090.000.000	342.195.166	(103.599.856)	106.447.376	26.813.595	-	(29.878.279)	(315.217)	432.878.502	3.340.270.278	7.204.811.565	211.100.520	7.415.912.085
Effect of changes in accounting policy	34	-	-	-	-	-	(55.683.337)	-	-	-	55.683.337	-	-	-
Restated 1 January 2013 (*)		3.090.000.000	342.195.166	(103.599.856)	106.447.376	26.813.595	(55.683.337)	(29.878.279)	(315.217)	432.878.502	3.395.953.615	7.204.811.565	211.100.520	7.415.912.085
Net profit for the period		-	-	-	-	-	-	-	-	-	919.974.007	919.974.007	40.433.566	960.407.573
Other comprehensive income/ (loss)		-	-	-	-	(3.558.859)	(11.126.136)	20.534.305	844.979.495	-	-	850.828.805	5.938.210	856.767.015
Total comprehensive income/ (loss)		-	-	-	-	(3.558.859)	(11.126.136)	20.534.305	844.979.495	-	919.974.007	1.770.802.812	46.371.776	1.817.174.588
Dividends paid (**)		-	-	-	-	-	-	-	-	-	(508.824.472)	(508.824.472)	(17.442.482)	(526.266.954)
Capital increase	21	410.000.000	(185.581.945)	(12.632.317)	-	-	-	-	-	-	(211.785.738)	-	-	-
Transfers from retained earnings	21	-	-	-	-	-	-	-	-	68.070.910	(68.070.910)	-	-	-
31 December 2013	21	3.500.000.000	156.613.221	(116.232.173)	106.447.376	23.254.736	(66.809.473)	(9.343.974)	844.664.278	500.949.412	3.527.246.502	8.466.789.905	240.029.814	8.706.819.719
(Audited)														
1 January 2012 (previously reported)		2.150.000.000	731.967.735	(74.637.969)	231.020.042	27.228.155	-	(14.783.355)	(489.005)	550.543.376	3.485.874.083	7.086.723.062	200.825.010	7.287.548.072
Effect of changes in accounting policy	34	-	-	-	-	-	(27.847.608)	-	-	-	27.847.608	-	-	-
Restated 1 January 2012 (*)		2.150.000.000	731.967.735	(74.637.969)	231.020.042	27.228.155	(27.847.608)	(14.783.355)	(489.005)	550.543.376	3.513.721.691	7.086.723.062	200.825.010	7.287.548.072
Net profit for the period		-	-	-	-	-	-	-	-	-	452.016.769	452.016.769	31.558.783	483.575.552
Other comprehensive income/ (loss)		-	-	-	-	(414.560)	(27.835.729)	(15.094.924)	173.788	-	-	(43.171.425)	(2.189.138)	(45.360.563)
Total comprehensive income/ (loss)		-	-	-	-	(414.560)	(27.835.729)	(15.094.924)	173.788	-	452.016.769	408.845.344	29.369.645	438.214.989
Dividends paid		-	-	-	-	-	-	-	-	-	(290.756.841)	(290.756.841)	(19.094.135)	(309.850.976)
Capital increase		940.000.000	(389.772.569)	(28.961.887)	(124.572.666)	-	-	-	-	(195.705.773)	(200.987.105)	-	-	-
Transfers from retained earnings	21	-	-	-	-	-	-	-	-	78.040.899	(78.040.899)	-	-	-
31 December 2012	21	3.090.000.000	342.195.166	(103.599.856)	106.447.376	26.813.595	(55.683.337)	(29.878.279)	(315.217)	432.878.502	3.395.953.615	7.204.811.565	211.100.520	7.415.912.085

(*) Detailed information about restated consolidated financial statements is given in Note 34.
(**) Annual General Assembly dated 29 March 2013, dividend distribution (gross dividend per share: TRY 0,03429 (2012: TRY 0,0971)) amounting to TRY 120.000.000 (30 March 2012: TRY 300.000.000) from 2012 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 1 as of 29 March 2013, dividends for treasury shares are netted off under dividends paid. The dividend payment was completed at 30 May 2013. Annual General Assembly dated 30 October 2013, dividend distribution (gross dividend per share: TRY 0,11571) amounting to TRY 405.000.000 from retained earnings was approved. The dividend payment was completed at 20 November 2013.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Note	(Audited) Current Period 1 January- 31 December 2013	(Audited) (Restated) Previous Period 1 January- 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and non-controlling interests		1.248.161.209	681.482.829
Adjustments to reconcile net profit before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	22/24	396.480.468	343.712.684
Provision for employee termination benefits	16	48.231.767	42.817.095
Provision for seniority incentive premium	16	(345.709)	4.624.823
(Gain) on sale of property plant and equipment	25	(1.227.023)	(745.105)
Loss on write off of property plant and equipment	25	2.002.309	940.576
Increase in provision for doubtful receivables	8/9	15.380.387	2.479.422
Increase/ (decrease) in the allowance for inventories	10	15.942.672	6.869.706
Increase in the impairment of tangible assets	13	20.471.880	-
Increase in provision for unpaid vacations	16	8.444.361	9.235.730
Increase in provision for pending claims and lawsuits	17	90.847.514	49.952.170
Increase in penalty provision for obligatory employment shortage of disabled people	17	1.085.673	126.043
Increase in provision for state right on mining activities	17	2.642.016	3.643.868
Increase in provision for civil defense fund	17	3.340.926	-
Interest expenses	27	218.356.172	251.006.590
Interest income	26	(69.753.503)	(70.997.685)
Interest income from overdue sales	25	(40.533.624)	(55.555.350)
Unrealized foreign currency (gain) of financial liabilities		(11.337.751)	(220.442.132)
Loss/(gain) on fair value changes of derivative financial instruments	26/27	(35.557.137)	22.302.509
Net cash provided by operating activities before changes in working capital		**1.912.632.607**	**1.071.453.773**
Changes in working capital	34	(504.436.589)	734.538.707
Interest income from overdue sales collected		29.169.342	41.825.220
Lawsuits paid	17	(7.411.502)	(13.964.834)
Penalty paid for the employment shortage of disabled people	17	(1.503.714)	(415.650)
Corporate tax paid	28	(163.198.609)	(85.766.787)
Employee termination benefits paid	16	(22.213.508)	(13.139.161)
State rights paid for mining activities	17	(3.643.868)	(3.704.424)
Unused vacation paid	16	(3.341.931)	(2.021.742)
Seniority incentive premium paid	16	(864.146)	(4.479.071)
Net cash provided by operating activities		**1.235.188.082**	**1.724.326.031**
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in financial investments		84.594	(18.508)
Cash used in the purchase of tangible assets	13	(305.897.240)	(423.660.412)
Cash used in the purchase of intangible assets	14	(11.529.508)	(8.175.491)
Cash provided by sales of tangible assets	13/14/25	1.669.091	5.048.819
Net cash used in investing activities		**(315.673.063)**	**(426.805.592)**
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings		5.182.817.237	2.560.177.133
Repayment of borrowings		(6.958.811.478)	(2.708.201.606)
Interest paid		(208.560.300)	(150.008.726)
Interest received on bank deposits	4/26	70.464.878	38.611.104
Dividends paid		(508.824.472)	(290.300.182)
Dividends paid to non-controlling interests		(17.442.482)	(19.094.135)
Net cash used in by financing activities		**(2.440.356.617)**	**(568.816.412)**
NET CHANGES IN CASH AND CASH EQUIVALENTS		**(1.520.841.598)**	**728.704.027**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	**1.827.697.701**	**1.100.335.205**
Currency translation difference, net		452.948.027	(1.341.531)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**759.804.130**	**1.827.697.701**
Accrued interest income	4	1.307.095	2.018.470
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	4	**761.111.225**	**1.829.716.171**

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

NOTE 1 – GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of Operation	Operation	2013 Share %	2012 Share %
İskenderun Demir ve Çelik A.Ş. ("ISDEMIR")	Turkey	Iron and Steel	95,07	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100	100
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Iron and Steel	100	100

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

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

In the Extraordinary General Meeting of İskenderun Demir ve Çelik A.Ş., it was decided to increase the capital from TRY 483.126.252,12 to TRY 2.900.000.000,00. The Company has increased its share capital in İskenderun Demir ve Çelik A.Ş from %92,91 to %95,07 (within the preferential rights).

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

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

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

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

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation.

The Group's consolidated financial statements and disclosures have been prepared in accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB") (hereinafter will be referred to as "the CMB Accounting Standards") on 13 June 2013 which is published on Official Gazette numbered 28676. The financial statements are prepared on cost basis, except the derivative financial instruments and iron ore and silicon steel used in the production of fixed assets carried on fair value measured at business at acquisiton date (Note 5 and Note 7).

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

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Currency

TRY is accepted as the functional currency of the Company's subsidiaries operating in Turkey and presentation currency of the consolidated financial statements on 30 June 2013 and the previous periods.

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

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

Due to reasons stated above, the change of current functional currency of the Company and its subsidiaries Isdemir and Ersem from TRY into US Dollars has been considered. Group Management has started evaluating the effects of these changes made in 2012 and its possible effects on financial statements as of approval date of financial statements with the assumption that TRY is not representing the primary economic environment in which the Company and its subsidiaries İsdemir and Ersem operations.

According to the Company's management's point of view, due to decrease in TRY effect on the Group's economic environment, the requirements for change in the functional currency has not fully completed and that the functional currency of six months should be in TRY due to the major actual sales collections (nearly 50%) in TRY in 2012 and until the third quarter of 2013. Based on the Management's decision for increase in USD collections for trade receivables, there were changes in the IT infrastructure and the online banking system. After the changes in IT infrastructure and online banking systems, the collections have been started only in US Dollars in our banking system DBS ("Direct Debit System") as of September 2013, and The Company informed the customers through the Erdemir Online website. Due to the increase in USD collection in the third quarter of 2013, all conditions for functional currency change have been completed.

In the line with these developments in the third quarter of 2013, the Company Management concluded that change the functional currency of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries İsdemir and Ersem from TRY to US Dollars is necessary.

As of balance sheet date, the effect of US Dollars over the activities of the Company and its subsidiaries, İsdemir and Ersem, are significant and reflect the economic conditions in which the company and its subsidiaries İsdemir and Ersem operates.

Due to aforementioned reasons, The Company management decided to change the functional currency of the Companys and its subsidiaries İsdemir and Ersem from TRY to US Dollars in accordance with TAS 21 ("The Effects of Foreign Exchange Rates"). Although the appropriate conditions in the functional currency exchange of the Company and its subsidiaries İsdemir and Ersem has been finalized in September 2013, the Company management evaluated the effect of change of the functional currency effect to 1 July – 30 September 2013 and decided to apply the functional currency change starting from 1 July 2013. The functional currencies of the Company's subsidiaries, Erdemir Madencilik San. Ve Tic. A.Ş. "Ermaden" and Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş "Erenco", operating in Turkey have been accepted in TRY as in previous periods.

Therefore, the Company's and its subsidiaries İsdemir and Ersem financial statements applied US Dollars functional currency starting from the beginning of third quarter, which is 1 July 2013. All the figures on the financial statements, except US Dollars, are considered as foreign currencies. Transactions and balances US Dollars denominated are re-calculated in US Dollars as the following under TAS 21 ("The Effects of Foreign Exchange Rates").

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Currency (cont'd)

The effects of the change in functional currency into US Dollars, that is started to apply from the beginning of 1 July 2013, have been disclosed in below financial statements as follows:

	(Presentation Currency TRY/ Functional Currency as US Dollars) 31 Dec 2013	(Presentation Currency TRY/ Functional Currency as TRY) 31 Dec 2013	(Difference) 31 Dec 2013
Current Assets	6.008.498.444	5.792.170.714	216.327.730
Non Current Assets	8.025.985.849	7.268.531.217	757.454.632
Total Assets	**14.034.484.293**	**13.060.701.931**	**973.782.362**
Current Liabilities	2.475.405.792	2.462.319.357	13.086.435
Non Current Liabilities	2.852.258.782	2.660.478.208	191.780.574
Equity	8.706.819.719	7.937.904.366	768.915.353
Equity attributable to equity holders of the parent	*8.466.789.905*	*7.719.689.931*	*747.099.974*
Non-controlling Interests	*240.029.814*	*218.214.435*	*21.815.379*
Total Liabilities and Equity	**14.034.484.293**	**13.060.701.931**	**973.782.362**

	(Presentation Currency TRY/ Functional Currency as US Dollars) 31 Dec 2013	(Presentation Currency TRY/ Functional Currency as TRY) 31 Dec 2013	(Difference) 31 Dec 2013
Revenue	9.780.751.418	9.736.400.495	44.350.923
Cost of Sales (-)	(7.921.852.193)	(7.875.300.085)	(46.552.108)
Gross Profit	1.858.899.225	1.861.100.410	(2.201.185)
Profit Before Tax	1.248.161.209	1.314.661.180	(66.499.971)

According to TAS 21 ("The Effects of Foreign Exchange Rates") changes in the functional currency should be applied on a going-forward basis. Consequently there has not been any correction in the financial statements and notes for 30 June 2013 and previous periods. Due to the changes in the functional currency, all the figures in the six months period ended 30 June 2013 income statement are translated annual average buying rate; all the figures in the six months period ended 30 June 2013 balance sheet figures are translated into US Dollars by using Central Bank's buying rate as of 30 June 2013, which corresponds to 1,9248 and all these figures are taken as the opening historical cost of non-monetary balance sheet items such as; tangible and intangible assets, investment property, inventories and equity. The 1 July – 30 December 2013 movements of these items and the statement of income are translated to US Dollars at the rates of exchange prevailing on the dates of the transactions (or by using average exchange rate when suitable). The translation difference gain is recognized as foreign exchange income/ (loss) under financial income/ (expenses).

Functional and presentation currency for the subsidiary abroad

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

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

2.1 Basis of Presentation (cont'd)

Functional and Reporting Currency (cont'd)

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

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

Presentation currency translation

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

a) For the purpose of presenting consolidated financial statements, the assets and liabilities are translated from USD Dollars into TRY using the Central Bank of Turkey's exchange rate which is TRY 2,1343=US $ 1 and TRY 2,9365=EUR 1 on the balance sheet date (31 December 2012: TRY 1,7826= US $ 1, TRY 2,3517=EUR 1).
b) For the year ended 31 December 2013, income statements are translated from the average TRY 1,9022=US $ 1 and TRY 2,5277=EUR 1 rates of 2013 January-December period.
c) Exchange differences are shown in other comprehensive income as of foreign currency translation reserve.
d) Presentation currency translation difference that occurs due to the items of shareholders' equity of the Company in the statutory accounts is recognised as translation differences under equity.

Going concern

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 13 February 2014 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

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

2.3 Consolidation Principles

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

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

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

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

The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership, which are identical to their economic interests, as of December 31, 2013 and 2012 (%) and their functional currencies:

	31 December 2013			31 December 2012		
	Functional Currency	Ownership İnterest	Effective Shareholding	Functional Currency	Ownership İnterest	Effective Shareholding
İsdemir	US Dollars	95,07	95,07	Turkish Lira	92,91	92,91
Ersem	US Dollars	100,00	100,00	Turkish Lira	100,00	100,00
Ermaden	Turkish Lira	90,00	90,00	Turkish Lira	90,00	90,00
Erenco	Turkish Lira	100,00	100,00	Turkish Lira	100,00	100,00
Erdemir Romania S.R.L.	Euro	100,00	100,00	Euro	100,00	100,00

Available-for-sale investments, in which the Group has attributable interests below 20% or in which a significant influence is not exercised by the Group, that have quoted market prices in active markets and whose fair values can be reliably measured are carried at fair value.

The non-controlling share in the net assets and results of Subsidiaries for the year are separately classified as non-controlling interest in the consolidated statements of financial position and consolidated statements of profit or loss.

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

The Group's consolidated financial statements are presented in comparison with the previous period in order to allow for the determination of the financial position and performance trends. The comparative information is reclassified when necessary in order to be aligned with the current period consolidated financial statements. The detailed information about these restatements are presented in Note 34.

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

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

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

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

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

2.5.2 Deferred tax

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with TFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and TFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 28).

2.5.3 Fair values of derivative financial instruments

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note5, Note 7, Note 31).

2.5.4 Provision for doubtful receivables

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

2.5.5 Provision for inventories

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

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

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

2.5.6 Provisions for employee benefits

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

2.5.7 Provision for lawsuits

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

2.6 Offsetting

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

2.7 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2013 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and IFRIC interpretations effective as of 1 January 2013 summarized below. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

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

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

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

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

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

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

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

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

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

TAS 19 Employee Benefits (Amended)

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism, for determined benefit plans recognizing actuarial gain/(loss) under other comprehensive income and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Group has accounted the actuarial gain/losses in other comprehensive income in accordance with the amendment. As a result of change in actuarial gain/ losses in other comprehensive income difference from previous year is explained in Note 34. Additionally, based on the amendment in the presentation of short term employee benefits, vacation pay liability formerly presented in the short term provisions has been retrospectively reclassified to long term provisions.

TAS 27 Separate Financial Statements (Amended)

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

TAS 28 Investments in Associates and Joint Ventures (Amended)

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

TFRS 10 Consolidated Financial Statements

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

TFRS 11 Joint Arrangements

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

TFRS 12 Disclosure of Interests in Other Entities

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

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

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

TFRS 13 Fair Value Measurement

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

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

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

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

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

Improvements to TFRS

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

TAS 1 Financial Statement Presentation:

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

TAS 16 Property, Plant and Equipment:

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

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

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

Improvements to TFRS (cont'd)

TAS 32 Financial Instruments: Presentation:

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

TAS 34 Interim Financial Reporting:

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

Standards issued but not yet effective and not early adopted

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

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

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

TFRS 9 Financial Instruments – Classification and measurement

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

IFRIC Interpretation 21 Levies

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

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

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

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

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

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

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

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

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

IFRS 10 Consolidated Financial Statements (Amendment)

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

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

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging relationships. The standard does not have a mandatory effective date, but it is available for application now; a new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

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

Improvements to IFRSs

In December 2013, the IASB issued two cycles of Annual Improvements to IFRSs – 2010–2012 Cycle and IFRSs – 2011–2013 Cycle. Other than the amendments that only affect the standards' Basis for Conclusions, the changes are effective 1 July 2014. Earlier application is permitted.

Annual Improvements to IFRSs – 2010–2012 Cycle

IFRS 2 Share-based Payment:

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

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

IFRS 13 Fair Value Measurement

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

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

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

IAS 24 Related Party Disclosures

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

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

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

Improvements to IFRSs (cont'd)

Annual Improvements to IFRSs – 2011–2013 Cycle

IFRS 3 Business Combinations

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

IFRS 14 - interim standard on regulatory deferral accounts.

In January 2014, the IASB issued this standard. IFRS 14 permits first-time adopter rate regulated entities to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. Existing IFRS preparers are prohibited from adopting this Standard. The Standard will be applied on a full retrospective basis and is effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Resolutions promulgated by the Public Oversight Authority

In addition to those mentioned above, the POA has promulgated the following resolutions regarding the implementation of Turkish Accounting Standards. "The financial statement examples and user guide" became immediately effective at its date of issuance; however, the other resolutions shall become effective for the annual reporting periods beginning after December 31, 2012.

2013-1 Financial Statement Examples and User Guide

The POA promulgated "financial statement examples and user guide" on May 20, 2013 in order to ensure the uniformity of financial statements and facilitate their audit. The financial statement examples within this framework were published to serve as an example to financial statements to be prepared by companies obliged to apply Turkish Accounting Standards, excluding financial institutions established to engage in banking, insurance, private pensions or capital market. The classifications made by the POA are disclosed in Note 34.

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

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

Resolutions promulgated by the Public Oversight Authority (cont'd)

2013-2 Accounting of Combinations under Common Control

In accordance with the resolution it has been decided that i) combination of entities under common control should be recognized using the pooling of interest method, ii) and thus, goodwill should not be included in the financial statements and iii) while using the pooling of interest method, the financial statements should be prepared as if the combination has taken place as of the beginning of the reporting period in which the common control occurs and should be presented comparatively from the beginning of the reporting period in which the common control occurred. This resolution did not have any impact on the financial statements of the Group.

2013-3 Accounting of Redeemed Share Certificates

Clarification has been provided on the conditions and circumstances where the redeemed share certificates shall be recognized as a financial liability or equity based financial instruments. This resolution did not have any impact on the financial statements of the Group/Company.

2013-4 Accounting of Cross Shareholding Investments

If a subsidiary of an entity holds shares of the entity then this is defined as cross shareholding investment. Accounting of this cross investment is assessed based on the type of the investment and different recognition principles adopted accordingly. With this resolution, this topic has been assessed under three main headings below and the recognition principles for each one of them has been determined.

i) the subsidiary holding the equity based financial instruments of the parent,
ii) the associates or joint ventures holding the equity based financial instruments of the parent,
iii) the parent's equity based financial instruments are held by an entity, which is accounted as an investment within the scope of TAS 39 and TFRS 9 by the parent.

This resolution did not have any impact on the financial statements of the Group.

2.8 Valuation Principles Applied / Significant Accounting Policies

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

2.8.1 Revenue recognition

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

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

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

2.8.1 Revenue recognition (cont'd)

<u>Sale of goods</u>

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.

<u>Dividend and interest revenue</u>

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

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

<u>Rental income</u>

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

2.8.2 Inventories

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

2.8.3 Property, plant and equipment

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

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

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

2.8.3 Property, plant and equipment (cont'd)

The Group's tangible fixed assets operating in the production of iron ore and high silicon flat steel are stated in the balance sheet at their 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%

2.8.4 Intangible assets

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

The amortization rates of the intangible assets are stated below:

	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%

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

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

2.8.5 Investment properties

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

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

2.8.6 Impairment of assets

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

2.8.7 Borrowing costs

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

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

2.8.8 Financial instruments

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

Financial assets

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

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

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

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

2.8.8 Financial instruments (cont'd)

Financial assets (cont'd)

Effective interest method

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

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

Available for sale financial assets

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

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

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

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

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.

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

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

2.8.8 Financial instruments (cont'd)

Financial 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.

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

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

2.8.8 Financial instruments (cont'd)

Derivative financial instruments and hedge accounting

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

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

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

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

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

2.8.9 The effects of foreign exchange rate changes

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

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

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

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

2.8.10 Earnings per share

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

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

2.8.11 Subsequent events

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

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

2.8.12 Provisions, contingent liabilities and contingent assets

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

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

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

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

2.8.13 Related parties

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

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

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

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

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

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

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

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

2.8.14 Taxation and deferred income taxes

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

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

<u>Current tax</u>

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.

<u>Deferred tax</u>

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.

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

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

2.8.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

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.

2.8.15 Employee benefits

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

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

The Group makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits as of 31 December 2013 is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the statement of income. The details related with the defined benefit plans are stated in Note 16.

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

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

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

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

2.8.16 Government grants and incentives

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

2.8.17 Statement of cash flows

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

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

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

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

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

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

2.8.18 Share capital and dividends

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

2.8.19 Treasury shares

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

NOTE 3 – SEGMENT REPORTING

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

NOTE 4 – CASH AND CASH EQUIVALENTS

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

	31 December 2013	31 December 2012
Cash	25.442	27.100
Banks – demand deposits	53.593.739	33.291.123
Banks – time deposits	707.492.044	1.796.397.948
	761.111.225	**1.829.716.171**
Time deposit interest accruals (-)	(1.307.095)	(2.018.470)
Cash and cash equivalents excluding interest accruals	**759.804.130**	**1.827.697.701**

The breakdown of demand deposits is presented below:

	31 December 2013	31 December 2012
US Dollars	15.436.969	10.926.074
TRY	30.599.376	17.110.339
EURO	6.570.825	4.622.001
Romanian Lei	977.727	592.051
GB Pound	7.891	28.118
Japanese Yen	951	12.540
	53.593.739	**33.291.123**

The breakdown of time deposits is presented below:

	31 December 2013	31 December 2012
US Dollars	679.582.534	1.697.696.627
TRY	17.734.275	85.519.056
EURO	10.052.433	13.085.895
Romanian Lei	122.802	96.370
	707.492.044	**1.796.397.948**

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

NOTE 5 – FINANCIAL ASSETS

Current financial investments:

	31 December 2013	31 December 2012
Derivative financial assets at fair value through income statement (*)	7.373.780	543.101
Total	**7.373.780**	**543.101**

Non-current financial investments:

	31 December 2013	31 December 2012
Derivative financial assets at fair value through income statement (*)	34.958	-
Derivative financial assets at fair value through other comprehensive income statement (*)	72.621.682	9.579.245
Total	**72.656.640**	**9.579.245**

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

NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 December 2013	31 December 2012
Short term financial liabilities	198.608.086	867.824.521
Current portion of long term financial liabilities	1.275.113.434	1.154.609.147
Corporate bonds issued (*)	6.074.877	-
Total short term financial liabilities	**1.479.796.397**	**2.022.433.668**
Long term financial liabilities	1.820.381.144	2.396.318.269
Corporate bonds issued (*)	199.901.681	-
Total long term financial liabilities	**2.020.282.825**	**2.396.318.269**
	3.500.079.222	**4.418.751.937**

(*) As of 13 March 2013, completed sales of the Group is the total nominal value of TRY 200.000.000 floating rate bond issue with 6-months coupon payments, principal payment at the maturity date of 11 March 2015 and 150 basis points added to the benchmark interest payments that is determined at coupon payment dates.

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

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

Interest Type	Type of Currency	Weighted Average Rate of İnterest (%)	Short Term Portion	Long Term Portion	31 December 2013
No interest	TRY	-	61.486.655	-	61.486.655
Fixed	TRY	8,57	231.994.813	290.925.031	522.919.844
Fixed	US Dollars	1,96	62.617.648	41.281.367	103.899.015
Fixed	EURO	5,50	628.324	3.858.604	4.486.928
Floating	TRY	Trlibor+1,50	6.074.877	199.901.681	205.976.558
Floating	US Dollars	Libor+2,52	974.458.720	1.118.261.702	2.092.720.422
Floating	EURO	Euribor+0,33	114.956.309	295.300.708	410.257.017
Floating	Jap. Yen	JPY Libor+0,22	27.579.051	70.753.732	98.332.783
			1.479.796.397	2.020.282.825	3.500.079.222

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

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

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

As of 31 December 2013, according to their type of original currency and interest rates, the breakdown of floating-interest loans fixed by using financial hedge agreements, is as follows:

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 December 2013
US Dollars	2,38	29.181.902	14.444.414	43.626.316
US Dollars	4,18	25.145.317	9.206.784	34.352.101
US Dollars	3,29	15.517.040	21.065.878	36.582.918
US Dollars	3,28	31.718.593	-	31.718.593
US Dollars	1,09	29.354.693	14.510.890	43.865.583
US Dollars	4,46	14.801.541	44.238.219	59.039.760
US Dollars	1,68	3.009.416	4.411.526	7.420.942
US Dollars	2,01	9.173.677	4.564.390	13.738.067
US Dollars	4,15	38.609.908	96.463.436	135.073.344
EURO	2,18	7.175.072	7.065.046	14.240.118
EURO	1,82	60.903.563	-	60.903.563
EURO	1,75	39.571.191	-	39.571.191
EURO	1,79	1.488.626	705.757	2.194.383
EURO	1,80	3.395.558	10.154.626	13.550.184
EURO	4,43	2.679.618	8.008.636	10.688.254
EURO	2,29	7.455.757	10.896.423	18.352.180
EURO	1,66	1.842.411	2.763.255	4.605.666
US Dollars (*)	7,22	22.855.532	64.868.390	87.723.922
EURO (**)	10,65	43.912.967	109.710.826	153.623.793
		387.792.382	423.078.496	810.870.878

(*)The loan amount USD 80.193.601, TRY equivalent TRY 116.822.029, will be paid till the maturity date with the floating rates by using 7,22% fixed rate and 1,4568 exchange rate. The maturity of the cross currency swap contract is 2 April 2018.
(**) The loan amount EUR 111.305.000, TRY equivalent TRY 231.790.880, will be paid till the maturity date with the floating rates by using 10,65% fixed rate and 2,0825 exchange rate. The maturity of the cross currency swap contract is 15 December 2017.

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

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

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

(*) The loan amount USD 80.193.601, TRY equivalent TRY 116.822.029, will be paid till the maturity date with the floating rates by using 7,22% fixed rate and 1,4568 exchange rate. The maturity of the cross currency swap contract is 2 April 2018.
(**) The loan amount EUR 111.305.000, TRY equivalent TRY 231.790.880, will be paid till the maturity date with the floating rates by using 10,65% fixed rate and 2,0825 exchange rate. The maturity of the cross currency swap contract is 15 December 2017.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

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

	31 December 2013	31 December 2012
Within 1 year	1.479.796.397	2.022.433.668
Between 1-2 years	869.086.666	759.838.591
Between 2-3 years	577.900.490	688.636.253
Between 3-4 years	347.915.054	589.040.223
Between 4-5 years	154.698.162	274.057.020
Five years or more	70.682.453	84.746.182
	3.500.079.222	4.418.751.937

NOTE 7 - OTHER FINANCIAL LIABILITIES

	31 December 2013	31 December 2012
Other current financial liabilities		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	-	278.881
Derivative financial liabilities at fair value through income statement (*)	14.581.592	3.901.647
	14.581.592	4.180.528
Other non-current financial liabilities		
Derivative financial liabilities at fair value through income statement (*)	178.200	-
Derivative financial liabilities at fair value through other comprehensive income statement (*)	12.111.994	14.576.726
	12.290.194	14.576.726

(*) As explained in Note 31 (f) and Note 31 (g), the derivative financial liabilities comprise of forward agreements, option 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 December 2013	31 December 2012
Short term trade receivables		
Trade receivables	1.740.797.126	1.069.683.038
Due from related parties (Note 30)	36.693.787	17.941.389
Notes receivables	833.835	1.296.567
Discount on receivables (-)	(8.406.385)	(349.432)
Provision for doubtful trade receivables (-)	(61.380.195)	(41.271.202)
	1.708.538.168	**1.047.300.360**

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

	1 January – 31 December 2013	1 January – 31 December 2012
Opening balance	41.271.202	43.039.895
Provision for the period	13.691.707	554.589
Provision released (-)	(432.440)	-
Translation loss/(gain)	6.849.726	(2.323.282)
Closing balance	**61.380.195**	**41.271.202**

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

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

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

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

Other explanatory notes related to the credit risk of the Group are disclosed in Note 31.

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:

Short term trade payables	31 December 2013	31 December 2012
Trade payables	491.704.672	417.099.017
Due to related parties (Note 30)	14.443.149	11.727.235
Discount on trade payables (-)	(1.962.178)	(770.502)
	504.185.643	**428.055.750**

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 December 2013	31 December 2012
Receivables from water system construction	3.890.204	-
Deposits and guarantees given	291.196	296.045
	4.181.400	296.045

Other non-current receivables

	31 December 2013	31 December 2012
Receivables from Privatization Authority	55.958.172	54.061.043
Receivables from water system construction	21.958.283	42.986.757
Deposits and guarantees given	752.726	238.949
Provision for other doubtful receivables (-)	(55.958.172)	(54.061.043)
	22.711.009	43.225.706

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

	1 January- 31 December 2013	1 January- 31 December 2012
Opening balance	54.061.043	52.458.346
Provision for the period	2.121.120	1.924.833
Other doubtful receivables collected (-)	(181.660)	(322.136)
Translation difference	(42.331)	-
Closing balance	55.958.172	54.061.043

Other current payables

	31 December 2013	31 December 2012
Taxes payable	1.817.101	1.819.122
Deposits and guarantees received	3.248.748	3.137.566
Dividend payables to shareholders (*)	1.189.799	2.827.812
	6.255.648	7.784.500

(*) Dividend payables is an uncollected dividend by shareholders related to last five years and previous years.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 10 – INVENTORIES

	31 December 2013	31 December 2012
Raw materials	770.493.266	770.111.781
Work in progress	586.383.674	442.315.116
Finished goods	907.439.949	739.686.707
Spare parts	447.941.181	411.694.494
Goods in transit	553.100.566	378.626.074
Other inventories	206.467.521	166.079.744
Allowance for impairment on inventories (-)	(88.739.268)	(60.394.709)
	3.383.086.889	2.848.119.207

The movement of the allowance for impairment on inventories:

	1 January – 31 December 2013	1 January – 31 December 2012
Opening balance	60.394.709	53.525.003
Provision for the period (Note 22)	32.607.076	17.000.853
Provision released (-) (Note 22)	(16.664.404)	(10.131.147)
Translation difference	12.401.887	-
Closing balance	88.739.268	60.394.709

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 22).

NOTE 11 – PREPAID EXPENSES

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

	31 December 2013	31 December 2012
Insurance expenses	4.775.978	2.100.082
Order advances given	3.132.620	5.772.142
Prepaid utility allowance to employees	6.775.207	6.910.801
Other prepaid expenses	3.431.406	3.621.635
	18.115.211	18.404.660

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

	31 December 2013	31 December 2012
Order advances given	25.800.296	20.457.489
Prepaid expenses for mining rights	2.355.409	2.355.409
Other prepaid expenses	273.226	28.753
	28.428.931	22.841.651

NOTE 12 – INVESTMENT PROPERTIES

	1 January – 31 December 2013	1 January – 31 December 2012
Cost		
As of 1 January	46.577.264	46.577.264
Translation difference	5.069.584	-
As of 31 December	**51.646.848**	**46.577.264**
Book value	**51.646.848**	**46.577.264**

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 214.315.000 (US Dollars 107.160.000) (31 December 2012: TRY 211.240.000). The fair values of the investment properties have been determined in reference to the valuations of independent valuation firms authorized by the CMB. The valuations are undertaken predominantly by using the precedent values of similar properties as references.

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

For the year ended 31 December 2013, the Group recognized rent income amounting to TRY 100.642 (31 December 2012: TRY 94.799) under other operating income.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 13 – 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 2013	99.675.795	1.526.980.784	2.401.825.025	10.124.707.287	675.208.102	326.950.629	17.737.193	395.173.972	15.568.258.787
Translation difference	11.081.210	165.554.874	268.098.708	1.121.727.716	57.752.121	25.932.102	3.708.395	36.642.974	1.690.498.100
Additions (*)	11.249.957	16.477.848	20.971	32.474.063	1.472.947	4.281.742	2.081.536	237.838.176	305.897.240
Transfers from CIP (**)	-	16.395.415	51.425.811	167.148.051	1.187.574	1.607.591	188.018	(239.675.257)	(1.722.797)
Disposals	-	(469.861)	-	(66.590.928)	(4.084.284)	(3.967.007)	(138.050)	-	(75.250.130)
Closing balance as of 31 December 2013	**122.006.962**	**1.724.939.060**	**2.721.370.515**	**11.379.466.189**	**731.536.460**	**354.805.057**	**23.577.092**	**429.979.865**	**17.487.681.200**
Accumulated Depreciation									
Opening balance as of 1 January 2013	-	(1.040.694.865)	(1.594.363.043)	(5.381.245.708)	(370.660.440)	(169.164.155)	(14.232.992)	-	(8.570.361.203)
Translation difference	-	(115.510.819)	(180.266.974)	(611.918.524)	(26.823.568)	(9.491.114)	(2.633.719)	-	(946.644.718)
Charge for the period	-	(31.518.043)	(50.941.556)	(233.764.471)	(20.028.687)	(12.041.451)	(1.208.795)	-	(349.503.003)
Impairment (***)	-	- 377.962,00	(2.636.500)	(15.872.318)	(1.227.805)	-	(357.295)	-	(20.471.880)
Disposals	-	201.649	-	64.756.700	3.978.551	3.780.573	138.050	-	72.855.523
Closing balance as of 31 December 2013	**-**	**(1.187.900.040)**	**(1.828.208.073)**	**(6.178.044.321)**	**(414.761.949)**	**(186.916.147)**	**(18.294.751)**	**-**	**(9.814.125.281)**
Net book value as of 31 December 2012	**99.675.795**	**486.285.919**	**807.461.982**	**4.743.461.579**	**304.547.662**	**157.786.474**	**3.504.201**	**395.173.972**	**6.997.897.584**
Net book value as of 31 December 2013	**122.006.962**	**537.039.020**	**893.162.442**	**5.201.421.868**	**316.774.511**	**167.888.910**	**5.282.341**	**429.979.865**	**7.673.555.919**

(*) The amount of capitalized financial expense is TRY 2.008.411 for the current period (The capitalized financial expenses for the year ended 31 December 2012 is TRY 728.057).
(**) TRY 1.722.797 is transferred to intangible assets (Note 14).
(***) The Group reconsider the amount of discared fixed assets and does not generate cash flows independently. The review led to the recognition of an impairment loss of TRY (20.471.880) that has been recognized in profit or loss under other operating expenses (Note 25).

As of 31 December 2013, the Group has no collaterals or pledges upon its tangible assets (31 December 2012: None).

NOTE 13 – 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 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	(294.801)	-	(459.932)	(899.983)	(133.546)	-	- 70.597,00	(34.538)	(1.893.397)
Additions	-	886.980	578.059	35.219.105	6.558.674	4.668.900	1.226.660	375.250.091	424.388.469
Transfers from CIP (**)	-	29.855.384	30.255.782	214.440.263	4.204.069	835.324	1.007.084	(283.076.755)	(2.478.849)
Disposals	-	(5.782.840)	(19.600)	(63.464.759)	(4.943.092)	(615.992)	(118.203)	-	(74.944.486)
Closing balance as of 31 December 2012	**99.675.795**	**1.526.980.784**	**2.401.825.025**	**10.124.707.287**	**675.208.102**	**326.950.629**	**17.737.193**	**395.173.972**	**15.568.258.787**
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	-	-	124.279	615.423	23.025	-	45.424,00	-	808.151
Charge for the period	-	(30.045.966)	(48.895.656)	(215.025.666)	(21.587.816)	(13.651.238)	(588.390)	-	(329.794.732)
Disposals	-	5.782.840	3.920	58.855.610	4.845.075	563.628	116.774	-	70.167.847
Closing balance as of 31 December 2012	**-**	**(1.040.694.865)**	**(1.594.363.043)**	**(5.381.245.708)**	**(370.660.440)**	**(169.164.155)**	**(14.232.992)**	**-**	**(8.570.361.203)**
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 December 2012	**99.675.795**	**486.285.919**	**807.461.982**	**4.743.461.579**	**304.547.662**	**157.786.474**	**3.504.201**	**395.173.972**	**6.997.897.584**

(*) TRY 2.478.849 is transferred to intangible assets (Note 14).

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

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

	31 December 2013	31 December 2012
Associated with cost of production	333.003.664	315.098.675
General administrative expenses	6.045.522	5.637.607
Marketing, sales and distribution expenses	10.453.817	9.058.450
	349.503.003	**329.794.732**

NOTE 14 – INTANGIBLE ASSETS

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
Cost				
Opening balance as of 1 January 2013	190.818.555	88.394.098	5.386.285	284.598.938
Translation difference	20.599.814	329.283	1.658.423	22.587.520
Additions	8.311.668	3.157.931	59.909	11.529.508
Transfers from CIP	1.722.797	-	-	1.722.797
Disposals	(1.121.508)	-	-	(1.121.508)
Closing balance as of 31 December 2013	**220.331.326**	**91.881.312**	**7.104.617**	**319.317.255**
Accumulated amortization				
Opening balance as of 1 January 2013	(77.871.489)	(49.648.107)	(4.168.613)	(131.688.209)
Translation difference	(8.677.310)	(62.297)	(1.617.555)	(10.357.162)
Charge for the period	(12.643.867)	(6.433.785)	(115.789)	(19.193.441)
Disposals	1.071.738	-	-	1.071.738
Closing balance as of 31 December 2013	**(98.120.928)**	**(56.144.189)**	**(5.901.957)**	**(160.167.074)**
Net book value as of 31 December 2012	**112.947.066**	**38.745.991**	**1.217.672**	**152.910.729**
Net book value as of 31 December 2013	**122.210.398**	**35.737.123**	**1.202.660**	**159.150.181**

As of 31 December 2013, the Group has no collaterals or pledges upon its intangible assets (31 December 2012: None).

NOTE 14 – INTANGIBLE ASSETS (cont'd)

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
Cost				
Opening balance as of 1 January 2012	181.438.363	88.324.945	4.912.952	274.676.260
Translation difference	(12.242)	-	(45.336)	(57.578)
Additions	6.913.585	69.153	1.192.753	8.175.491
Transfers from CIP	2.478.849	-	-	2.478.849
Disposals	-	-	(674.084)	(674.084)
Closing balance as of 31 December 2012	**190.818.555**	**88.394.098**	**5.386.285**	**284.598.938**
Accumulated amortization				
Opening balance as of 1 January 2012	(61.991.877)	(44.794.501)	(3.737.191)	(110.523.569)
Translation difference	10.721	-	35.981	46.702
Charge for the period	(15.890.333)	(4.853.606)	(673.836)	(21.417.775)
Disposal	-	-	206.433	206.433
Closing balance as of 31 December 2012	**(77.871.489)**	**(49.648.107)**	**(4.168.613)**	**(131.688.209)**
Net book value as of 31 December 2011	**119.446.486**	**43.530.444**	**1.175.761**	**164.152.691**
Net book value as of 31 December 2012	**112.947.066**	**38.745.991**	**1.217.672**	**152.910.729**

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

	31 December 2013	31 December 2012
Associated with cost of production	17.798.523	19.978.302
General administrative expenses	1.100.484	1.111.520
Marketing, sales and distribution expenses	294.434	327.953
	19.193.441	**21.417.775**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES

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

	1 January- 31 December 2013	1 January- 31 December 2012
Research and development grants	130.547	678.942
Social security grants	1.348.291	500.839
	1.478.838	**1.179.781**

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

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

There is an investment incentive right of the Group amounting to TRY 221.264.104 with indefinite useful life, deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (31 December 2012: TRY 204.883.114).

NOTE 16 – EMPLOYEE BENEFITS

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

	31 December 2013	31 December 2012
Due to personnel	66.870.456	61.083.831
Social security premiums payable	22.676.369	21.941.319
Employee's income tax payables	19.247.364	18.291.964
	108.794.189	**101.317.114**

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

	31 December 2013	31 December 2012
Provisions for employee termination benefits	307.527.785	265.082.814
Provisions for seniority incentive premium	17.666.859	18.896.395
Provision for unpaid vacations	67.037.200	62.269.715
	392.231.844	**346.248.924**

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

As of 31 December 2013, the amount payable consists of one month's salary limited to a maximum of TRY 3.254,44 (31 December 2012: TRY 3.033, 98). As of 1 January 2014, the employee termination benefit has been updated to a maximum of TRY 3.438,22.

NOTE 16 – EMPLOYEE BENEFITS (cont'd)

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. The obligation as of 31 December 2013 has been calculated by an independent actuary.

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

	31 December 2013	31 December 2012
Discount rate	9.40%	7.62%
Inflation rate	6.3%	4.3%
Salary increase	real 1.5%	real 1.5%
Maximum liability increase	6.3%	4.3%

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2013, a fixed discount rate is used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rate fixed over years is used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2013, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over.

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

	1 January-31 December 2013	1 January-31 December 2012
Opening balance	265.082.814	199.372.291
Service cost	27.308.168	23.764.160
Interest cost	20.923.599	19.052.935
Actuarial loss	14.281.389	36.032.589
Termination benefits paid	(22.213.508)	(13.139.161)
Translation difference	2.145.323	-
Closing balance	**307.527.785**	**265.082.814**

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 16 – EMPLOYEE BENEFITS (cont'd)

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

	1 January-31 December 2013	1 January-31 December 2012
Opening balance	18.896.395	18.750.643
Service cost	1.641.535	2.368.484
Interest cost	1.313.377	1.684.303
Actuarial loss/(gain)	(3.300.621)	572.036
Termination benefits paid	(864.146)	(4.479.071)
Translation difference	(19.681)	-
Closing balance	**17.666.859**	**18.896.395**

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

	1 January-31 December 2013	1 January-31 December 2012
Opening balance	62.269.715	55.055.727
Provision for the period	53.764.626	39.250.220
Unused vacation paid (-)	(3.341.931)	(2.021.742)
Provisions released (-)	(45.320.265)	(30.014.490)
Translation difference	(334.945)	-
Closing balance	**67.037.200**	**62.269.715**

NOTE 17 – PROVISIONS

The Group's short term provisions are as follows:

	31 December 2013	31 December 2012
Provision for lawsuits	194.474.653	104.471.986
Penalty provision for employment shortage of disabled personnel	4.568.812	4.945.469
Provision for state right on mining activities (*)	2.642.016	3.643.868
Provision for civil defense fund (**)	3.340.926	-
	205.026.407	**113.061.323**

(*) According to "Mining Law" numbered 3213 and regulation on "Mining Law Enforcement" published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is obliged to pay state right on mining activities based on the sales profit.
(**) According to law number 5217, it is a provision of the enterprises that were subjected to "Natural Disaster Fund" ile "Civil Defense Fund". It is calculated through 2004 revenue of the company.

NOTE 17 – PROVISIONS (cont'd)

The movement of the provisions is as follows:

	1 January 2013	Provision for the period	Payments	Provision released (-)	Translation difference	31 December 2013
Provision for lawsuits	104.471.986	101.753.411	(7.411.502)	(10.905.897)	6.566.655	194.474.653
Penalty provision for employment shortage of disabled personnel	4.945.469	2.634.342	(1.503.714)	(1.548.669)	41.384	4.568.812
Provision for state right on mining activities	3.643.868	2.642.016	(3.643.868)	-	-	2.642.016
Provision for civil defense fund	-	3.340.926	-	-	-	3.340.926
	113.061.323	**110.370.695**	**(12.559.084)**	**(12.454.566)**	**6.608.039**	**205.026.407**

	1 January 2012	Provision for the period	Payments	Provision released (-)	31 December 2012
Provision for lawsuits	68.484.650	62.358.450	(13.964.834)	(12.406.280)	104.471.986
Penalty provision for employment shortage of disabled personnel	5.235.076	2.408.900	(415.650)	(2.282.857)	4.945.469
Provision for state right on mining activities	3.704.424	3.643.868	(3.704.424)	-	3.643.868
	77.424.150	**68.411.218**	**(18.084.908)**	**(14.689.137)**	**113.061.323**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 17 – PROVISIONS (cont'd)

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

	31 December 2013	31 December 2012
Lawsuits filed by the Group		
TRY	203.018.645	206.805.171
US Dollars	108.256.565	90.417.539
	311.275.210	**297.222.710**
Provision for lawsuits filed by the Group		
TRY	2.989.134	3.670.471
	2.989.134	**3.670.471**

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

	31 December 2013	31 December 2012
Lawsuits filed against the Group		
TRY	67.124.376	54.325.739
US Dollars	158.418.367	132.313.443
	225.542.743	**186.639.182**
Provision for lawsuits filed against the Group		
TRY	181.770.726	90.914.952
US Dollars	12.703.927	13.557.034
	194.474.653	**104.471.986**

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.

NOTE 17 – PROVISIONS (cont'd)

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

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

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

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

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

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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 17 – PROVISIONS (cont'd)

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).

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

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

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 02 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 68.312.520 USD should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23.06.2011. Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915) and after this, the case file was sent back to the 7th Commercial Court of Ankara. Therefore the case is still pending (E. 2013/17) before the 7th Commercial Court of Ankara and the next court hearing is on 17 April 2014.

An action of debt was instituted by Messrs. Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17.04.2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TL 17.800, reserving the rights for surplus. The Company was informed from the amendment petition, which was served to the company on 01.11.2013 that the plaintiff pleaded from the court to raise the claim to TL 10.837.801,69 as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court file had entrusted and taken expert report again. It has been contested by the Company within the statutory period. The court was examined the file. The next trial is on 11 March 2014.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009. Corus International Trading Ltd. Co. sold to third parties the products supplied from our company but thereafter alleged that they directed claim to some compensation and that these claims must be covered by Erdemir. Parties could not reach an exact agreement about this matter and then Corus International Trading Ltd. Co filed an action for compensation at amount of USD 4.800.000,00 together with accessory against the Company in Illinois State District Court of USA. KAP statement regarding this lawsuit is made by the Company on 17.08.2010.

NOTE 17 – PROVISIONS (cont'd)

After the subject case is dismissed by the court from jurisdiction aspect; this time a lawsuit is re-filed by Tata Steel International (North America) Ltd.) in Texas State District Court. KAP statement explanation regarding this lawsuit is made by the Company on 24.08.2011 and it is submitted to public opinion that this case is dismissed by the court from jurisdiction aspect through KAP statements on 16 July 2012.

It is learnt through a notified made to the Company on 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of TRY 8.668.800 (USD 4.800.000,00) together with accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. The court file has been entrusted to the expert. Date of next hearing of the case is 29 May 2014.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2013	31 December 2012
Letters of guarantees received	1.469.208.634	1.038.595.060
	1.469.208.634	**1.038.595.060**

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

	31 December 2013	31 December 2012
A. Total CPM given for the Company's own legal entity	69.756.674	121.524.013
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	1.577.125.923	2.634.472.886
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	1.646.882.597	**2.755.996.899**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 18 – COMMITMENTS AND CONTINGENCIES (cont'd)

As of 31 December 2013, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2012: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 1.577.125.923 has been given as collateral for financial liabilities explained in Note 6.

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

	31 December 2013	31 December 2012
US Dollars	973.628.594	1.339.482.191
TRY	236.351.530	965.475.620
EURO	381.965.297	382.171.926
Japanese Yen	52.906.070	67.522.169
Romanian Lei	2.031.106	1.344.993
	1.646.882.597	**2.755.996.899**

NOTE 19 – OTHER ASSETS AND LIABILITIES

Other current assets

	31 December 2013	31 December 2012
Other VAT Receivable	91.146.923	85.590.505
VAT carried forward	31.907.602	8.068.989
Prepaid taxes and funds	1.240.590	13.679.448
Other current assets	1.796.656	2.511.596
	126.091.771	**109.850.538**

Other current liabilities	31 December 2013	31 December 2012
VAT payable	14.294.164	27.619.537
Expense accruals	1.046.275	813.316
Other current liabilities	3.447.447	4.904.575
	18.787.886	**33.337.428**

Other non-current liabilities	31 December 2013	31 December 2012
Other non-current liabilities	351.749	416.621
	351.749	**416.621**

NOT 20 – DEFERRED REVENUE

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

	31 December 2013	31 December 2012
Advances received	92.882.063	93.234.464
Deferred income	106.010	2.290.265
	92.988.073	**95.524.729**

NOTE 21 – EQUITY

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

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

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

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

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

The Board of Directors consists of 9 members, 3 of which are independent. The number and qualifications of independent members are ascertained in compliance with the CMB's Communique numbered II-17,1 on Corporate Governance Principles.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 21 – EQUITY (cont'd)

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

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

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

Other equity items	31 December 2013	31 December 2012
Share premium	106.447.376	106.447.376
Revaluation reserves	23.254.736	26.813.595
-Revaluation reserves of property, plant & equipment	*23.254.736*	*26.813.595*
Cash flow hedging reserves	(9.343.974)	(29.878.279)
Foreign currency translation reserves	844.664.278	(315.217)
Actuarial (loss)/ gain fund	(66.809.473)	(55.683.337)
Restricted reserves assorted from profit	500.949.412	432.878.502
Retained earnings	2.607.272.495	2.943.936.846
-Extraordinary reserves	*780.894.088*	*484.013.314*
-Accumulated profit	*846.366.423*	*1.276.059.972*
-Statutory reserves	*980.011.984*	*1.185.964.577*
	4.006.434.850	**3.424.199.486**

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

- "Capital restatement differences" account, following the "paid-in capital" line item in the financial statements, if the differences are caused by "paid-in capital" and have not been added to capital yet;

- "Retained earnings", if the differences are arising from "restricted profit reserves" and "share premium" and have not been associated with either profit distribution or capital increase yet.

NOTE 21 – EQUITY (cont'd)

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

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

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

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

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

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

Other sources which might be used in dividend distribution, except the profit for the period, in statutory books of the Company are equal to TRY 1.024.546.234 as of 31 December 2013 (31 December 2012: TRY 1.849.665.654).

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

According to the first paragraph of Article 519 numbered 6102 of the Turkish Commercial Code ("TCC"), 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. First dividend is appropriated for shareholders after deducting from the profit. Following the deduction of the amounts from the "profit", General Assembly of Shareholders is authorized to decide whether shall be the remaining balance shall be fully or totally placed in extraordinary legal reserves or whether it is distributed, also taking into consideration the Company's profit distribution policy. According to the sub-clause 3 of the clause 2 of Article 519 of the Turkish Commercial Code, after deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. If it is decided to distribute the profit as bonus share, through the method of adding the profit to the capital, second legal reserves is not appropriated.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 21 – EQUITY (cont'd)

According to the CMB Communiqué, until the company's Article of Association was revised on 31 March 2008, an amount equal to the first dividend distributed to shareholders is allocated as status reserves in order to be used in the plant expansion. Also according to the 13th Article of Association before the revision on 31 March 2008, 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital. The reserve amount that exceeds the 20% of the legal reserves, defined by the Article 519 of TCC, is recorded as status reserve. Company's Shareholders' General Assembly, which was held at 30 March 2012, decided status reserves can be used as an internal source of capital increase and profit sharing.

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

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

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

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

NOTE 22 – SALES AND COST OF SALES

	1 January – 31 December 2013	1 January – 31 December 2012
Sales Revenue		
Domestic sales	8.576.055.840	8.066.770.186
Export sales	972.018.844	1.273.855.238
Other revenues (*)	253.410.093	266.700.851
Sales returns (-)	(10.155.098)	(9.103.451)
Sales discounts (-)	(10.578.261)	(27.826.115)
	9.780.751.418	**9.570.396.709**
Cost of Sales (-)	**(7.921.852.193)**	**(8.541.548.522)**
Gross profit	**1.858.899.225**	**1.028.848.187**

(*) The total amount of by product exports in other revenues is TRY 130.925.614 (31 December 2012: TRY 108.628.827).

The breakdown of cost of sales for the periods 1 January – 31 December 2013 and 1 January – 31 December 2012 is as follows:

	1 January – 31 December 2013	1 January – 31 December 2012
Raw material usage	(5.671.690.788)	(6.350.750.689)
Personnel expenses	(855.242.311)	(913.121.876)
Energy expenses	(553.915.811)	(545.165.286)
Depreciation and amortization expenses	(378.586.211)	(327.577.154)
Factory overheads	(144.079.482)	(183.594.054)
Inventory write-downs within the period (Note 10)	(32.607.076)	(17.000.853)
Reversal of inventory write-downs (Note 10)	16.664.404	10.131.147
Other cost of goods sold	(92.630.161)	(105.461.823)
Non-operating expenses (*)	(52.696.405)	-
Other	(157.068.352)	(109.007.934)
	(7.921.852.193)	**(8.541.548.522)**

(*) Due to the strike of the Group's subsidary İskenderun Demir ve Çelik A.Ş. between 15 July 2013 – 5 August 2013, operations were suspended temporarily. As a result of this, until regular production capacity, non-operating expenses, TRY (52.696.405), has been accounted under cost of goods sold.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 23 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operating expenses for the periods 1 January – 31 December 2013 and 1 January – 31 December 2012 is as follows:

	1 January – 31 December 2013	1 January – 31 December 2012
Marketing, sales and distribution expenses (-)	(107.997.466)	(105.941.627)
General administrative expenses (-)	(201.944.792)	(175.981.440)
Research and development expenses (-)	(3.862.074)	(1.517.122)
	(313.804.332)	**(283.440.189)**

NOTE 24 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2013 and 1 January – 31 December 2012 is as follows:

	1 January – 31 December 2013	1 January – 31 December 2012
Personnel expense (-)	(59.668.290)	(60.032.102)
Depreciation and amortization(-)	(10.748.251)	(9.386.403)
Outsourced benefits and services (-)	(19.896.405)	(22.656.460)
Other (-)	(17.684.520)	(13.866.662)
	(107.997.466)	**(105.941.627)**

The breakdown of general administrative expenses for the periods 1 January–31 December 2013 and 1 January – 31 December 2012 is as follows:

	1 January – 31 December 2013	1 January – 31 December 2012
Personnel expense (-)	(127.754.936)	(111.989.680)
Depreciation and amortization (-)	(7.146.006)	(6.749.127)
Outsourced benefits and services (-)	(18.961.609)	(12.827.598)
Tax, duty and charges (-)	(4.765.185)	(4.638.592)
Other (-)	(43.317.056)	(39.776.443)
	(201.944.792)	**(175.981.440)**

NOTE 25 – OTHER OPERATING INCOME/ (EXPENSE)

	1 January – 31 December 2013	1 January – 31 December 2012
Other operating income		
Foreign exchange gain from trade receivables and payables (net) (*)	57.900.588	-
Interest income from on credit sales	40.533.624	55.555.350
Insurance indemnity income	8.731.866	4.148.291
Royalty income	7.121.773	3.195.333
Provisions released	12.049.602	14.689.138
Maintenance repair and rent income	6.934.356	7.143.826
Service income	8.511.627	6.612.005
Indemnity and penalty detention income	2.367.395	3.445.091
Gain on sale of tangible assets	1.227.023	745.105
Income from customer deposits	1.735.404	3.776.312
Other income and gains	13.813.591	20.074.835
	160.926.849	**119.385.286**

(*) Foreign exchange differences occurred in the financial statement due to the fact that the Company and its subsidiaries' İsdemir and Ersem are prepared their financial statements in TRY functional currency between the period 1 January – 30 June 2013. After the functional currency translation in US Dollars between the periods 1 July – 31 December 2013, foreign exchange differences reported in the financial income/ (expense).

	1 January – 31 December 2013	1 January – 31 December 2012
Other operating expenses (-)		
Provisions expenses	(69.642.778)	(26.047.384)
Property tax expenses	(7.664.006)	-
Port facility pre-licence expenses	(8.603.463)	(6.095.572)
Lawsuit compensation expenses	(3.994.341)	(6.381.020)
Penalty expenses	(3.470.881)	(6.150.880)
Service expenses	(4.464.928)	(2.622.116)
Stock exchange registration expenses	(1.262.478)	(1.477.500)
Capital Markets Board registration expenses	(858.545)	(1.880.000)
Loss on disposal of tangible assets	(2.002.309)	(940.576)
Rent expenses	(597.661)	(1.781.403)
Foreign exchange loss from trade receivables and payables (net) (*)	-	(41.667.772)
Impairment of tangible assets (Note 13)	(20.471.880)	-
Other expenses and losses	(23.784.581)	(16.413.350)
	(146.817.851)	**(111.457.573)**

(*)Foreign exchange differences occurred in the financial statement due to the fact that the Company and its subsidiaries' İsdemir and Ersem are prepared their financial statements in TRY functional currency between the period 1 January – 30 June 2013. After the functional currency translation in US Dollars between the periods 1 July – 31 December 2013, foreign exchange differences reported in the financial income/ (expense).

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 26 – FINANCE INCOME

	1 January – 31 December 2013	1 January – 31 December 2012
Interest income on bank deposits	69.753.503	70.997.685
Foreign exchange gains (net) (*)	-	154.165.509
Fair value differences of derivative financial instruments (net)	35.557.137	-
Discount income (net)	-	2.733.057
Other financial income	19.702	220.801
	105.330.342	**228.117.052**

NOTE 27 – FINANCE EXPENSES

	1 January – 31 December 2013	1 January – 31 December 2012
Interest expenses on financial liabilities	(218.356.172)	(251.006.590)
Foreign exchange loss (net) (*)	(152.206.914)	-
Interest cost of employee benefits	(22.236.976)	(20.737.238)
Discount expenses (net)	(21.403.329)	-
Fair value differences of derivative financial instruments (net)	-	(22.302.509)
Other financial expenses	(2.169.633)	(5.923.597)
	(416.373.024)	**(299.969.934)**

(*) As of 1 July, translation difference occurence due to the change in functinal currency translation have been accounted under foreign exchange gain/(loss).
(*)Foreign exchange differences occurred in the financial statement due to the fact that the Company and its subsidiaries' İsdemir and Ersem are prepared their financial statements in TRY functional currency between the period 1 January – 30 June 2013. After the functional currency translation in US Dollars between the periods 1 July – 31 December 2013, foreign exchange differences reported in the financial income/ (expense).

During the period, the foreign currency translation losses of TRY 1.706.289, the interest expenses of TRY 302.122, out of total financial expense TRY 2.008.411, have been capitalized as part of the Group's property, plant and equipment (1 January – 31 December 2012: the foreign currency translation losses of TRY 266.284, the interest expenses of TRY 461.773, in total TRY 728.057 has been capitalized).

NOTE 28 –TAX ASSETS AND LIABILITIES

	31 December 2013	31 December 2012
Corporate tax payable:		
Current corporate tax provision	195.979.505	53.282.231
Prepaid taxes and funds (-)	(150.989.548)	(41.073.170)
	44.989.957	**12.209.061**

	1 January – 31 December 2013	1 January – 31 December 2012
Taxation:		
Current corporate tax expense	195.979.505	53.282.231
Deferred tax expense	91.774.131	144.625.046
	287.753.636	**197.907.277**

Corporate tax

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

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

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 31 December 2013 (31 December 2012: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2013 is TRY 163.198.609 (31 December 2012: TRY 85.766.787).

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax (cont'd)

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

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

In Turkey, a definite and distinct reconciliation procedure for tax assessment does not exist. Companies file their tax returns between 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 (2012: 20%).

NOTE 28 –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) are 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2012: in Turkey 20%, in Romania 16%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (December 2012: 5%).

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

	31 December 2013	31 December 2012
Deferred tax assets:		
Carry forward tax losses (*)	20.625.515	55.833.424
Provisions for employee benefits	78.444.834	69.256.126
Tangible and intangible fixed assets	10.454.956	9.074.080
Inventories	6.518.593	25.537.251
Investment incentive	44.252.821	40.976.623
Provision for lawsuits	38.894.931	20.894.397
Fair values of the derivative financial instruments	2.951.958	2.210.218
Provision for other doubtful receivables	11.191.634	10.812.209
Prepaid expenses	1.057.445	1.410.058
Other	16.696.971	9.141.128
	231.089.658	**245.145.514**
Deferred tax liabilities:		
Tangible and intangible fixed assets	(593.509.499)	(365.267.266)
Amortized cost adjustment on loans	(8.869.741)	(12.343.086)
Fair values of the derivative financial instruments	(13.326.536)	(108.620)
Inventories	(20.399.047)	(252.110)
Other	(4.250.684)	(3.144.561)
	(640.355.507)	**(381.115.643)**
	(409.265.849)	**(135.970.129)**

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

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

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

Presentation of deferred tax assets/(liabilities):	31 December 2013	31 December 2012
Deferred tax assets	17.836.321	14.073.770
Deferred tax (liabilities)	(427.102.170)	(150.043.899)
	(409.265.849)	**(135.970.129)**

Maturities of carry forward tax losses are as follows:

	Carry forward tax losses		Deferred tax assets	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
1 year	-	-	-	-
2 year	511.824.638	-	51.716.165	-
3 year	-	680.827.842	-	220.719.369
4 year	51.411.411	-	51.411.411	-
5 years or more	-	58.833.647	-	58.833.647
	563.236.049	**739.661.489**	**103.127.576**	**279.553.016**

Deferred tax asset/(liability) movements:	1 January – 31 December 2013	1 January – 31 December 2012
Opening balance	(135.970.129)	(2.498.629)
Deferred tax expense	(91.774.131)	(144.625.046)
The amount in comprehensive income/(expense)	(2.708.998)	11.279.947
Translation difference	(178.812.591)	(126.401)
Closing balance	**(409.265.849)**	**(135.970.129)**

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

Reconciliation of tax provision:	1 January – 31 December 2013	1 January – 31 December 2012
Profit before tax	1.248.161.209	681.482.829
Statutory tax rates	20%	20%
Calculated tax acc. to effective tax rate	249.632.242	136.296.566
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	5.655.895	3.240.672
- Non-taxable income	(1.890.889)	(1.944.190)
- Tax losses written off from deferred tax assets	-	92.021.695
- Effect of currency translation to non taxable assets	28.629.019	-
- Investment incentives	(3.276.198)	(31.773.243)
- Effect of non-taxable adjustments	7.311.856	-
- Effect of the different tax rates due to foreign subsidiaries	1.848.648	23.501
- Other	(156.937)	42.276
Tax expense in income statement	**287.753.636**	**197.907.277**

As of 1 January – 31 December 2013 and 2012, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January – 31 December 2013		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	(3.558.859)	-	(3.558.859)
Change in actuarial (loss)/gain	(14.281.389)	2.856.278	(11.425.111)
Change in cash flow hedging reserves	27.826.380	(5.565.276)	22.261.104
Change in foreign currency translation reserves	849.489.881	-	849.489.881
	859.476.013	**(2.708.998)**	**856.767.015**

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

	1 January – 31 December 2012		
Other comprehensive income/(loss) in the current period	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	(414.560)	-	(414.560)
Change in actuarial (loss)/gain	(36.032.589)	7.206.517	(28.826.072)
Change in cash flow hedging reserves	(20.367.149)	4.073.430	(16.293.719)
Change in foreign currency translation reserves	173.788	-	173.788
	(56.640.510)	**11.279.947**	**(45.360.563)**

NOTE 29 – EARNINGS/ (LOSS) PER SHARE

	1 January – 31 December 2013	1 January – 31 December 2012
Number of shares outstanding(*)	350.000.000.000	350.000.000.000
Net profit attributable to equity holders – TRY	919.974.007	452.016.769
Profit per share with 1 TRY nominal value TRY %	0,2628 / %26,28	0,1291 / %12,91

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

NOTE 30 –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:

Due from related parties (short term)	31 December 2013	31 December 2012
Oyak Renault Otomobil Fab. A.Ş.(2)	27.443.131	12.152.741
Bolu Çimento Sanayi A.Ş.(1)	4.263.032	2.764.405
Adana Çimento Sanayi T.A.Ş. (1)	4.688.904	2.898.838
Other	298.720	125.405
	36.693.787	**17.941.389**

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

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

NOTE 30 –RELATED PARTY DISCLOSURES (cont'd)

Due to related parties (short term)	31 December 2013	31 December 2012
Omsan Lojistik A.Ş.[1]	2.530.528	2.960.289
Omsan Denizcilik A.Ş.[1]	2.468.842	2.239.702
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	2.894.010	2.164.485
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	2.262.624	464.866
Omsan Logistica SRL[1]	478.998	404.639
Oyak Teknoloji Bilişim ve Kart Hizmetleri[1]	18.307	990.089
OYAK Yatırım Menkul Değerler A.Ş.[1]	2.141.431	-
Other	1.648.409	2.503.165
	14.443.149	11.727.235

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

[1] Subsidiaries of the parent company

Major sales to related parties	1 January – 31 December 2013	1 January – 31 December 2012
Oyak Renault Otomobil Fab. A.Ş.[2]	97.796.863	64.086.439
Adana Çimento Sanayi T.A.Ş.[1]	15.464.873	8.926.821
Bolu Çimento Sanayi A.Ş.[1]	13.010.231	9.350.438
Aslan Çimento A.Ş.[1]	1.756.979	1.702.283
Ünye Çimento Sanayi ve Ticaret A.Ş.[1]	635.443	914.520
Mardin Çimento Sanayi ve Ticaret A.Ş.[1]	449.501	626.591
Oyka Kağıt Ambalaj Sanayi ve Ticaret A.Ş.[1]	188.596	140.692
Oytaş İç ve Dış Ticaret A.Ş. [1]	68.263	135.995
	129.370.749	85.883.779

[1] Subsidiaries of the parent company
[2] Joint venture

NOTE 30 –RELATED PARTY DISCLOSURES (cont'd)

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

Major purchases from related parties	1 January – 31 December 2013	1 January – 31 December 2012
Omsan Denizcilik A.Ş[1]	68.150.960	51.725.673
Oyak Pazarlama Hizmet ve Turizm A.Ş.[1]	26.840.850	24.530.354
Omsan Lojistik A.Ş.[1]	26.602.746	19.741.878
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[1]	23.481.325	4.839.118
Omsan Logistica SRL[1]	7.020.999	10.044.050
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş.[1]	5.384.198	7.004.393
Oyak Yatırım Menkul Değerler A.Ş. [1]	1.814.255	-
Oyak Genel Müdürlüğü	710.796	156.600
Omsan Havacılık A.Ş.[1]	508.705	155.859
Oyak Telekomünikasyon A.Ş.[1]	304.070	777.149
Other	3.373.717	3.168.354
	164.192.621	122.143.428

[1] Subsidiaries of the parent company

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

<u>The terms and policies applied to the transactions with related parties:</u>

The period end balances are non-secured, interest free and their collections will be done in cash. As of 31 December 2013, the Group provides no provision for the receivables from related parties (31 December 2012: none).

<u>Salaries, bonuses and other benefits of the key management</u>

For the nine months period ended 31 December 2013, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 14.574.345 (31 December 2012: TRY 14.188.992).

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

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

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

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

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

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

	Note	31 December 2013	31 December 2012
Total financial liabilities	6	3.500.079.222	4.418.751.937
Less: Cash and cash equivalents	4	761.111.225	1.829.716.171
Net debt		2.738.967.997	2.589.035.766
Total adjusted equity (*)		8.782.973.166	7.501.473.701
Total resources		11.521.941.163	10.090.509.467
Net debt/Total adjusted equity ratio		31%	35%
Distribution of net debt/ total adjusted equity		24/76	26/74

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

(b) Significant accounting policies

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

NOTE 31 – 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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 31 – 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			
31 December 2013	Related Party	Third Party	Related Party	Third Party	Bank Deposits	Derivative financial instruments
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	36.693.787	1.671.844.381	-	26.892.409	761.085.783	80.030.420
- Secured part of the maximum credit risk exposure via collateral etc.	-	1.650.164.619	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	36.693.787	1.669.256.636	-	26.892.409	761.085.783	80.030.420
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	2.587.745	-	-	-	-
- secured part via collateral etc.	-	2.587.745	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	61.380.195	-	55.958.172	-	-
- Impairment (-)	-	(61.380.195)	-	(55.958.172)	-	-
- 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 34)

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 31 – 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			
31 December 2012	Related Party	Third Party	Related Party	Third Party	Bank Deposits	Derivative financial instruments
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	17.941.389	1.029.358.971	-	43.521.751	1.829.689.071	10.122.346
- Secured part of the maximum credit risk exposure via collateral etc.	-	932.727.754	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	17.941.389	1.027.855.706	-	43.521.751	1.829.689.071	10.122.346
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	1.503.265	-	-	-	-
- secured part via collateral etc.	-	1.503.265	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	41.271.202	-	54.061.043	-	-
- Impairment (-)	-	(41.271.202)	-	(54.061.043)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

NOTE 31 – 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 2013	Trade receivables	Other receivables	Bank deposits	Derivative financial instruments	Other	Total
Overdue 1-30 days	2.587.745	-	-	-	-	2.587.745
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	**2.587.745**	**-**	**-**	**-**	**-**	**2.587.745**
Secured part via collateral etc.	**2.587.745**	**-**	**-**	**-**	**-**	**2.587.745**

NOTE 31 – 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 2012	Trade receivables	Other receivables	Bank deposits	Derivative financial instruments	Other	Total
Overdue 1-30 days	1.503.265	-	-	-	-	1.503.265
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	**1.503.265**	**-**	**-**	**-**	**-**	**1.503.265**
Secured part via collateral etc.	**1.503.265**	**-**	**-**	**-**	**-**	**1.503.265**

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management

As of 31 December 2013, stated in Note 2.9.9 the foreign currency position of the Group in terms of original currency is calculated as it as follows:

	31 December 2013					
	TRY (Functional currency)	TRY (Original currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	91.603.474	24.567.489	45.475	22.656.162	19.623.365	3.448
2a. Monetary financial assets	59.423.745	48.120.010	297.977	3.630.031	14.230	2.247
2b. Non- monetary financial assets	-	-	-	-	-	-
3. Other	144.125.035	142.694.463	-	487.169	-	-
4. Current assets (1+2+3)	**295.152.254**	**215.381.962**	**343.452**	**26.773.362**	**19.637.595**	**5.695**
5. Trade receivables	-	-	-	-	-	-
6a. Monetary financial assets	47.919.585	-	-	16.318.605	-	-
6b. Non- monetary financial assets	-	-	-	-	-	-
7. Other	41.811.577	26.495.494	-	4.882.628	44.924.100	19.761
8. Non-current assets (5+6+7)	**89.731.162**	**26.495.494**	**-**	**21.201.233**	**44.924.100**	**19.761**
9. Total assets (4+8)	**384.883.416**	**241.877.456**	**343.452**	**47.974.595**	**64.561.695**	**25.456**
10. Trade payables	220.202.325	177.812.205	464.854	8.670.871	717.436.806	404.826
11. Financial liabilities	442.091.955	298.928.271	-	39.361.360	1.363.207.503	-
12a. Other monetary financial liabilities	280.801.767	275.200.112	-	-	276.884.731	-
12b. Other non-monetary financial liabilities	50.799.756	50.799.756	-	-	-	-
13. Current liabilities (10+11+12)	**993.895.803**	**802.740.344**	**464.854**	**48.032.231**	**2.357.529.040**	**404.826**
14. Trade payables	-	-	-	-	-	-
15. Financial liabilities	860.739.756	490.826.712	-	101.876.149	3.497.292.867	-
16a. Other monetary financial liabilities	386.622.664	382.889.557	-	1.271.278	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**1.247.362.420**	**873.716.269**	**-**	**103.147.427**	**3.497.292.867**	**-**
18. Total liabilities (13+17)	**2.241.258.223**	**1.676.456.613**	**464.854**	**151.179.658**	**5.854.821.907**	**404.826**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**449.132.305**	**285.708.739**	**-**	**55.652.500**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	333.236.865	169.813.299	-	55.652.500	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	115.895.440	115.895.440	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.407.242.502)**	**(1.148.870.418)**	**(121.402)**	**(47.552.563)**	**(5.790.260.212)**	**(379.370)**
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(1.991.511.663)**	**(1.552.969.358)**	**(121.402)**	**(108.574.860)**	**(5.835.184.312)**	**(399.131)**
22. Fair value of derivative financial instruments used in foreign currency hedge	65.196.761	65.196.761	-	-	-	-
23. Hedged foreign currency assets	115.895.440	115.895.440	-	-	-	-
24. Hedged foreign currency liabilities	333.236.865	169.813.299	-	55.652.500	-	-
25. Exports	1.102.944.459	-	518.695.161	46.003.293	-	-
26. Imports	4.891.485.622	-	2.566.578.214	3.695.274	-	-

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

As of 31 December 2013 asset and liability balances are translated by using the following exchange rates: TRY 2,1343 = US $ 1,TRY 2,9365 = EUR 1 and TRY 0,0202= JPY 1 (31 December 2012: TRY 1,7826 = US $ 1,TRY 2,3517 = EUR 1 and TRY 0,0207= JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2013	**Appreciation of foreign currency against**	**Depreciation of foreign currency against**
1- TRY net asset/liability	**(143.457.916)**	**143.457.916**
2- Hedged portion from TRY risk (-)	**16.981.330**	**(16.981.330)**
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	**(126.476.586)**	**126.476.586**
5- US Dollars net asset/liability	(25.911)	25.911
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	**(25.911)**	**25.911**
9- Euro net asset/liability	(30.306.167)	30.306.167
10- Hedged portion from Euro risk (-)	16.342.357	(16.342.357)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	**(13.963.810)**	**13.963.810**
13- Jap. Yen net asset/liability	(11.714.275)	11.714.275
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	**(11.714.275)**	**11.714.275**
17- Other currencies net asset/liability	(133.212)	133.212
18- Hedged portion from other currency risk (-)	-	-
19- Effect of capitalization (-)	-	-
20- Other currencies net effect (17+18+19)	**(133.212)**	**133.212**
TOTAL (4+8+12+16+20)	**(152.313.794)**	**152.313.794**

NOTE 31– NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

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

31 December 2013	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	53.917.859	37.012.431	53.917.859	34.102.706	19.815.153
Between 1-5 years						
TRY sale/ EURO purchase	2,0825	115.895.440	55.652.500	115.895.440	70.513.832	45.381.608
Between 1-5 years						
						65.196.761

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

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

31 December 2013	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
US Dollars purchase/ EURO sale	1,3371	57.006.536	76.146.184	167.399.693	172.422.917	(5.023.224)
Euro purchase/ US Dolaars sale	1,3532	6.142.053	4.538.910	13.108.984	12.871.745	237.239
TRY purchase/ US Dollarssale	2,0928	2.000.000	4.185.600	4.268.600	4.363.518	(94.918)
US Dollars purchase/ Jap. Yen sale	92,4119	2.250.025.000	24.500.000	45.520.256	39.005.124	6.515.132
Jap. Yen purchase/ US Dollars sale	95,0908	23.713.790	2.250.025.000	50.612.342	55.451.092	(4.838.750)
Less than 3 months						
US Dollars purchase/ EURO sale	1,3570	40.219.271	54.560.940	118.103.889	119.834.003	(1.730.114)
US Dollars purchase/ Jap. Yen sale	97,4891	390.310.000	4.000.000	7.896.362	7.301.853	594.509
Jap. Yen purchase/ US Dollars sale	100,6675	7.112.732	717.198.888	15.180.703	15.772.785	(592.082)
3-6 months						
US Dollars purchase/ EURO sale	1,3629	76.304.045	56.057.565	164.613.040	166.527.195	(1.914.155)
Jap. Yen purchase/ US Dollars sale	102,0400	3.203.537	326.888.888	6.837.308	7.008.131	(170.823)
6-12 months						
US Dollars purchase/ EURO sale	1,3769	24.928.617	18.141.240	53.271.751	53.414.994	(143.243)
Between 1-5 years						
						(7.160.429)

The Group has option agreements that consist of 8 parts with the total nominal value of TRY 12.690.750 with the maturity of 17 January 2014 as of 31 December 2013. As of 31 December 2013, TRY 20.905 of the fair value from option agreements is recognized in other short term financial assets and TRY 211.530 of the fair value from option agreemnets is recognized in other current financial liabilities.

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

Additional information about financial instruments (cont'd)

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

Forward agreements

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 31 – 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	
	31 December 2013	31 December 2012
Floating interest rate financial instruments		
Financial liabilities	1.996.415.902	1.250.311.286

In addition to these, as of 31 December 2013, the amount of the Group's financial loans is TRY 810.870.878 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2012: TRY 1.117.505.015) (Note 6).

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 7.217.623 (31 December 2012: TRY 5.966.944).

NOTE 31 – 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 December 2013

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Between 1-5 years	1,49%	412.162.642	(4.687.073)
		412.162.642	(4.687.073)

31 December 2012

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

(*) 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 412.162.642 (31 December 2012: TRY 1.031.432.309) is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity with its deferred tax effect and non-controlling interest deducted as TRY (3.525.812) (31 December 2012: TRY (11.134.225)).

NOTE 31 – 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 December 2013

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount	Fair Value
TRY sale / US Dollars purchase (*)	7,22%	53.917.859	19.815.153
Between 1-5 years			
TRY sale / EURO purchase (*)	10,65%	115.895.440	45.381.608
Between 1-5 years			
		169.813.299	65.196.761

31 December 2012

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

(*) 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 169.813.299 (31 December 2012: TRY 216.759.779) is recognized under equity net off its deferred tax effect, unrealized foreign exchange gain/losses and non-controlling interests as TRY (5.518.795) (31 December 2012: TRY (18.744.054)).

NOTE 31 – 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.

NOTE 31 – 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 2013

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	3.500.079.222	3.953.422.507	492.752.343	1.203.598.914	2.103.342.138	153.729.112
Trade payables	504.185.643	506.147.821	506.147.821	-	-	-
Other financial liabilities (*)	208.568.118	208.568.118	208.568.118	-	-	-
Total liabilities	4.212.832.983	4.668.138.446	1.207.468.282	1.203.598.914	2.103.342.138	153.729.112
Derivative financial liabilities						
Derivative cash inflows	79.995.462	911.732.590	278.035.882	390.281.448	243.415.260	-
Derivative cash outflows	(26.871.786)	(890.273.104)	(281.110.631)	(391.630.240)	(217.532.233)	-
	53.123.676	21.459.486	(3.074.749)	(1.348.792)	25.883.027	-

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2012

Contractual maturity analysis	Book value	Total cash outflow per agreement (i+ii+iii+iV)	Less than 3 months (i)	3-12 months (ii)	1-5 years (iii)	More than 5 years (iV)
Non derivative financial liabilities						
Borrowings from banks	4.418.751.937	4.760.991.207	701.816.165	1.397.201.826	2.573.211.738	88.761.478
Trade payables	428.055.750	428.826.252	428.826.252	-	-	-
Other financial liabilities (*)	160.002.546	160.002.546	159.220.946	781.600	-	-
Total liabilities	**5.006.810.233**	**5.349.820.005**	**1.289.863.363**	**1.397.983.426**	**2.573.211.738**	**88.761.478**
Derivative financial liabilities						
Derivative cash inflows	10.122.346	609.978.843	135.462.979	231.767.669	242.748.195	-
Derivative cash outflows	(18.757.254)	(627.915.169)	(139.749.280)	(238.826.656)	(249.339.233)	-
	(8.634.908)	**(17.936.326)**	**(4.286.301)**	**(7.058.987)**	**(6.591.038)**	**-**

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

NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

31 December 2013	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
Financial Assets								
Cash and cash equivalents	761.111.225	-	-	-	-	-	761.111.225	4
Trade receivables	-	1.708.538.168	-	-	-	-	1.708.538.168	8
Financial investments	-	-	-	-	-	-	-	
Other financial assets	-	26.892.409	-	-	-	-	26.892.409	9
Derivative financial instruments	-	-	-	-	72.656.640	7.373.780	80.030.420	5
	-	-	-	-	-	-	-	
Financial Liabilities								
Financial liabilities	-	-	-	3.500.079.222	-	-	3.500.079.222	6
Trade payables	-	-	-	504.185.643	-	-	504.185.643	8
Other liabilities	-	-	-	208.568.118	-	-	208.568.118	6/9/16
Derivative financial instruments	-	-	-	-	12.290.194	14.581.592	26.871.786	7
	-	-	-	-	-	-	-	
31 December 2012								
Financial Assets								
Cash and cash equivalents	1.829.716.171	-	-	-	-	-	1.829.716.171	4
Trade receivables	-	1.047.300.360	-	-	-	-	1.047.300.360	8
Financial investments	-	-	84.594	-	-	-	84.594	
Other financial assets	-	43.521.751	-	-	-	-	43.521.751	9
Derivative financial instruments	-	-	-	-	9.579.245	543.101	10.122.346	5
	-	-	-	-	-	-	-	
Financial Liabilities								
Financial liabilities	-	-	-	4.418.751.937	-	-	4.418.751.937	6
Trade payables	-	-	-	428.055.750	-	-	428.055.750	8
Other liabilities	-	-	-	160.002.546	-	-	160.002.546	6/9/16
Derivative financial instruments	-	-	-	-	14.855.607	3.901.647	18.757.254	7

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

NOTE 32 – 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)

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2013	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	7.408.738	-	7.408.738	-
Derivative financial liabilities	(14.759.792)	-	(14.759.792)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
	-			
Derivative financial assets	72.621.682	-	72.621.682	-
Derivative financial liabilities	(12.111.994)	-	(12.111.994)	-
Total	**53.158.634**	**-**	**53.158.634**	**-**

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

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

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

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

NOTE 33 – SUBSEQUENT EVENTS

A protocol of disagreement is issued between our Company's representative Turkish Employer's Association of Metal Industries and Turkish Metal Workers Union as of 17 January 2014, within the progress of 25. Period Collective Agreement meetings that have been ongoing since December 2, 2013.

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EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 34 – 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 December 2013	1 January- 31 December 2012
Current trade receivables	(466.575.895)	96.166.335
Inventories	(20.647.969)	735.177.412
Other short term receivables / current assets	(1.198.010)	22.732.717
Other long term receivables / non current assets	(24.672.623)	55.101.695
Current trade payables	(8.323.830)	(105.602.410)
Other short term payables / liabilities	22.291.272	(72.690.401)
Other long term payables / liabilities	(5.309.534)	3.653.359
	(504.436.589)	**734.538.707**

Changes in working capital occurs due to translation from functional currency to presentation currency in 1 January - December 2013 period.

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

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

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

In accordance with the communiqué numbered II-14,1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") announced by the Capital Markets Board ("CMB"), a new illustrative financial statements and guidance to it has been issued effective from the interim periods ended after 31 March 2013, the effects of reclassifications on consolidated financial statements, for the period 31 December 2012 and 31 December 2011, of accounted actuarial gain/loss from provisions of employee benefits under comprehensive income statement and reclassified of provision of unused vacation from short-term liabilities into the long-term liabilities are set out below:

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

The details and the amounts of the adjustments and reclassifications made of the balance sheet are as follows (cont'd):

Account	(Previously reported) 1 January- 31 December 2011	(Restated) 1 January- 31 December 2011	Difference	(Previously reported) 1 January- 31 December 2012	(Restated) 1 January- 31 December 2012	Difference
Prepaid Expenses (1)	-	42.506.830	42.506.830	-	18.404.660	18.404.660
Other Current Assets (1)	142.316.125	99.809.295	(42.506.830)	128.255.198	109.850.538	(18.404.660)
Prepaid Expenses (2)	-	41.870.745	41.870.745	-	22.841.651	22.841.651
Other Non-Current Assets (2)	41.991.447	120.702	(41.870.745)	22.841.651	-	(22.841.651)
Short Term Portion of Long Term Financial Liabilities (3)	-	1.093.280.760	1.093.280.760	-	1.154.609.147	1.154.609.147
Short Term Financial Liabilities (3)	1.487.868.881	394.588.121	(1.093.280.760)	2.022.433.668	867.824.521	(1.154.609.147)
Trade Payables (4)	533.658.160	533.658.501	341	428.055.750	428.055.750	-
Payables for Employee Benefits (4)	-	98.046.626	98.046.626	-	101.317.114	101.317.114
Deferred Revenue (4)	-	133.991.395	133.991.395	-	95.524.729	95.524.729
Other Current Liabilities (4)	262.510.652	29.612.053	(232.898.599)	252.215.703	33.337.428	(218.878.275)
Other Payables (4)	63.694.522	9.499.032	(54.195.490)	48.017.783	7.784.500	(40.233.283)
Provision of the employee termination benefits (4)	218.122.934	273.178.661	55.055.727	283.979.209	346.248.924	62.269.715
Retained Earnings (5)	1.273.384.263	1.286.226.725	12.842.462	1.730.124.661	1.757.972.269	27.847.608
Net Profit for the Period (5)	1.005.562.503	1.020.567.649	15.005.146	424.181.040	452.016.769	27.835.729
Actuarial Losses/ Gains Funds (5)	-	(27.847.608)	(27.847.608)	-	(55.683.337)	(55.683.337)

(1)Prepaid expenses and advance given which was reported in "Other Current Assets" in 31 December 2011 and 31 December 2012 is reclassified to "Prepaid Expenses".

(2)Prepaid expenses and advances given for fixed assets which was reported in "Other Non-Current Assets" in 31 December 2011 and 31 December 2012 is reclassified to "Prepaid Expenses".

(3)Short term portion of long term financial liabilities which was reported in "Short Term Financial Liabilities" in 31 December 2011 and 31 December 2012 is reclassified to "Short Term Portion of Long Term Financial Liabilities".

(4)Due to personnel which was reported in "Other Current Liabilities" and social security premiums payable and income and stamp tax due to personnel which was reported in "Other Payables" is reclassified to "Payables for Employee Benefits", payables to related parties which was reported in "Other Payables" is reclassifed to "Trade Payables", provision for unused vacation which was reported in "Other Current Liabilites" is reclassifed to "Provision for Employee Termination Benefits" , advances received and unearned revenues which was reported under"Other Current Liabilites" is reclassed to "Deferred Revenues" in 31 December 2011 and 31 December 2012.

(5)In accordance with TAS 19, provision for employee termination benefits from actuarial loss/ gain recognized under income statement.

Statutory reserves that were reported under "Restricted Reserves Assorted from Profit" are reclassified under "Retained Earnings" due to the Company's resolution in Regular General Assembly as of 30 March 2012 to distribute restricted reserves and/or use the reserves in issuing capital.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)
EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

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

Reclassifications of income statement are as follows:

Account	(Previously reported) 1 January- 31 December 2012	(Restated) 1 January- 31 December 2012	Difference 1 January- 31 December 2012
Cost of sales (-) (1)	(8.594.486.663)	(8.541.548.522)	52.938.141
Marketing, sales and distribution expenses (-) (1) (2)	(106.243.102)	(105.941.627)	301.475
General administrative expenses (-) (1) (2)	(179.511.651)	(175.981.440)	3.530.211
Other operating income (3)	63.829.936	119.385.286	55.555.350
Other operating income (4)	(69.789.801)	(111.457.573)	(41.667.772)
Financial income (3) (5)	365.359.192	228.117.052	(137.242.140)
Financial expense (-) (1) (4) (5)	(402.587.258)	(299.969.934)	102.617.324
Deferred tax income (2)	(137.418.529)	(144.625.046)	(7.206.517)
			28.826.072

(1) Employee termination benefit and interest cost of incentive are reclassified under "Operating Expenses (-)" as TRY 19.283.020 reported in "Cost of Sales (-)", TRY 105.818 reported in "Marketing, sales and distribution expenses (-)" , TRY 1.348.400 reported in "General administrative expenses (-)" in consolidated income statement as of 31 December 2012.

(2) TRY 33.655.121 reported in "Cost of Sales (-)",TRY 195.657 reported in "Marketing, sales and distribution expenses (-)" , TRY 2.181.811 reported in "General administrative expenses (-)" are recognized under provision for employee termination benefits actuarial loss/ gain that is TRY 36.032.589. Deferred tax income TRY 7.206.517 which was reorted in "Deferred Tax Income" is recognized under equity in "Actuarial Loss/ Gain Fund" in consolidated income statement as of 31 December 2012.

(3) Interest income from overdue sales TRY 55.555.350 which was reported in "Financial Income" is reclassified to "Other Operating Income"in consolidated income statement as of 31 December 2012.

(4) Foreign exchange loss from trade receivables and payables (net) TRY 41.667.772 which was reported in "Financial Expense (-)" is reclassified to "Other Operating Expense (-)"in consolidated income statement as of 31 December 2012.

(5) Foreign exchange loss from financial liabilities (net) TRY 81.686.790 which was reported in "Financial Income" offsets with "Foreign exchange gain (net)" in "Financial Expenses" in consolidated income statment as of 31 December 2012.

Convenience translation to English:

The effect of differences between the Financial Reporting Standards published by the POA of 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.

We're proceeding steadily

1960

A special law was enacted for the establishment of ERDEMİR.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. was commissioned.

1965

ERDEMİR began its operations with an annual production capacity of 0.5 Mt crude steel.

1986

ERDEMİR shares were listed and traded subsequent to the establishment of İstanbul Stock Exchange (İSE).

1996

ERDEMİR reached an annual crude steel production capacity of 3 Mt. following the investments of Capacity İncrease and Modernization İ & İİ.

2001

ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. was founded.

ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş. was commissioned.

2002

İSDEMİR and ERDEMİR ROMANIA were incorporated in to the ERDEMİR Group.

2004

ERMADEN was incorporated in to the ERDEMİR Group.

2006

ERDEMİR was transferred to OYAK Group.

İSDEMİR produced the first slab.

2008

As a result of efforts contributed by ERDEMİR engineers and workers, commencing from the initial stages of the project until the construction and commissioning, the new Blast Furnace Ayse No.1 was commissioned.

ERDEMİR produced the first Hot Rolling Mill.

2012

New Steel Service Center was activated at ERSEM Ereğli plant.

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