

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

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



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(Convenience translation of the independent auditors' report and financial statements originally issued in Turkish)

Independent auditors' report

To the Board of Directors of Iskenderun Demir ve Çelik A.Ş.

Introduction

We have audited the accompanying balance sheet of Iskenderun Demir ve Çelik A.Ş. ("the Company") as at December 31, 2013 and the related statements of income, comprehensive income, changes in equity and 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 Company's management is responsible for the preparation and fair presentation of financial statements in accordance with the Turkish Accounting Standards ("TAS") published by the Public Oversight Accounting and Auditing Standards Authority ("POA") and for such internal controls as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error 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 Auditing Standards in Turkey issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessment, 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 audit 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. Our 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 financial statements give a true and fair view of the financial position of İskenderun Demir ve Çelik A.Ş. as at December 31, 2013 and of its financial performance and cash flows for the year then ended in accordance with the TAS in all material respect (Note 2).

Other matters

In accordance with paragraph 2 of the Provisional Article 6 of the Turkish Commercial Code No. 6102, the financial statements of the Company subject to audit in accordance with the Turkish Commercial Code and the regulations of the POA for the first time starting from the opening balance sheet as of January 1, 2013.


Pursuant to paragraph 2 of the Provisional Article 6 of the Turkish Commercial Code No. 6102, the statement of financial position as of January 1, 2012 and December 31, 2012 prepared in accordance with the Code No. 6762 and other regulations, along with the income statement for the year ended December 31, 2012 are presented in Note 2. We have not audited the accompanying financial statements prepared in accordance with other regulations; therefore we do not express an opinion.

Reports on Independent auditor responsibilities arising from other regulatory requirements

In accordance with Article 402 of the Turkish Commercial Code no. 6102, 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 Company's bookkeeping activities for the period 1 January – 31 December 2013 are 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 Turkish Commercial Code, in non-listed companies, an Early Risk Identification Committee is formed when the auditor considers as necessary and gives a written notification to the Board of Directors. According to subparagraph 4, Article 398 of the code, the independent 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. As of the date of our auditors' report POA has not announced a secondary regulation regarding the criteria of the works to be performed by the auditor for the early identification of the risks and the principles of the report. Accordingly, no work has been performed to form an auditor's opinion on whether the establishment of an early risk identification committee within the body of the Company is necessary and no report has been prepared for this purpose.

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



Melin Canoğulları, SMMM
Partner

March 12, 2014
İstanbul

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2013

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

		(Audited) Current Period 31 December 2013	(Audited) Previous Period 31 December 2012	(Unaudited) Previous Period 1 January 2012
	Note			
ASSETS				
Current Assets		2.146.726.348	1.753.164.225	1.922.260.035
Cash and Cash Equivalents	4	12.243.176	7.127.891	10.114.324
Trade Receivables	8	540.419.809	212.461.141	235.552.474
<i>Due From Related Parties</i>	28	<i>5.380.282</i>	<i>3.088.035</i>	<i>2.174.170</i>
<i>Other Trade Receivables</i>	8	<i>535.039.527</i>	<i>209.373.106</i>	<i>233.378.304</i>
Other Receivables	9	4.026.604	160.043.992	73.018
Other Receivables Due to Related Parties	28	-	159.960.118	25.241
Other Receivables	9	4.026.604	83.874	47.777
Inventories	10	1.566.027.464	1.336.005.133	1.631.147.352
Prepaid Expenses	11	8.481.490	11.236.063	23.044.747
Other Current Assets	18	15.527.805	26.290.005	22.328.120
Non Current Assets		4.745.246.737	4.347.901.724	4.506.612.039
Trade Receivables	8	-	-	3.827.792
<i>Due From Related Parties</i>	28	<i>-</i>	<i>-</i>	<i>3.827.792</i>
Other Receivables	9	21.958.283	42.986.757	42.986.757
Financial Investments		-	692	729
Other Long Term Financial Assets	5	72.621.682	9.579.245	47.475.443
Property, Plant and Equipment	12	4.530.660.002	4.190.451.660	4.197.115.269
Intangible Assets	13	104.112.434	98.376.962	103.909.565
Prepaid Expenses	11	15.894.336	6.506.408	18.757.172
Deferred Tax Assets	28	-	-	92.539.312
TOTAL ASSETS		6.891.973.085	6.101.065.949	6.428.872.074

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2013

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

		(Audited) Current Period 31 December 2013	(Audited) Previous Period 31 December 2012	(Unaudited) Previous Period 1 January 2012
	Note			
LIABILITIES				
Current Liabilities		1.546.001.182	1.695.716.725	1.541.567.038
Financial Liabilities	6	115.152.253	252.202.042	217.525.963
Short Term Portion of Long Term Financial Liabil	6	693.652.510	823.406.370	674.961.961
Other Current Financial Liabilities	7	-	110.011	-
Trade Payables	8	206.992.306	224.400.615	494.565.966
<i>Due to Related Parties</i>	28	<i>23.901.554</i>	<i>23.912.687</i>	<i>297.397.626</i>
<i>Other Trade Payables</i>	8	<i>183.090.752</i>	<i>200.487.928</i>	<i>197.168.340</i>
Other Payables	9	448.719.736	308.973.355	24.545.619
<i>Due to Related Parties</i>	28	<i>446.200.411</i>	<i>305.566.485</i>	<i>20.745.849</i>
<i>Other Payables</i>	9	<i>2.519.325</i>	<i>3.406.870</i>	<i>3.799.770</i>
Deferred Revenue	19	15.398.902	27.450.478	58.981.176
Short Term Provisions	16	21.194.299	21.057.258	19.930.766
Payables for Employee Benefits	16	31.861.558	33.200.741	39.307.831
Other Current Liabilities	18	13.029.618	4.915.855	11.747.756
Non Current Liabilities		1.199.869.374	1.993.918.408	2.623.270.295
Financial Liabilities	6	810.786.346	1.812.637.910	2.502.138.837
Other Non Current Financial Liabilities	7	11.371.441	13.117.383	8.004.063
Provisions for Employee Benefits	15	166.578.955	147.748.850	113.127.395
Deferred Tax Liabilities	27	211.132.632	20.414.265	-
Other Non Current Liabilities	19	-	-	-
EQUITY	20	4.146.102.529	2.411.430.816	2.264.034.741
Share Capital		2.900.000.000	1.505.950.000	1.505.950.000
Inflation Adjustment to Capital		163.649	4.264.700.013	4.264.700.013
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		(33.416.040)	(27.854.382)	(14.104.991)
<i>Actuarial (Loss)/ Gain funds</i>		<i>(33.416.040)</i>	<i>(27.854.382)</i>	<i>(14.104.991)</i>
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		340.210.275	(30.756.332)	(13.848.079)
<i>Cash Flow Hedging Reserves</i>		<i>(9.205.356)</i>	<i>(30.756.332)</i>	<i>(13.848.079)</i>
<i>Foreign Currency Translation Reserves</i>		<i>349.415.631</i>	-	-
Restricted Reserves Assorted from Profit		32.196.307	62.250.437	62.250.437
Retained Earnings/(Loss)		518.803.481	(3.540.912.639)	(3.732.173.284)
Net Profit for the Period		388.144.857	178.053.719	191.260.645
TOTAL LIABILITIES AND EQUITY		6.891.973.085	6.101.065.949	6.428.872.074

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF INCOME AS OF 31 DECEMBER 2013

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

		(Audited) Current Period 1 January- 31 December 2013	(Unaudited) Previous Period 1 January- 31 December 2012
OPERATING INCOME			
Revenue	21	5.204.272.872	5.399.863.645
Cost of Sales (-)	21	(4.244.941.033)	(4.867.574.016)
GROSS PROFIT		959.331.839	532.289.629
Marketing, Sales and Distribution Expenses (-)	22	(49.174.926)	(52.838.864)
General Administrative Expenses (-)	22	(61.076.438)	(55.258.601)
Research and Development Expenses (-)	22	(486.236)	(397.580)
Other Operating Income	24	53.278.933	32.964.455
Other Operating Expenses (-)	24	(36.676.919)	(34.715.030)
OPERATING PROFIT		865.196.253	422.044.009
Finance Income	25	40.443.265	156.636.444
Finance Expense (-)	26	(393.283.143)	(280.008.748)
PROFIT BEFORE TAX		512.356.375	298.671.705
Tax Expense	27	(124.211.518)	(120.617.986)
- Current Corporate Tax Expense		-	-
- Deferred Tax Expense		(124.211.518)	(120.617.986)
PROFIT FOR THE PERIOD		388.144.857	178.053.719

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF OTHER COMPREHENSIVE INCOME AS OF 31 DECEMBER 2013

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

	(Audited) Current Period 1 January- 31 December 2013	(Unaudited) Previous Period 1 January- 31 December 2012
	Note	
PROFIT FOR THE PERIOD	388.144.857	178.053.719
Other Comprehensive Income/(Expense):		
Not to be reclassified subsequently to profit or loss		
Change in Actuarial (Loss)/ Gain	(6.952.072)	(17.186.737)
Tax Effect of Changes in Actuarial (Loss)/ Gain	1.390.414	3.437.346
To be reclassified subsequently to profit or loss		
Change in Cash Flow Hedging Reserves	26.938.720	(21.135.316)
Tax Effect of Change in Cash Flow Hedging Reserves	(5.387.744)	4.227.063
Change in Foreign Currency Translation Reserves	349.415.631	-
OTHER COMPREHENSIVE INCOME/ EXPENSE FOR THE PERIOD (AFTER TAX)	27 365.404.949	(30.657.644)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	753.549.806	147.396.075

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

İSKENDERUN DEMİR VE ÇELİK FABRİKALARI A.Ş.

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

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

(Audited)	Note	Share Capital	Inflation Adjustment to Capital	Other comprehensive income/expense not to be reclassified subsequently to profit or loss			Restricted Reserves Assorted from Profit	Retained Earnings and Net Profit	Total Shareholders' Equity
				Actuarial loss/(gain) funds	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves			
1 January 2013 (previously reported)		1.505.950.000	4.264.700.013	-	(30.756.332)	-	62.250.437	(3.390.713.302)	2.411.430.816
Effect of changes in accounting policy	32	-	-	(27.854.382)	-	-	-	27.854.382	-
Restated 1 January 2013 (*)		1.505.950.000	4.264.700.013	(27.854.382)	(30.756.332)	-	62.250.437	(3.362.858.920)	2.411.430.816
Net profit for the period		-	-	-	-	-	-	388.144.857	388.144.857
Other comprehensive income/ (loss)		-	-	(5.561.658)	21.550.976	349.415.631	-	-	365.404.949
Total comprehensive income/ (loss)		-	-	(5.561.658)	21.550.976	349.415.631	-	388.144.857	753.549.806
Capital increase		1.394.050.000	(4.264.536.364)	-	-	(30.054.130)	3.881.662.401	-	981.121.907
1 January 2013	20	2.900.000.000	163.649	(53.416.040)	(9.205.356)	349.415.631	32.196.307	906.948.338	4.146.102.529
(Unaudited)									
1 January 2012 (previously reported)		1.505.950.000	4.264.700.013	-	(13.848.079)	-	62.250.437	(3.555.017.630)	2.264.034.741
Effect of changes in accounting policy	32	-	-	(14.104.991)	-	-	-	14.104.991	-
Restated 1 January 2012 (*)		1.505.950.000	4.264.700.013	(14.104.991)	(13.848.079)	-	62.250.437	(3.540.912.639)	2.264.034.741
Net profit for the period		-	-	-	-	-	-	178.053.719	178.053.719
Other comprehensive income/ (loss)		-	-	(13.749.391)	(16.908.253)	-	-	-	(30.657.644)
Total comprehensive income/ (loss)		-	-	(13.749.391)	(16.908.253)	-	-	178.053.719	147.396.075
Capital increase		-	-	-	-	-	-	-	-
31 December 2012	20	1.505.950.000	4.264.700.013	(27.854.382)	(30.756.332)	-	62.250.437	(3.362.858.920)	2.411.430.816

(*) Detailed information about restated consolidated financial statements is given in note 32.

(*) Detailed information about restated financial statements is given in Note 32.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2013

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

		(Audited) Current Period 1 January- 31 December 2013	(Unaudited) Previous Period 1 January- 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and non-controlling interests		512.356.375	298.671.705
Adjustments to reconcile net profit before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	21/22	205.096.167	185.604.556
Provision for employee termination benefits	15	21.247.155	20.945.414
Provision for seniority incentive premium	15	90.135	2.414.267
(Gain) on sale of property plant and equipment	24	(189.099)	(261.293)
Loss on write off of property plant and equipment	24	25.164	1.843.761
Increase in provision for doubtful receivables	8/9	2.255.094	1.929.174
Increase/ (decrease) in the allowance for inventories	10	6.640.173	2.302.311
Increase in provision for unpaid vacations	15	4.549.442	2.415.354
Increase in provision for pending claims and lawsuits	16	483.874	1.030.420
Increase in penalty provision for obligatory employment shortage of disabled people	16	572.488	642.600
Interest expenses	26	155.971.772	237.330.229
Interest income	25	(5.034.321)	(20.657.585)
Interest income from overdue sales	24	(10.982.696)	(10.616.306)
Unrealized foreign currency (gain) of financial liabilities		353.179.635	(138.439.176)
Loss/(gain) on fair value changes of derivative financial instruments	25/26	(34.822.687)	18.943.963
Net cash provided by operating activities before changes in working capital		1.211.438.671	604.099.394
Changes in working capital	32	(287.907.835)	150.758.473
Interest income from overdue sales collected		16.017.017	8.542.620
Lawsuits paid	16	(1.141.179)	(546.528)
Employee termination benefits paid	15	(14.305.987)	(3.410.507)
Unused vacation paid	15	(715.106)	(790.588)
Seniority incentive premium paid	15	(403.662)	(4.139.222)
Net cash provided by operating activities		922.981.919	754.513.642
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash used in the purchase of tangible assets	12	(82.270.072)	(177.101.105)
Cash used in the purchase of intangible assets	13	(2.278.386)	(4.189.416)
Cash provided by sales of tangible assets	12/13/24	222.098	(1.483.896)
Net cash used in investing activities		(84.326.360)	(182.774.417)
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings		1.181.819.452	911.837.366
Repayment of borrowings		(2.802.351.610)	(1.276.262.980)
Interest paid		(157.274.461)	(210.300.044)
Capital increase		981.121.907	-
Net cash used in by financing activities		(796.684.712)	(574.725.658)
NET CHANGES IN CASH AND CASH EQUIVALENTS		41.970.847	(2.986.433)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	7.127.891	10.114.324
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	12.243.176	7.127.891

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 1 – COMPANY’S ORGANIZATION AND NATURE OF OPERATIONS

İskenderun Demir ve Çelik A.Ş. (“the Company”) established in İskenderun in 22 September 1968 as a public economic enterprise. The biggest activities of the Company include the production of iron, steel, iron with and without alloy, cast-steel and press steel, coke and all kinds of by-products.

The Company had become an affiliated company of the Turkish Iron and Steel Administration with the decision no 93/T-85 dated September 10, 1993 of Supreme Planning Committee, which is based on the 2nd paragraph of the 22th article in the decree number 233. With the decision no 98/20 of Privatization Committee dated March 2, 1998, published in the Official Gazette no 23275 dated March 3, 1998; the Company was transferred to Turkish Privatization Administration.

Ultimately, shares of the Company were transferred to Ereğli Demir ve Çelik Fabrikaları T.A.Ş. by the Turkish Privatization Administration to be effective as of 1 February 2002. The immediate parent of Ereğli Demir ve Çelik Fabrikaları T.A.Ş is Ataer Holding A.Ş. The ultimate controlling party is Ordu Yardımlaşma Kurumu.

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

	31 December 2013	31 December 2012
	Personnel	Personnel
Paid Hourly Personnel	4.271	4.658
Paid Monthly Personnel	1.255	885
	5.526	5.543

NOTE 2 – BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Company maintains its legal books of account and prepares their statutory financial statements (“Statutory Financial Statements”) in accordance with accounting principles issued by the Turkish Commercial Code (“TCC”) and tax legislation.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE 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 FINANCIAL STATEMENTS

2.1 Basis of Presentation (cont’d) issued

First time adoption of IAS/IFRS

The Company holds its books in accordance with the New Turkish Commercial Code 6102 (“TCC”), tax legislation and Uniform Chart of Accounts issued by the Ministry of Finance.

In Turkey, the Companies are required to have their financial statements audited, prepare their financial statements in accordance with TCC and Turkish Accounting Standards (“TAS”) promulgated by Public Oversight of Accounting and Auditing Standards Authority of Turkey (POA).

In accordance with TTC, Companies are required to have their financial statements audited are determined by the Council of Ministers

According to the “The determination of the Companies shall be subject to independent audited” decision enacted on 23 January 2013 by the Council of Ministers” , Companies are required to be audited have been detected based on some criterias such as asset size, revenue and the number of employees.

As of 1 January 2013, the Company has exceeded the criteria referred the decision above, therefore it was included the scope of independent audit and attached financial tables have been prepared in accordance with TAS was enacted by the POA.

TAS is consist of accounting standards/reviews under the name of Turkish Accounting Standards and Turkish Financial Reporting Standards and other special and exceptional standards have been published in this area with additional reviews and other arrangements by POA.

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

The difference between statement of financial position tables as 31 December 2012 are as follows:

ASSETS	Note	Previously reported 31 December 2012	(Effects of transaction) 31 December 2012	(Restated) 31 December 2012
Current Assets		1.916.987.556	163.823.331	1.753.164.225
Cash and Cash Equivalents		7.127.891	-	7.127.891
Trade Receivables		212.461.141	-	212.461.141
Other Receivables		160.043.992	-	160.043.992
Inventories	A	1.377.136.414	41.131.281	1.336.005.133
Prepaid Expenses	A	-	(11.236.063)	11.236.063
Other Current Assets	B	160.218.118	133.928.113	26.290.005
Non Current Assets		3.767.722.511	(580.179.213)	4.347.901.724
Other Receivables		42.986.757	-	42.986.757
Financial Investments		692	-	692
Other Long Term Financial Assets	C	-	(9.579.245)	9.579.245
Property, Plant and Equipment	D, E	3.650.927.292	(539.524.368)	4.190.451.660
Intangible Assets	D	73.807.770	(24.569.192)	98.376.962
Prepaid Expenses	E	-	(6.506.408)	6.506.408
TOTAL ASSETS		5.684.710.067	(416.355.882)	6.101.065.949

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

First time adoption of IAS/IFRS

Difference between financial position tables of 31 December 2012 are as follow:

		Previously reported 31 Aralık 2012	(Effects of transaction) 31 Aralık 2012	(Restated) 31 Aralık 2012
LIABILITIES	Note			
Current Liabilities		1.783.872.293	88.155.568	1.695.716.725
Financial Liabilities	H	250.912.529	(1.289.513)	252.202.042
Short Term Portion of Long Term Financial Liabil	H	840.013.479	16.607.109	823.406.370
Other Current Financial Liabilities	C	-	(110.011)	110.011
Trade Payables	İ	225.347.386	946.771	224.400.615
Other Payables	J	324.778.013	15.804.658	308.973.355
Deferred Revenue	K	-	(27.450.478)	27.450.478
Short Term Provisions		23.039.809	1.982.551	21.057.258
Payables for Employee Benefits	L	-	(33.200.741)	33.200.741
Other Current Liabilities	L, M	119.781.077	114.865.222	4.915.855
Non Current Liabilities		1.966.351.096	(27.567.312)	1.993.918.408
Financial Liabilities	H	1.840.825.063	28.187.153	1.812.637.910
Other Non Current Financial Liabilities	C	-	(13.117.383)	13.117.383
Provisions for Employee Benefits	M	125.526.033	(22.222.817)	147.748.850
Deferred Tax Liabilities	F	-	(20.414.265)	20.414.265
EQUITY		1.934.486.678	(476.944.138)	2.411.430.816
Share Capital		1.505.950.000	-	1.505.950.000
Inflation Adjustment to Capital		4.264.536.364	(163.649)	4.264.700.013
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		-	27.854.382	(27.854.382)
<i>Actuarial (Loss)/ Gain funds</i>	N	-	27.854.382	(27.854.382)
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		-	30.756.332	(30.756.332)
<i>Cash Flow Hedging Reserves</i>	C	-	30.756.332	(30.756.332)
Restricted Reserves Assorted from Profit		62.250.437	-	62.250.437
Retained Earnings/(Loss)		(3.927.896.852)	(386.984.213)	(3.540.912.639)
Net Profit for the Period		29.646.729	(148.406.990)	178.053.719
TOTAL LIABILITIES AND EQUITY		5.684.710.067	(416.355.882)	6.101.065.949

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE 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 FINANCIAL STATEMENTS (cont’d)

2.1 Basis of Presentation (cont’d)

First time adoption of IAS/IFRS

Difference between financial position tables as of 1 January 2012 are as follow:

		Previously reported	(Effects of transaction)	(Restated)
		1 Ocak	1 Ocak	1 Ocak
ASSETS	Note	2012	2012	2012
Current Assets		2.091.863.724	169.603.689	1.922.260.035
Cash and Cash Equivalents		10.114.324	-	10.114.324
Trade Receivables		235.041.921	(510.553)	235.552.474
Other Receivables		51.053	(21.965)	73.018
Inventories	A	1.680.846.855	49.699.503	1.631.147.352
Prepaid Expenses	A	-	(23.044.747)	23.044.747
Other Current Assets	B	165.809.571	143.481.451	22.328.120
Non Current Assets		4.086.843.255	(419.768.784)	4.506.612.039
Other Receivables		42.986.757	-	42.986.757
Financial Investments		729	-	729
Other Long Term Financial Assets	C	-	(47.475.443)	47.475.443
Property, Plant and Equipment	D, E	3.957.681.589	(239.433.680)	4.197.115.269
Intangible Assets	D	81.709.995	(22.199.570)	103.909.565
Prepaid Expenses	E	-	(18.757.172)	18.757.172
Deferred Tax Assets	F	-	(92.539.312)	92.539.312
Other non current assets	G	4.464.185	4.464.185	-
TOTAL ASSETS		6.178.706.979	(250.165.095)	6.428.872.074

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

First time adoption of IAS/IFRS

Differences between financial position tables as of 1 January 2012 are as follow:

		Previously reported 1 Ocak 2012	(Effects of transaction) 1 Ocak 2012	(Restated) 1 Ocak 2012
	Note			
LIABILITIES				
Current Liabilities		1.627.051.191	85.484.153	1.541.567.038
Financial Liabilities	H	215.551.032	(1.974.931)	217.525.963
Short Term Portion of Long Term Financial Liabil	H	682.250.668	7.288.707	674.961.961
Trade Payables	İ	367.630.440	(126.935.526)	494.565.966
Other Payables	I, J	154.768.447	130.222.828	24.545.619
Deferred Revenue	K	-	(58.981.176)	58.981.176
Short Term Provisions		20.897.563	966.797	19.930.766
Payables for Employee Benefits	L	-	(39.307.831)	39.307.831
Other Current Liabilities	L, M	185.953.041	174.205.285	11.747.756
Non Current Liabilities		2.630.228.117	6.957.822	2.623.270.295
Financial Liabilities	H	2.539.423.728	37.284.891	2.502.138.837
Other Non Current Financial Liabilities	C	-	(8.004.063)	8.004.063
Provisions for Employee Benefits	M	90.804.389	(22.323.006)	113.127.395
EQUITY		1.921.427.671	(342.607.070)	2.264.034.741
Share Capital		1.505.950.000	-	1.505.950.000
Inflation Adjustment to Capital		4.264.536.364	(163.649)	4.264.700.013
Other Comprehensive Income/Expense Not to be Reclassified to Profit/ (Loss)		-	14.104.991	(14.104.991)
<i>Actuarial (Loss)/ Gain funds</i>	N	-	14.104.991	(14.104.991)
Other Comprehensive Income/Expense to be Reclassified to Profit/ (Loss)		-	13.848.079	(13.848.079)
<i>Cash Flow Hedging Reserves</i>	C	-	13.848.079	(13.848.079)
Restricted Reserves Assorted from Profit		62.250.437	-	62.250.437
Retained Earnings/(Loss)		(3.824.387.769)	(92.214.485)	(3.732.173.284)
Net Profit for the Period		(86.921.362)	(278.182.007)	191.260.645
TOTAL LIABILITIES AND EQUITY		6.178.706.979	(250.165.095)	6.428.872.074

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE 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 FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

First time adoption of IAS/IFRS

As of 31 December 2012 and 1 January 2012 explanations of the differences between the financial positions are as follows:

- A. The Company's advanced payments are classified to prepaid expenses, provision has been made for impairment of inventories in TAS records. Arising from depreciation differences in the estimated useful lives of fixed assets on inventory in legal records and TAS records also have been recorded.
- B. The Company has reported the net amount of VAT in TAS records.
- C. The Company has recorded derivate instruments for the purpose of hedging in TAS records.
- D. There are differences between the useful lives of tangible and intangible assets in Company's TAS records and legal records.
- E. Deferred tax assets and liabilities have been calculated on temporary differences between TAS financial statements and legal records. Deferred tax assets and liabilities are reported clearly in related periods.
- F. The Company's expenses to future years has been classified to prepaid expenses.
- G. Discount has been calculated for financial liabilities in order to reach their net present values in TAS records.
- H. Rediscount is calculated for the Company's trade payables. Due from trade payables and deposits and guarantees received are classified as other liabilities.
- I. Personnel payables are classified in payables for employee benefits.
- J. Advances received are classified in deferred revenue
- K. Social security premiums payable and Employee's income tax payables are classified in payables for employee benefits.
- L. The Company has classified provision for unused vacation to employee benefits provision.
- M. Actuarial losses/gains on employee benefits under TAS 19 in TAS financial tables has been restated under equity funds.

Financial statements have been prepared on the basis historical cost except for the fair value of financial assets and liabilities and the difference between the carrying value and the fair value of the non-current assets occurs during mergers.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE 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 FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

First time adoption of IAS/IFRS

Differences between income statements as of 1 January 2012 are as follow:

		Previously reported	(Effects of transaction)	(Restated)
	Note	31 December 2012	31 December 2012	31 December 2012
OPERATING INCOME				
Revenue		5.399.769.455	(94.190)	5.399.863.645
Cost of Sales (-)	A	(5.152.105.522)	(284.531.506)	(4.867.574.016)
GROSS PROFIT		247.663.933	(284.625.696)	532.289.629
Marketing, Sales and Distribution Expense	B	(55.303.349)	(2.464.485)	(52.838.864)
General Administrative Expenses (-)	B	(62.199.083)	(6.940.482)	(55.258.601)
Research and Development Expenses (-)		(397.580)	-	(397.580)
Other Operating Income	C, E	19.266.967	(13.697.488)	32.964.455
Other Operating Expenses (-)	D	(28.011.357)	6.703.673	(34.715.030)
OPERATING PROFIT		121.019.531	(301.024.478)	422.044.009
Finance Income	E	429.522.262	272.885.818	156.636.444
Finance Expense (-)	E	(520.895.064)	(240.886.316)	(280.008.748)
PROFIT BEFORE TAX		29.646.729	(269.024.976)	298.671.705
Tax Expense		-	120.617.986	(120.617.986)
- Current Corporate Tax Expense		-	-	-
- Deferred Tax Expense	F	-	120.617.986	(120.617.986)
PROFIT FOR THE PERIOD		29.646.729	(148.406.990)	178.053.719

- A. Depreciation adjustments arised from the differences in useful lives of tangible and intangible assets in legal and TAS records and inventory impairment provision for inert materials in TAS have been recorded.
- B. The differences between TAS provisions and legal provision are arised from the useful life of fixed assets depreciation difference in TAS.
- C. The Company classified the term sales interest income in TAS records in the framework of the Communiqué of the Capital Markets Board (CMB), numbered Series: II-14.1, and in compliance with the International Financial Reporting Standards.
- D. The Company has made provisions in TAS records for potential risk in the future.
- E. The Company has clarified the profit and losses from exchange rate in TAS records and has recorded the exchange rate differences arising from derivative transactions for hedging purposes.
- F. Deferred tax assets and liabilities have been calculated from temporary differences between legal records and TAS financial tables. Deferred tax expense has recorded from these Deferred tax assets and liabilities.

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NOTES TO THE 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 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 the Company in 2012.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. 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 from TRY into US Dollars has been considered. Company 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 the Company.

According to the Company's management's point of view, due to decrease in TRY effect on the Company'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.

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont’d)

2.1 Basis of Presentation (cont’d)

2.1 Basis of Presentation (cont’d)

In the line with these developments in the third quarter of 2013, the Company Management concluded that change the functional currency of İsdemir from TRY to US Dollars is necessary.

As of balance sheet date, the effect of US Dollars over the activities of the Company is significant and reflect the economic conditions in which the company operates.

Due to aforementioned reasons, The Company management decided to change the functional currency of the Company 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 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 have been accepted in TRY as in previous periods.

Therefore, the Company’s 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 recalculated in US Dollars as the following under TAS 21 (“The Effects of Foreign Exchange Rates”).

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).

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont’d)

2.1 Basis of Presentation (cont’d)

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 Company prepared financial statements in accordance with the going concern assumption.

Approval of the consolidated financial statements

The 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.

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

The Company's 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 32.

2.4 Significant Judgments and Estimates of the Company on Application of Accounting Policies

The Company 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:

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont'd)

2.4 Significant Judgments and Estimates of the Company on Application of Accounting Policies (cont'd)

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

The Company calculates depreciation for the fixed assets by taking into account their useful lives that are stated in Note 2.7.3 and 2.7.4 (Note 12, Note 13)

2.4.2 Deferred tax

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

2.4.3 Fair values of derivative financial instruments

The Company values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note 5, Note 7, Note 29).

2.4.4 Provision for doubtful receivables

Allowance for doubtful receivables reflect the future loss that the Company 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.

2.4.5 Provision for inventories

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

2.4.6 Provisions for employee benefits

Assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate Company's provision for employee benefits. The details related with the defined benefit plans are stated in Note 15.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

2.4.7 Provision for lawsuits

Provision for lawsuits is evaluated by the Company Management based on opinions of Company’s Legal Council and legal consultants. The Company Management determines the amount of provisions based on best estimates. As of balance sheet date, provision for lawsuits is stated in Note 16.

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont’d)

2.5 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.

2.6 Adoption of New and Revised Financial Reporting Standards

The accounting policies adopted in the preparation of the 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 Company’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 financial statements of the Company.

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 Company.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE 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 FINANCIAL STATEMENTS (cont’d)

2.6 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 Company 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 32. 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 Company.

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 Company.

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 financial statements. A new definition of control is introduced, which is used to determine which entities are separated. 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 Company.

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 Company.

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 Company did not provide this disclosure for the year ended financial statements.

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

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

IFRS 13 Fair Value Measurement

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

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 Company however did not have any impact on the financial position or performance of the Company.

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 financial statements of the Company.

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 Company.

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.

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

2.6 Adoption of New and Revised Financial Reporting Standards (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 interim financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the interim condensed 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 Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

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 Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

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.

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

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

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

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 Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

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 Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

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 Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

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 Company will make the necessary changes to its 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 Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

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

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

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

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 Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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.

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

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

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

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.

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 Company and will not have an impact on the financial position or performance of the Company.

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.

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

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

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

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 32

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 Company.

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 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 Company.

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

2.7 Valuation Principles Applied / Significant Accounting Policies

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

2.7.1 Revenue recognition

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

Sale of goods

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

- The Company transfers the significant risks and benefits of the ownership of the goods to the buyer;
- The Company 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 Company; and
- The costs incurred or to be incurred due to the transaction are measured reliably.

Dividend and interest revenue

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

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

Rental income

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

2.7.2 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.

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

2.7 Valuation Principles Applied / Significant Accounting Policies

2.7.3 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.

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 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 property, plant and equipment	5-25%

2.7.4 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%

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

2.7 Valuation Principles Applied / Significant Accounting Policies

2.7.5 Impairment of assets

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

2.7.6 Borrowing costs

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

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

2.7.7 Financial instruments

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

Financial assets

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

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

Effective interest method

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

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

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

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

2.7.7 Financial instruments (cont’d)

Financial assets (cont’d)

Receivables

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

Impairment of financial assets

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of

amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement

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

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

Financial assets (cont’d)

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.

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

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

2.7.7 Financial instruments (cont’d)

Financial liabilities

Financial liabilities and equity instruments issued by the Company 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 Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

Other financial liabilities

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

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

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

Derivative financial instruments and hedge accounting

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

On the date a derivative contract is entered into, the Company 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 Company’s interest swap agreements is determined by valuation methods depending on analyzable market data.

Derivative financial instruments and hedge accounting (cont’d)

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 statement of income and classified as revenue or expense in the period in which the hedged item affects the statement of income.

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

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

2.7.7 Financial instruments (cont’d)

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

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

2.7.8 The effects of foreign exchange rate changes

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

The Company 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 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 statement of income. Non-monetary foreign currency items that are recognized at cost are evaluated with historic exchange rates. Non-monetary foreign currency items that are recognized at fair value are evaluated with exchange rates of the dates their fair values are determined.

2.7.9 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 Company adjusts the amounts recognized in its financial statements to reflect the adjustments after the balance sheet date.

2.7.10 Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Company has a present obligation as a result of a past event, where it is probable that the Company 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 Company’s contingent liabilities’ availability is possible but the amount of resources containing the economic benefits cannot be measured reliably, then the Company discloses this fact in the notes.

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

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

2.7.11 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.

2.7.12 Taxation and deferred income taxes

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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 Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont’d)

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

2.7.12 Taxation and deferred income taxes (cont’d)

Deferred tax

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

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

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

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

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont’d)

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

2.7.13 Employee benefits

According to the Turkish 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 Company 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 15.

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

The Company 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 Company does not have any further obligation. These premiums are reflected in the payroll expenses incurred in the period.

2.7.14 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 Company 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.

2.7.15 Statement of cash flows

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

Cash flows arising from operating activities represent the cash flows that are used in or provided by the Company’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 Company.

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

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NOTES TO THE 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 FINANCIAL STATEMENTS (cont'd)

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

2.7.15 Statement of cash flows (cont'd)

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.

2.7.16 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.

NOTE 3 – SEGMENT REPORTING

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	1 January 2012
Banks – demand deposits	12.243.176	7.127.891	10.114.324
	<u>12.243.176</u>	<u>7.127.891</u>	<u>10.114.324</u>

The breakdown of demand deposits is presented below:

	31 December 2013	31 December 2012	1 January 2012
US Dollars	1.585.830	5.407.185	5.765.302
TRY	10.343.728	1.476.456	2.165.353
EURO	291.398	225.094	2.163.587
GB Pound	6.229	5.365	6.262
Japanese Yen	663	601	423
Other	15.328	13.190	13.397
	<u>12.243.176</u>	<u>7.127.891</u>	<u>10.114.324</u>

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 5 – FINANCIAL ASSETS

Non-current financial investments:

	31 December 2013	31 December 2012	1 January 2012
Financial Investments	-	692	729
Derivative financial assets at fair value through income statement (*)	72.621.682	9.579.245	47.475.443
Total	72.621.682	9.579.937	47.476.172

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

As of December 31, 2012, the Company's available-for-sale financial investments consist of symbolic shares of Ereğli Demir ve Çelik A.Ş. in its subsidiaries.

NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 December 2013	31 December 2012	1 January 2012
Short term financial liabilities	115.152.253	252.202.042	217.525.963
Current portion of long term financial	693.652.510	823.406.370	674.961.961
Total short term financial liabilities	808.804.763	1.075.608.412	892.487.924
	810.786.346	1.812.637.910	2.502.138.837
Total long term financial liabilities	810.786.346	1.812.637.910	2.502.138.837
	1.619.591.109	2.888.246.322	3.394.626.761

İSKENDERUN DEMİR VE ÇELİK A.Ş.**NOTES TO THE 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)

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	31 December 2013		31 December 2013
			Short Term Portion	Long Term Portion	
No interest	TRY	-	18.030.823	-	18.030.823
Fixed	TRY	8,57	95.775.784	124.331.309	220.107.093
Fixed	US Dollars	1,96	22.987.648	16.812.205	39.799.853
Floating	US Dollars	Libor+2,52	557.865.929	374.902.588	932.768.517
Floating	EURO	Euribor+0,33	100.385.117	259.022.356	359.407.473
Floating	Jap. Yen	JPY Libor+0,22	13.759.462	35.717.888	49.477.350
			<u>808.804.763</u>	<u>810.786.346</u>	<u>1.619.591.109</u>

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	31 December 2012		31 December 2012
			Short Term Portion	Long Term Portion	
Fixed	US Dollars	2,57	360.714.690	19.446.545	380.161.235
Floating	US Dollars	Libor+2,39	345.885.605	775.551.098	1.121.436.703
Fixed	TRY	9,41	269.311.833	682.341.270	951.653.103
Floating	EURO	Euribor+0,35	78.816.571	284.720.125	363.536.696
Floating	Jap. Yen	JPY Libor+0,22	12.653.668	50.578.872	63.232.540
No interest	TRY		8.226.045	-	8.226.045
			<u>1.075.608.412</u>	<u>1.812.637.910</u>	<u>2.888.246.322</u>

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

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

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	31 January 2012		31 January 2012
			Short Term Portion	Long Term Portion	
Fixed rate	US Dollars	1,79	348.492.738	25.757.727	374.250.465
Floating	US Dollars	Libor+2,33	336.991.653	1.096.094.306	1.433.085.959
Fixed rate	TRY	10,6	109.383.453	927.777.778	1.037.161.231
Floating	EURO	Euribor+0,34	82.550.970	377.254.154	459.805.124
Floating	Jap. Yen	JPY Libor+0,22	15.069.110	75.254.872	90.323.982
			<u>892.487.924</u>	<u>2.502.138.837</u>	<u>3.394.626.761</u>

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE 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)

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	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
		<u>358.610.480</u>	<u>408.634.082</u>	<u>767.244.562</u>

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

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

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NOTES TO THE 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)

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	3,29	12.068.556	30.168.228	42.236.784
US Dollars (*)	7,22	16.275.452	72.343.463	88.618.915
US Dollars	4,15	32.257.320	112.667.298	144.924.618
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
EURO (**)	10,65	30.276.793	121.035.489	151.312.282
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
		<u>253.901.391</u>	<u>773.427.362</u>	<u>1.027.328.753</u>

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

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

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NOTES TO THE 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)

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

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	1 January 2012
US Dollars	3,29	12.847.838	44.945.655	57.793.493
US Dollars (*)	7,22	18.777.561	101.800.109	120.577.670
US Dollars	3,28	27.091.672	13.473.527	40.565.199
US Dollars	1,09	25.663.313	64.012.278	89.675.591
US Dollars	4,47	86.320.936	386.365.909	472.686.845
US Dollars	4,46	6.602.483	65.252.909	71.855.392
EURO (**)	10,65	31.695.819	157.669.001	189.364.820
EURO	2,18	5.911.534	17.725.829	23.637.363
EURO	1,82	1.496.538	739.797	2.236.335
EURO	1,75	2.776.405	2.772.153	5.548.558
EURO	1,79	1.209.043	2.999.046	4.208.089
		<u>220.393.142</u>	<u>857.756.213</u>	<u>1.078.149.355</u>

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

	31 December 2013	31 December 2012	1 January 2012
Within 1 year	808.804.763	1.075.608.412	892.487.924
Between 1-2 years	336.849.374	593.667.693	639.070.756
Between 2-3 years	275.196.930	548.152.128	596.019.087
Between 3-4 years	170.140.644	460.810.410	566.667.468
Between 4-5 years	28.599.398	185.893.655	477.472.347
Five years or more	-	24.114.024	222.909.179
	<u>1.619.591.109</u>	<u>2.888.246.322</u>	<u>3.394.626.761</u>

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 7 - OTHER FINANCIAL LIABILITIES

	31 December 2013	31 December 2012	1 January 2012
<u>Other current financial liabilities</u>			
Derivative financial liabilities at fair value through other comprehensive income statement (*)	-	110.011	-
	-	110.011	-
<u>Other non-current financial liabilities</u>			
Derivative financial liabilities at fair value through other comprehensive income statement (*)	11.371.441	13.117.383	8.004.063
	11.371.441	13.117.383	8.004.063

(*) As explained in Note 29 (e) and Note 29 (f), 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 trade receivables are as follows:

	31 December 2013	31 December 2012	1 January 2012
<u>Short term trade receivables</u>			
Trade receivables	538.027.528	209.408.444	233.409.301
Due from related parties (Note 28)	5.380.282	3.088.035	2.174.170
Discount on receivables (-)	(2.799.183)	-	-
Provision for doubtful trade receivables (-)	(188.818)	(35.338)	(30.997)
	540.419.809	212.461.141	235.552.474

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

	1 January – 31 December 2013	1 January – 31 December 2012
Opening balance	35.338	30.997
Provision for the period	250.373	4.341
Provision released (-)	(116.399)	-
Translation loss/(gain)	19.506	-
Closing balance	188.818	35.338

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

As the Company 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 Company does not provide for any further provision beyond the doubtful receivables provisions that the Company has already provided for in the 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 Company are disclosed in Note 29.

The Company 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 Company’s trade payables are as follows:

	31 December 2013	31 December 2012	1 January 2012
<u>Short term trade payables</u>			
Trade payables	183.794.029	200.633.196	197.455.283
Due to related parties (Note 28)	23.901.554	23.912.687	297.397.626
Discount on trade payables (-)	(703.277)	(145.268)	(286.943)
	<u>206.992.306</u>	<u>224.400.615</u>	<u>494.565.966</u>

Other current receivables

	31 December 2013	31 December 2012	1 January 2012
Due from related parties (Note 28)	-	159.960.118	25.241
Receivables from water system construction	3.890.203	-	-
Deposits and guarantees given	136.401	83.874	47.777
	<u>4.026.604</u>	<u>160.043.992</u>	<u>73.018</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 9 – OTHER RECEIVABLES AND PAYABLES (cont'd)

Other non-current receivables

	31 December 2013	31 December 2012	1 January 2012
Receivables from Privatization Authority	55.958.172	54.061.043	52.458.346
Receivables from water system construction	21.958.283	42.986.757	42.986.757
Provision for other doubtful receivables (-)	(55.958.172)	(54.061.043)	(52.458.346)
	<u>21.958.283</u>	<u>42.986.757</u>	<u>42.986.757</u>

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

	1 Ocak- 31 December 2013	1 Ocak- 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	<u>55.958.172</u>	<u>54.061.043</u>

Other current payables

	31 December 2013	31 December 2012	1 January 2012
Taxes payable	477.868	1.901.434	473.941
Deposits and guarantees received	2.041.457	1.505.436	3.325.829
Due to related parties (Note 28)	446.200.411	305.566.485	20.745.849
	<u>448.719.736</u>	<u>308.973.355</u>	<u>24.545.619</u>

NOTE 10 – INVENTORIES

	31 December 2013	31 December 2012	1 January 2012
Raw materials	400.411.410	422.716.847	579.317.863
Work in progress	311.483.257	226.658.407	212.223.706
Finished goods	312.909.530	260.458.194	327.580.615
Spare parts	156.821.090	99.707.029	93.663.173
Goods in transit	314.632.731	222.941.992	309.005.030
Other inventories	81.914.517	107.888.485	111.420.475
Allowance for impairment on inventories (-)	(12.145.071)	(4.365.821)	(2.063.510)
	<u>1.566.027.464</u>	<u>1.336.005.133</u>	<u>1.631.147.352</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOT 10 – INVENTORIES (cont’d)

The movement of the allowance for impairment on inventories:

	1 January – 31 December 2013	1 January – 31 December 2012
Opening balance	4.365.821	2.063.510
Provision for the period (Note 21)	8.161.532	2.302.311
Provision released (-) (Note 21)	(1.521.359)	-
Translation difference	1.139.077	-
Closing balance	12.145.071	4.365.821

The Company has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials in the cases when their net realizable values are lower than their costs or when they are classified as slow moving inventories. The provision released has been recognized under cost of sales (Note 21).

NOTE 11 – PREPAID EXPENSES

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

Prepaid Expenses -Short Term

	31 December 2013	31 December 2012	1 January 2012
Insurance expenses	2.205.778	959.348	5.373.148
Order advances given	2.596.956	5.606.868	9.531.394
Prepaid utility allowance to employees	1.626.757	1.702.240	1.846.012
Other prepaid expenses	2.051.999	2.967.607	6.294.193
	8.481.490	11.236.063	23.044.747

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

Prepaid Expenses -Long Term

	31 December 2013	31 December 2012	1 January 2012
Order advances given	15.894.336	6.506.408	18.757.172
	15.894.336	6.506.408	18.757.172

İSKENDERUN DEMİR VE ÇELİK A.Ş.**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Opening balance as of									
1 January 2013	41.257.330	1.143.673.085	1.350.371.499	4.711.432.187	435.548.933	194.315.516	7.333.869	229.385.545	8.113.317.964
Translation difference	4.490.549	126.491.094	148.016.196	519.339.839	47.557.827	21.403.769	1.227.503	21.637.568	890.164.345
Additions (*)	-	89.322	20.971	18.546.579	521.432	1.386.576	732.857	60.972.335	82.270.072
Transfers from CIP (**)	-	16.391.081	8.489.485	45.269.894	1.187.575	787.386	17.206	(73.466.181)	(1.323.554)
Disposals	-	-	-	(27.361.539)	(1.454.992)	(120.233)	(91.949)	-	(29.028.713)
Closing balance as of	45.747.879	1.286.644.582	1.506.898.151	5.267.226.960	483.360.775	217.773.014	9.219.486	238.529.267	9.055.400.114
31 December 2013									
<u>Accumulated Depreciation</u>									
Opening balance as of									
1 January 2013	-	(791.007.555)	(776.869.756)	(2.133.349.209)	(158.863.088)	(56.827.808)	(5.948.888)	-	(3.922.866.304)
Translation difference	-	(88.829.259)	(87.763.269)	(244.409.401)	(19.005.364)	(7.205.002)	(1.584.059)	-	(448.796.354)
Charge for the period	-	(22.419.456)	(26.269.624)	(110.092.793)	(14.516.134)	(8.446.586)	(303.411)	-	(182.048.004)
Disposals	-	-	-	27.312.522	1.453.922	112.157	91.949	-	28.970.550
Closing balance as of	-	(902.256.270)	(890.902.649)	(2.460.538.881)	(190.930.664)	(72.367.239)	(7.744.409)	-	(4.524.740.112)
31 December 2013									
Net book value as of	41.257.330	352.665.530	573.501.743	2.578.082.978	276.685.845	137.487.708	1.384.981	229.385.545	4.190.451.660
31 December 2012									
Net book value as of	45.747.879	384.388.312	615.995.502	2.806.688.079	292.430.111	145.405.775	1.475.077	238.529.267	4.530.660.002
31 December 2013									

(*) 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 1.323.554 is transferred to intangible assets (Note 13).

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

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

Cost	Land	Land improvements	Land	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Opening balance as of 1 January 2012	41.257.330	1.126.671.876	1.338.996.082	4.604.003.932	432.928.015	192.898.843	6.804.813	202.406.877	7.945.967.768	
Additions	-	169.652	3.676	24.639.623	157.135	1.543.394	560.429	150.755.253	177.829.162	
Disposals	-	(5.782.840)	-	(1.784.806)	(1.665.277)	(350.915)	(31.373)	-	(9.615.211)	
Transfers from CIP (*)	-	22.614.397	11.371.741	84.573.438	4.129.060	224.194	-	(123.776.385)	(863.755)	
Closing balance as of 31 December 2012	41.257.330	1.143.673.085	1.350.371.499	4.711.432.187	435.548.933	194.315.516	7.333.869	229.385.545	8.113.317.964	
<u>Accumulated Depreciation</u>										
Opening balance as of 1 January 2012	-	(775.237.662)	(750.754.664)	(2.025.744.835)	(144.321.382)	(47.077.082)	(5.716.859)	-	(3.748.852.484)	
Charge for the period	-	(21.552.733)	(26.115.092)	(109.297.612)	(16.206.922)	(10.094.698)	(263.402)	-	(183.530.459)	
Disposals	-	5.782.840	-	1.693.238	1.665.216	343.972	31.373	-	9.516.639	
Closing balance as of 31 December 2012	-	(791.007.555)	(776.869.756)	(2.133.349.209)	(158.863.088)	(56.827.808)	(5.948.888)	-	(3.922.866.304)	
Net book value as of 31 December 2011	41.257.330	351.434.214	588.241.418	2.578.259.097	288.606.633	145.821.761	1.087.954	202.406.877	4.197.115.284	
Net book value as of 31 December 2012	41.257.330	352.665.530	573.501.743	2.578.082.978	276.685.845	137.487.708	1.384.981	229.385.545	4.190.451.660	

(*) TRY 863.755 is transferred to intangible assets (Note 13).

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

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

	<u>31 December 2013</u>	<u>31 December 2012</u>
Associated with cost of production	174.489.328	175.655.667
General administrative expenses	1.476.795	1.414.347
Marketing, sales and distribution expenses	6.081.881	6.460.445
	<u>182.048.004</u>	<u>183.530.459</u>

NOTE 13 – INTANGIBLE ASSETS

	<u>Rights</u>	<u>Total</u>
<u>Cost</u>		
Opening balance as of 1 January 2013	127.497.988	127.497.988
Translation difference	14.316.693	14.316.693
Additions	2.278.386	2.278.386
Transfers from CIP	1.323.554	1.323.554
Closing balance as of 31 December 2013	<u>145.416.621</u>	<u>145.416.621</u>
<u>Accumulated amortization</u>		
Opening balance as of 1 January 2013	(29.121.026)	(29.121.026)
Translation difference	(4.149.807)	(4.149.807)
Charge for the period	(8.033.354)	(8.033.354)
Closing balance as of 31 December 2013	<u>(41.304.187)</u>	<u>(41.304.187)</u>
Net book value as of 31 December 2012	<u>98.376.962</u>	<u>98.376.962</u>
Net book value as of 31 December 2013	<u>104.112.434</u>	<u>104.112.434</u>

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 13 – INTANGIBLE ASSETS (cont’d)

	<u>Rights</u>	<u>Total</u>
<u>Cost</u>		
Opening balance as of 1 January 2012	122.444.817	122.444.817
Additions	4.189.416	4.189.416
Transfers from CIP	863.755	863.755
Closing balance as of 31 December 2012	<u>127.497.988</u>	<u>127.497.988</u>
<u>Accumulated amortization</u>		
Opening balance as of 1 January 2012	(18.535.252)	(18.535.252)
Charge for the period	(10.585.774)	(10.585.774)
Closing balance as of 31 December 2012	<u>(29.121.026)</u>	<u>(29.121.026)</u>
Net book value as of 31 December 2011	<u>103.909.565</u>	<u>103.909.565</u>
Net book value as of 31 December 2012	<u>98.376.962</u>	<u>98.376.962</u>

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

	<u>31 December 2013</u>	<u>31 December 2012</u>
Associated with cost of production	8.033.354	10.585.774
	<u>8.033.354</u>	<u>10.585.774</u>

NOTE 14 – GOVERNMENT GRANTS AND INCENTIVES

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

	<u>1 January- 31 December 2013</u>	<u>1 January- 31 December 2012</u>
Research and development grants	130.547	400.014
	<u>130.547</u>	<u>400.014</u>

There is an investment incentive right of the Company 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).

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 15 – EMPLOYEE BENEFITS

Provision of the employee benefits of the Company is as follows:

Provisions for employee benefits

	31 December 2013	31 December 2012	1 January 2012
Due to personnel	16.332.597	18.417.002	18.089.185
Social security premiums payable	8.627.349	8.543.511	15.622.060
Employee's income tax payables	6.901.612	6.240.228	5.596.586
	<u>31.861.558</u>	<u>33.200.741</u>	<u>39.307.831</u>

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

	31 December 2013	31 December 2012	1 January 2012
Provisions for employee termination benefits	140.963.309	125.526.033	90.804.389
Provisions for seniority incentive premium	7.472.183	7.780.755	9.505.710
Provision for unpaid vacations	18.143.463	14.442.062	12.817.296
	<u>166.578.955</u>	<u>147.748.850</u>	<u>113.127.395</u>

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

As of 31 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.

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 Company arising from the retirement of employees. TAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Company'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	reel %1.5	reel %1.5
Maximum liability increase	%6.3	%4.3

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 15 – EMPLOYEE BENEFITS (cont'd)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 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	125.526.033	90.804.389
Service cost	11.337.595	12.244.066
Interest cost	9.909.560	8.701.348
Actuarial loss	6.952.072	17.186.737
Termination benefits paid	(14.305.987)	(3.410.507)
Translation difference	1.544.036	-
Closing balance	<u>140.963.309</u>	<u>125.526.033</u>

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

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

	1 January- 31 December 2013	1 January- 31 December 2012
Opening balance	7.780.755	9.505.710
Service cost	876.403	1.015.889
Interest cost	556.101	799.357
Actuarial loss/(gain)	(1.342.369)	599.021
Termination benefits paid	(403.662)	(4.139.222)
Translation difference	4.955	-
Closing balance	<u>7.472.183</u>	<u>7.780.755</u>

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 15 – EMPLOYEE BENEFITS (cont’d)

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

	1 January- 31 December 2013	1 January- 31 December 2012
Opening balance	14.442.062	12.817.296
Provision for the period	23.803.440	11.283.485
Unused vacation paid (-)	(715.106)	(790.588)
Provisions released (-)	(19.253.998)	(8.868.131)
Translation difference	(132.935)	-
Closing balance	<u>18.143.463</u>	<u>14.442.062</u>

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 16 – PROVISIONS

The Company’s short term provisions are as follows:

	31 December 2013	31 December 2012	1 January 2012
Provision for lawsuits	17.689.879	18.122.590	17.638.698
Penalty provision for employment shortage of disabled personnel	3.504.420	2.934.668	2.292.068
	<u>21.194.299</u>	<u>21.057.258</u>	<u>19.930.766</u>

	1 January 2013	Provision for the period	Payments	Provision released (-)	Translation difference	31 December 2013
Provision for lawsuits	18.122.590	4.239.580	(1.141.179)	(3.755.706)	224.594	17.689.879
Penalty provision for employment shortage of disabled	2.934.668	572.488	-	-	(2.736)	3.504.420
	<u>21.057.258</u>	<u>4.812.068</u>	<u>(1.141.179)</u>	<u>(3.755.706)</u>	<u>221.858</u>	<u>21.194.299</u>

	1 January 2012	Provision for the period	Payments	Provision released (-)	Translation	31 December 2012
Provision for lawsuits	17.638.698	8.166.611	(546.528)	(7.136.191)	-	18.122.590
Penalty provision for employment shortage of disabled	2.292.068	642.600	-	-	-	2.934.668
	<u>19.930.766</u>	<u>8.809.211</u>	<u>(546.528)</u>	<u>(7.136.191)</u>	<u>-</u>	<u>21.057.258</u>

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 16 – PROVISIONS (cont'd)

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

	31 December 2013	31 December 2012	1 January 2012
<u>Lawsuits filed by the Group</u>			
TRY	108.145.750	96.812.552	6.994.824
US Dollars	1.541.565	1.287.539	944.450
	<u>109.687.315</u>	<u>98.100.091</u>	<u>7.939.274</u>
<u>Provision for lawsuits filed by the Group</u>			
TRY	188.819	35.338	30.997
	<u>188.819</u>	<u>35.338</u>	<u>30.997</u>

The provisions for the lawsuits filed by the Company represent the doubtful trade receivables.

	31 December 2013	31 December 2012	1 January 2012
<u>Lawsuits filed against the Group</u>			
TRY	7.014.037	6.508.941	8.549.830
US Dollars	2.374.316	1.983.065	2.101.319
	<u>9.388.353</u>	<u>8.492.006</u>	<u>10.651.149</u>
<u>Provision for lawsuits filed against the Group</u>			
TRY	15.230.592	16.139.525	17.549.738
US Dollars	2.459.287	1.983.065	88.960
	<u>17.689.879</u>	<u>18.122.590</u>	<u>17.638.698</u>

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Company are as follows:

	31 December 2013	31 December 2012	1 January 2012
Letters of guarantees received	223.171.247	91.618.100	82.512.631
	<u>223.171.247</u>	<u>91.618.100</u>	<u>82.512.631</u>

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES (cont’d)

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

	31 December 2013	31 December 2012	1 January 2012
A. Total CPM given for the Company's own legal entity	29.447.707	48.124.755	65.692.549
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	-	-	-
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-	-
D. Other CPM given	-	-	-
i. Total CPM given in favour of parent entity	-	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-	-
	<u>29.447.707</u>	<u>48.124.755</u>	<u>65.692.549</u>

As of 31 December 2013, the ratio of the other CPM given by the Company to shareholders equity is 0% (31 December 2012: 0%).

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

	31 December 2013	31 December 2012	1 January 2012
TRY	23.946.650	48.124.755	65.692.549
EURO	5.501.057	-	-
	<u>29.447.707</u>	<u>48.124.755</u>	<u>65.692.549</u>

NOTE 18 – OTHER ASSETS AND LIABILITIES

Other current assets

	31 December 2013	31 December 2012	1 January 2012
Other VAT Receivable	14.669.844	25.213.272	21.257.742
Prepaid taxes and funds	592.210	615.254	559.111
Other current assets	265.751	461.479	511.267
	<u>15.527.805</u>	<u>26.290.005</u>	<u>22.328.120</u>

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 18 – OTHER ASSETS AND LIABILITIES (cont'd)

Other current liabilities

	31 December 2013	31 December 2012	1 January 2012
VAT payable	9.851.898	656.961	9.748.361
Other current liabilities	3.177.720	4.258.894	1.999.395
	<u>13.029.618</u>	<u>4.915.855</u>	<u>11.747.756</u>

NOTE 19 – DEFERRED REVENUE

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

	31 December 2013	31 December 2012	1 January 2012
Advances received	15.398.902	27.450.478	58.981.176
	<u>15.398.902</u>	<u>27.450.478</u>	<u>58.981.176</u>

NOTE 20 – EQUITY

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

Shareholders	31 December		31 December		1 January	
	(%)	2013	(%)	2012	(%)	2012
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	95,07	2.756.977.715	92,91	1.399.197.409	92,91	1.399.197.411
İsdemir Çalışanları Yardım Sandığı Vakfı	4,93	143.022.285	7,01	106.751.785	7,01	106.751.785
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	-	-	<1	402	-	-
Erdemir Mülh. Yön. ve Dan. Hiz. A.Ş.	-	-	<1	201	<1	201
Erdemir Romania S.R.L.	-	-	<1	201	<1	201
Erdemir Madencilik San. ve Tic. A.Ş.	-	-	<1	1	<1	201
Erdemir Çelik Çekme Boru San. ve Tic. A.Ş.	-	-	-	-	<1	201
Oyak Pazarlama Hizmet ve Turizm A.Ş.	-	-	<1	1	-	-
Historical capital		<u>2.900.000.000</u>		<u>1.505.950.000</u>		<u>1.505.950.000</u>
Effect of inflation		<u>163.649</u>		<u>4.264.700.013</u>		<u>4.264.700.013</u>
Restated capital		<u>5.770.650.013</u>		<u>5.770.650.013</u>		<u>5.770.650.013</u>

(*) According to the decision of the Board of Directors dated 9 October 2013 and numbered 282, the registered capital was decreased from TRY 1.505.950.000,00 to TRY 483.126.252,12 with the purpose of offsetting prior year losses of TRY 1.022.823.747,88 in Company's financial tables. All of the operations of the Company held by records based on Tax Procedure Law.

In the Extraordinary General Meeting of the Company, it was decided to increase the capital from TRY 483.126.252,12 to TRY 2.900.000.000,00 (28 November 2013).

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 20 – EQUITY (cont’d)

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. has increased its share capital in İskenderun Demir ve Çelik A.Ş from %92,91 to %95,07 (within the preferential rights).

	31 December 2013	31 December 2012
Other equity items		
Cash flow hedging reserves	(9.205.356)	(30.756.332)
Actuarial (loss)/ gain fund	(33.416.040)	(27.854.382)
Foreign currency translation reserves	349.415.631	-
Restricted reserves assorted from profit	32.196.307	62.250.437
<i>-Legal reserves</i>	32.196.307	62.250.437
Retained Earnings/(Loss)	518.803.481	(3.540.912.639)
	<u>857.794.023</u>	<u>(3.537.272.916)</u>

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.

As of 31 December 2013 and 2012, legal reserve and net profit of the company according to legal financial statements are as follows:

	31 December 2013	31 December 2012
Restricted reserves assorted from profit	32.196.307	62.250.437
<i>-Legal reserves</i>	32.196.307	62.250.437
Net profit	134.337.083	29.646.729

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 21 – SALES AND COST OF SALES

	1 January- 31 December 2013	1 January- 31 December 2012
<u>Sales Revenue</u>		
Domestic sales	4.344.283.923	4.275.356.281
Export sales	663.113.084	878.303.591
Other revenues (*)	197.258.338	247.887.800
Sales returns (-)	(382.473)	(1.684.027)
	<u>5.204.272.872</u>	<u>5.399.863.645</u>
<u>Cost of Sales (-)</u>	<u>(4.244.941.033)</u>	<u>(4.867.574.016)</u>
Gross profit	<u>959.331.839</u>	<u>532.289.629</u>

(*)The total amount of by product exports in other revenues is 113.091.799 TL'dir (31 December 2012: TRY 102.883.196 TL).

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	(3.337.326.147)	(4.003.047.511)
Personnel expenses	(321.726.237)	(344.906.192)
Energy expenses	(180.632.094)	(182.501.672)
Factory overheads	(197.537.491)	(177.729.764)
Inventory write-downs within the period (Note 10)	(51.292.002)	(63.834.438)
Change of finished goods and work in progress inventories	(8.161.532)	(2.302.311)
Reversal of inventory write-downs (Note 10)	1.521.359	-
Other cost of goods sold	(74.357.050)	(88.061.501)
Non-operating expenses (*)	(52.696.405)	-
Other	(22.733.434)	(5.190.627)
	<u>(4.244.941.033)</u>	<u>(4.867.574.016)</u>

(*) Due to the strike of the Company 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 Financial Statements Originally Issued in Turkish – See Note 32)

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 22 – 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 (-)	(49.174.926)	(52.838.864)
General administrative expenses (-)	(61.076.438)	(55.258.601)
Research and development expenses (-)	(486.236)	(397.580)
	<u>(110.737.600)</u>	<u>(108.495.045)</u>

NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 December 2013 and 1 January – 31 December 2012 is as follows:

	1 January- 31 December 2013	1 January- 31 December 2012
Personnel expense (-)	(19.277.664)	(20.159.300)
Depreciation and amortization(-)	(6.081.881)	(6.460.445)
Other (-)	(23.815.381)	(26.219.119)
	<u>(49.174.926)</u>	<u>(52.838.864)</u>

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 (-)	(42.217.672)	(37.637.577)
Depreciation and amortization (-)	(1.476.795)	(1.414.347)
Other (-)	(17.381.971)	(16.206.677)
	<u>(61.076.438)</u>	<u>(55.258.601)</u>

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

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 24 – OTHER OPERATING INCOME/ (EXPENSE)

	1 January- 31 December 2013	1 January- 31 December 2012
<u>Other operating income</u>		
Foreign exchange gain from trade receivables and payables (net)	18.525.025	-
Interest income from on credit sales	10.982.696	10.616.306
Insurance indemnity income	3.444.451	879.237
Provisions released	3.479.277	7.136.192
Maintenance repair and rent income	4.608.440	4.901.230
Indemnity and penalty detention income	1.269.269	1.440.266
Gain on sale of tangible assets	189.099	261.293
Other income and gains	10.780.676	7.729.931
	<u>53.278.933</u>	<u>32.964.455</u>

(*) Foreign exchange differences occurred in the financial statement due to the fact that the Company is prepared its financial statements in TRY functional currency between the periods 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
<u>Other operating expenses (-)</u>		
Provisions expenses	(143.978)	(10.416.250)
Property tax expenses	(6.958.362)	-
Port facility pre-licence expenses	(8.603.463)	(6.095.572)
Lawsuit compensation expenses	(2.693.933)	(4.483.428)
Penalty expenses	(2.544.200)	(5.611.278)
Loss on disposal of tangible assets	(25.164)	(1.843.761)
Other expenses and losses	(15.707.819)	(6.264.741)
	<u>(36.676.919)</u>	<u>(34.715.030)</u>

NOTE 25– FINANCIAL INCOME

	1 January- 31 December 2013	1 January- 31 December 2012
Interest income on bank deposits	40.635	40.091
Foreign exchange gains (net) (*)	-	135.978.649
		-
Fair value differences of derivative financial instruments (net)	34.822.687	
Discount income (net)	586.104	-
Interest gain from related parties	4.993.686	20.617.494
Other financial income	153	210
	<u>40.443.265</u>	<u>156.636.444</u>

İSKENDERUN DEMİR VE ÇELİK A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 26 – FINANCIAL EXPENSE

	1 January- 31 December 2013	1 January- 31 December 2012
Interest expenses on financial liabilities	(155.971.772)	(196.258.869)
Foreign exchange loss (net) (*)	(172.401.975)	-
Interest cost of employee benefits	(10.465.661)	(9.500.705)
Discount expenses (net)	(17.852.186)	(172.415)
Comission expense	(10.526.753)	(12.599.251)
Interest loss from related parties	(25.788.213)	(41.071.360)
	-	(18.943.963)
Fair value differences of derivative financial instruments (net)		
Other financial expenses	(276.583)	(1.462.185)
	<u>(393.283.143)</u>	<u>(280.008.748)</u>

(*) As of 1 July, translation difference occurrence due to the change in functional currency translation have been accounted under foreign exchange gain/(loss).

NOTE 27 – TAX ASSETS AND LIABILITIES

	1 January- 31 December 2013	1 January- 31 December 2012
<u>Taxation:</u>		
Deferred tax expense	124.211.518	120.617.986
	<u>124.211.518</u>	<u>120.617.986</u>

Corporate Tax

The company is subject to corporation tax applicable in Turkey.

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% for the year ended in 31 December 2013. 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. However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of income withholding tax applied to all companies in the period of 24 April 2003 - 22 July 2006 is 10%.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

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.

Investment allowance application (cont'd)

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%).

Deferred tax

The Company 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%).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

	31 December 2013	31 December 2012	1 January 2012
Deferred tax assets:			
Carry forward tax losses (*)	20.481.934	55.115.668	157.607.423
Provisions for employee benefits	29.687.098	26.661.358	20.062.020
Discount of receivables	3.987.490	-	-
Inventories	-	6.231.718	7.206.126
Provision for unpaid vacations	3.628.693	2.888.412	2.563.459
Investment incentive	44.252.821	40.976.623	9.203.380
Provision for lawsuits	3.537.976	3.624.518	3.527.740
Fair values of the derivative financial instruments	-	1.104.246	-
Provision for other doubtful receivables	11.191.634	10.812.209	10.491.669
Other	2.804.982	1.542.711	1.675.559
	<u>119.572.628</u>	<u>148.957.463</u>	<u>212.337.376</u>
Deferred tax liabilities:			
Tangible and intangible fixed assets	(297.883.756)	(160.267.109)	(102.990.761)
Amortized cost adjustment on loans	(6.212.435)	(9.075.565)	(8.913.028)
Fair values of the derivative financial instruments	(12.152.901)	-	(7.894.275)
Inventories	(14.315.513)	-	-
Other	(140.655)	(29.054)	-
	<u>(330.705.260)</u>	<u>(169.371.728)</u>	<u>(119.798.064)</u>
	<u>(211.132.632)</u>	<u>(20.414.265)</u>	<u>92.539.312</u>

(*)The Company 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.

Deferred tax (cont’d)

Presentation of deferred tax assets/(liabilities):	31 December 2013	31 December 2012	1 January 2012
Deferred tax (liabilities)	(211.132.632)	(20.414.265)	92.539.312
	<u>(211.132.632)</u>	<u>(20.414.265)</u>	<u>92.539.312</u>

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.

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	505.674.839	-	45.566.366	-
3 year	-	678.843.509	-	218.735.036
4 year	56.843.304	-	56.843.304	-
5 years or more	-	56.843.304	-	56.843.304
	<u>562.518.143</u>	<u>735.686.813</u>	<u>102.409.670</u>	<u>275.578.340</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

<u>Deferred tax asset/(liability) movements:</u>	1 January – 31 December 2013	1 January – 31 December 2012
Opening balance	(20.414.265)	92.539.312
Deferred tax expense	(124.211.518)	(120.617.986)
The amount in comprehensive income/(expense)	(3.997.330)	7.664.409
Translation difference	(62.509.519)	-
Closing balance	<u>(211.132.632)</u>	<u>(20.414.265)</u>

<u>Reconciliation of tax provision:</u>	1 January– 31 December 2013	1 January – 31 December 2012
Profit before tax	512.356.375	298.671.705
Statutory tax rates	20%	20%
Calculated tax acc. to effective tax rate	102.471.275	59.734.341
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	4.500.875	1.922.044
- Tax losses written off from deferred tax assets	-	90.734.844
- Effect of currency translation to non taxable assets	20.515.566	-
- Investment incentives	(3.276.198)	(31.773.243)
Tax expense in income statement	<u>124.211.518</u>	<u>120.617.986</u>

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:

<u>Other comprehensive income/(loss) in the current period</u>	1 January – 31 December 2013		
	Amount before tax	Tax income/ (expense)	Amount after tax
Change in actuarial (loss)/gain	(6.952.072)	1.390.414	(5.561.658)
Change in cash flow hedging reserves	26.938.720	(5.387.744)	21.550.976
Change in foreign currency translation reserves	349.415.631	-	349.415.631
	<u>369.402.279</u>	<u>(3.997.330)</u>	<u>365.404.949</u>

<u>Other comprehensive income/(loss) in the current period</u>	1 January – 31 December 2012		
	Amount before tax	Tax income/ (expense)	Amount after tax
Change in actuarial (loss)/gain	(17.186.737)	3.437.346	(13.749.391)
Change in cash flow hedging reserves	(21.135.316)	4.227.063	(16.908.253)
Change in foreign currency translation reserves	-	-	-
	<u>(38.322.053)</u>	<u>7.664.409</u>	<u>(30.657.644)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 28 –RELATED PARTY DISCLOSURES

The immediate parent and ultimate controlling parties of the Company are Ereğli Demir ve Çelik Fabrikaları T.A.Ş., Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1).

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

	31 December 2013	31 December 2012	1 January 2012
<u>Due from related parties (short term)</u>			
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	45.037	26.041	37.286
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	4.727.327	2.898.838	1.467.450
Omsan Denizcilik A.Ş. ⁽³⁾	7.250	304	544.448
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	334.419	-	-
Other	266.249	162.852	124.986
	<u>5.380.282</u>	<u>3.088.035</u>	<u>2.174.170</u>

- (1) Immediate parent company
(2) Subsidiaries of the immediate parent company
(3) Subsidiaries of the ultimate company

	31 December 2013	31 December 2012	1 January 2012
<u>Trade payables due to related parties (short term)</u>			
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	14.853.079	18.887.072	290.018.018
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	1.316.927	-	3.591.017
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	900.056	61.267	227.330
Omsan Lojistik A.Ş. ⁽³⁾	1.076.293	1.964.202	1.279.357
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	-	722.619	742.116
Omsan Denizcilik A.Ş. ⁽³⁾	1.011.649	1.223.157	1.412.630
OYAK Yatırım Menkul Değerler A.Ş. ⁽³⁾	2.140.703	-	-
OYAK Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	1.326.001	-	-
Other	1.276.846	1.054.370	127.158
	<u>23.901.554</u>	<u>23.912.687</u>	<u>297.397.626</u>

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

	31 December 2013	31 December 2012	1 January 2012
<u>Non trade payables due to related parties (short term)</u>			
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	-	159.960.118	-
Other	-	-	25.241
	<u>-</u>	<u>159.960.118</u>	<u>25.241</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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NOTE 28 –RELATED PARTY DISCLOSURES (cont’d)

	31 December 2013	31 December 2012	1 January 2012
<u>Other trade payables due to related parties (short term)</u>			
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	64.630.085	-	20.745.849
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	381.567.591	305.296.708	-
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	2.735	269.777	-
	<u>446.200.411</u>	<u>305.566.485</u>	<u>20.745.849</u>

Other receivables and payables from related parties are consist of cash receivables and payables.

- (1) Immediate parent company
(2) Subsidiaries of the immediate parent company
(3) Subsidiaries of the ultimate company

NOTE 28 –RELATED PARTY DISCLOSURES (cont’d)

	1 January – 31 December 2013	1 January – 31 December 2012
<u>Major sales to related parties</u>		
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	695.026.183	931.871.505
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	49.732.827	92.554
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	15.569.447	9.088.149
Aslan Çimento A.Ş. ⁽³⁾	1.744.342	1.702.283
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	270.542	421.687
Oytaş İç ve Dış Ticaret A.Ş. ⁽³⁾	68.263	135.996
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	46.307	87.834
Other	1.455.067	3.149.803
	<u>763.912.978</u>	<u>946.549.811</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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NOTE 28 –RELATED PARTY DISCLOSURES (cont’d)

	1 January – 31 December 2013	1 January – 31 December 2012
<u>Major purchases from related parties</u>		
Erdemir Madencilik San. ve Tic. A.Ş. ⁽²⁾	345.178.175	393.010.064
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ⁽¹⁾	94.240.715	109.566.887
Omsan Denizcilik A.Ş. ⁽³⁾	22.809.101	19.494.275
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	11.919.775	101.869
Omsan Lojistik A.Ş. ⁽³⁾	10.811.004	16.023.734
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. ⁽²⁾	8.992.834	26.078.328
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	8.308.345	7.978.324
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. ⁽²⁾	3.250.018	3.329.111
OYAK Yatırım Menkul Değerler A.Ş. ⁽³⁾	1.814.255	-
Oyak Beton A.Ş. ⁽³⁾	-	55.226
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. ⁽³⁾	1.380.731	1.484.364
Other	1.120.131	1.421.056
	<u>509.825.084</u>	<u>578.543.238</u>

(1) Immediate parent company

(2) Subsidiaries of the immediate parent company

(3) Subsidiaries of the ultimate company

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

The period end balances are non-secured, interest free and their collections will be done in cash. As of 31 December 2013, the Company provides no provision for the receivables from related parties (31 December 2012: none).

Salaries, bonuses and other benefits of the key management

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 Company is TRY 3.157.711 (31 December 2012: TRY 3.198.750).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

Additional information about financial instruments

(a) Capital risk management

The Company 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 Company, 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 Company 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 Company’s Board of Directors analyzes 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 Company, 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	1.619.591.109	2.888.246.322
Less: Cash and cash equivalents	4	12.243.176	7.127.891
Net debt		1.607.347.933	2.881.118.431
Total adjusted equity (*)		4.188.723.925	2.470.041.530
Total resources		5.796.071.858	5.351.159.961
Net debt/Total adjusted equity ratio		38%	117%
Distribution of net debt/ total adjusted equity		28/72	54/46

(*) 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 Company’s accounting policies related to the financial instruments are disclosed in Note 2 “Summary of Significant Accounting Policies, 2.7.7 Financial Instruments”.

(c) Market risk

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

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

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

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

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

(d) 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 Company 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 Company does not have a significant credit risk arising from any customer.

Credit risk of financial instruments

	Receivables					
	Trade receivables			Other receivables		
	Related Party	Third Party	Related Party	Third Party	Bank Deposits	Derivative financial instruments
31 December 2013						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	5.380.282	535.039.527	-	25.984.887	12.243.176	72.621.682
- Secured part of the maximum credit risk exposure via collateral etc.	-	535.039.527	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	5.380.282	535.039.527	-	25.984.887	12.243.176	72.621.682
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	-	-	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	188.818	-	55.958.172	-	-
- Impairment (-)	-	(188.818)	-	(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 Financial Statements Originally Issued in Turkish – See Note 32)

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

Additional information about financial instruments (cont'd)

(d) Credit risk management (cont'd)

Credit risk of financial instruments

	Receivables					
	Trade receivables			Other receivables		
	Related Party	Third Party	Third Party	Related Party	Third Party	Third Party
31 December 2012						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	3.088.035	209.373.106	159.960.118	43.070.631	7.127.891	9.579.245
- Secured part of the maximum credit risk exposure via collateral etc.	-	209.373.106	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	3.088.035	209.373.106	159.960.118	43.070.631	7.127.891	9.579.245
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	-	-	-	-	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	35.338	-	54.061.043	-	-
- Impairment (-)	-	(35.338)	-	(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.

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

As of 31 December 2013, stated in Note 2.7.7 the foreign currency position of the Company 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	32.340.976	17.476.576	-	5.061.944	-	-
2a. Monetary financial assets	10.642.275	10.344.650	-	99.233	-	1.774
2b. Non- monetary financial assets	-	-	-	-	-	-
3. Other	27.986.344	26.940.906	-	356.015	-	-
4. Current assets (1+2+3)	70.969.595	54.762.132	-	5.517.192	-	1.774
5. Trade receivables	-	-	-	-	-	-
6a. Monetary financial assets	47.919.585	-	-	16.318.605	-	-
6b. Non- monetary financial assets	-	-	-	-	-	-
7. Other	35.063.111	26.021.301	-	3.055.482	-	19.761
8. Non-current assets (5+6+7)	82.982.696	26.021.301	-	19.374.087	-	19.761
9. Total assets (4+8)	153.952.291	80.783.433	-	24.891.279	-	21.535
10. Trade payables	96.995.892	89.118.263	-	2.565.638	16.985.508	-
11. Financial liabilities	233.610.120	119.465.542	-	34.185.294	680.117.691	-
12a. Other monetary financial liabilities	505.814.989	501.883.601	-	1.338.800	-	-
12b. Other non-monetary financial liabilities	10.118.518	10.118.518	-	-	-	-
13. Current liabilities (10+11+12)	846.539.519	720.585.924	-	38.089.732	697.103.199	-
14. Trade payables	-	-	-	-	-	-
15. Financial liabilities	386.299.637	91.559.391	-	88.207.852	1.765.502.891	-
16a. Other monetary financial liabilities	170.312.062	166.578.955	-	1.271.278	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-	-
17. Non-current liabilities (14+15+16)	556.611.699	258.138.346	-	89.479.130	1.765.502.891	-
18. Total liabilities (13+17)	1.403.151.218	978.724.270	-	127.568.862	2.462.606.090	-
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	217.341.425	53.917.859	-	55.652.500	-	-
19a. Of-balance sheet foreign currency derivative financial assets	333.236.865	169.813.299	-	55.652.500	-	-
19b. Of-balance sheet foreign currency derivative financial liabilities	115.895.440	115.895.440	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.031.857.502)	(844.022.978)	-	(47.025.083)	(2.462.606.090)	21.535
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.302.129.864)	(940.784.526)	-	(106.089.080)	(2.462.606.090)	1.774
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	776.204.883	-	408.056.400	-	-	-
26. Imports	2.554.083.733	-	1.342.699.891	-	-	-

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

As of 31 December 2012, the foreign currency position of the Company 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	207.594.238	102.860.903	10.305.053	-	-
2a. Monetary financial assets	5.651.435	3.033.314	95.716	29.086	6.463
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	6.532.080	3.018.980	489.198	-	-
4. Current assets (1+2+3)	219.777.753	108.913.196	10.889.967	29.086	6.463
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non- monetary financial assets	-	-	-	-	-
7. Other	-	-	-	-	-
8. Non-current assets (5+6+7)	-	-	-	-	-
9. Total assets (4+8)	219.777.753	108.913.196	10.889.967	29.086	6.463
10. Trade payables	155.879.681	85.506.805	1.469.257	-	-
11. Financial liabilities	798.070.533	396.387.465	33.514.721	612.590.415	-
12a. Other monetary financial liabilities	12.832.899	7.198.978	-	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	966.783.113	489.093.248	34.983.978	612.590.415	-
14. Trade payables	-	-	-	-	-
15. Financial liabilities	1.130.296.641	445.976.464	121.069.918	2.448.628.573	-
16a. Other monetary financial liabilities	-	-	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	1.130.296.641	445.976.464	121.069.918	2.448.628.573	-
18. Total liabilities (13+17)	2.097.079.754	935.069.712	156.053.896	3.061.218.988	-
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)	(1.625.733.374)	(776.806.607)	(75.598.304)	(3.061.189.902)	6.463
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(1.883.834.081)	(829.175.495)	(145.653.127)	(3.061.189.902)	6.463
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	981.186.786	550.424.541	-	-	-
26. Imports	3.000.770.083	1.683.367.039	-	-	-

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

Additional information about financial instruments (cont'd)

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

The following table shows the Company'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)

31 December 2013	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
1- TRY net asset/liability	(89.794.084)	89.794.084
2- Hedged portion from TRY risk (-)	16.981.330	(16.981.330)
3- Effect of capitalization (-)	-	-
4- TRY net effect (1+2+3)	(72.812.754)	72.812.754
5- US Dollars net asset/liability	-	-
6- Hedged portion from US Dollars risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- US Dollars net effect (5+6+7)	-	-
9- Euro net asset/liability	(30.151.272)	30.151.272
10- Hedged portion from Euro risk (-)	16.342.357	(16.342.357)
11- Effect of capitalization (-)	-	-
12- Euro net effect (9+10+11)	(13.808.915)	13.808.915
13- Jap. Yen net asset/liability	(4.982.098)	4.982.098
14- Hedged portion from Jap. Yen risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Jap. Yen net effect (13+14+15)	(4.982.098)	4.982.098
17- Other currencies net asset/liability	7.562	(7.562)
18- Hedged portion from other currency risk (-)	-	-
19- Effect of capitalization (-)	-	-
20- Other currencies net effect (17+18+19)	7.562	(7.562)
TOTAL (4+8+12+16+20)	(91.596.205)	91.596.205

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

Additional information about financial instruments (cont'd)

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

31 December 2012	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
1- US Dollars net asset/liability	(147.270.660)	147.270.660
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)	(138.473.545)	138.473.545
5- EURO net asset/liability	(34.138.201)	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)	(17.709.605)	19.686.941
9- Jap. Yen net asset/liability	(6.323.194)	12.305.021
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	-	-
12- Jap. Yen net effect (9+10+11)	(6.323.194)	12.305.021
13- Other currencies net asset/liability	-	-
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	-	-
TOTAL (4+8+12+16)	(162.506.344)	170.465.507

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

Additional information about financial instruments (cont'd)

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

Cross currency and interest rate swap agreements:

	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
31 December 2013						
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	-	115.895.440	55.652.500	115.895.440	70.513.832	45.381.608
Between 1-5 years						
						65.196.761

	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
31 December 2012						
Cross currency and interest rate swap agreements: TRY sale/ US Dollars purchase	1,4568	71.890.479	49.349.908	71.890.479	65.701.247	6.189.232
TRY sale/ EURO purchase	2,0825	144.869.300	69.565.625	144.869.300	141.479.287	3.390.013
More than 5 years	-					
						9.579.245

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

Additional information about financial instruments (cont’d)

(f) Interest rate risk management

The majority of the Company’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 Company uses interest rate swaps and changes floating rates to fixed rates.

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

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Company 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 Company’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 Company loans is measured using a sensitivity analysis instead of a Value at Risk calculation.

Interest position table

	<u>31 December 2013</u>	<u>31 December 2012</u>
Floating interest rate financial instruments		
Financial liabilities	574.408.778	520.877.186

In addition to these, as of 31 December 2013, the amount of the Company’s financial loans is TRY 767.244.562 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2012: TRY 1.027.328.753) (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 2.756.873 (31 December 2012: TRY 2.370.605).

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NOT 29 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

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

Interest rate swap agreements

The Company 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 Company is exposed to due to borrowings with floating interest rates.

As of the balance sheet date, the Company’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	1,44%	366.427.642	(3.946.520)
		<u>366.427.642</u>	<u>(3.946.520)</u>

31 December 2012

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Less than 1 year	1,73%	16.141.148	(110.011)
Between 1-5 years	1,33%	695.018.221	(10.629.163)
More than 5 years	1,68%	86.587.562	(2.488.220)
		<u>797.746.931</u>	<u>(13.227.394)</u>

(*) In order to hedge against the interest rate risk of the borrowings with floating rates, the Company 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 366.427.642 (31 December 2012: TRY 797.746.931) 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 (2.933.370) (31 December 2012: TRY (9.831.658)).

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

Additional information about financial instruments (cont'd)

(f) 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			
		<u>169.813.299</u>	<u>65.196.761</u>

31 December 2012

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

(*) In order to hedge against the interest and foreign exchange rate risk of the Euro and US Dollars borrowings, the Company 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)).

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company 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 Company 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 Company's expected maturity for its derivative and non-derivative financial liabilities. Interests which will be paid on borrowings in the future are included in the relevant columns in the following table.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

Additional information about financial instruments (cont'd)

(g) Liquidity risk management (cont'd)

31 December 2013

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow per agreement (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non derivative financial liabilities						
Borrowings from banks	1.619.591.109	1.934.994.308	322.848.927	663.115.645	887.978.533	61.051.203
Trade payables	206.992.306	207.695.583	207.695.583	-	-	-
Other financial liabilities (*)	479.250.469	479.250.469	479.250.469	-	-	-
Total liabilities	2.305.833.884	2.621.940.360	1.009.794.979	663.115.645	887.978.533	61.051.203
Derivative financial liabilities						
Derivative cash inflows	72.621.682	271.239.900	192.367	80.917.066	190.130.467	-
Derivative cash outflows	(11.371.441)	(242.357.573)	(200.756)	(78.079.766)	(164.077.051)	-
	61.250.241	28.882.327	(8.389)	2.837.300	26.053.416	-

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

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

Additional information about financial instruments (cont'd)

(g) Liquidity risk management (cont'd)

31 December 2012

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow per agreement (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non derivative financial liabilities						
Borrowings from banks	2.888.246.322	3.135.609.948	190.245.918	930.388.793	1.990.881.842	24.093.395
Trade payables	224.400.615	224.545.883	224.545.883	-	-	-
Other financial liabilities (*)	357.198.286	357.198.286	357.198.286	-	-	-
Total liabilities	3.469.845.223	3.717.354.117	771.990.087	930.388.793	1.990.881.842	24.093.395
Derivative financial liabilities						
Derivative cash inflows	9.579.245	325.114.313	391.703	82.374.277	242.348.333	-
Derivative cash outflows	(13.227.394)	(337.418.001)	(488.044)	(88.511.635)	(248.418.322)	-
	(3.648.149)	(12.303.688)	(96.341)	(6.137.358)	(6.069.989)	-

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

Additional information about financial instruments

Categories of the financial instruments and their fair values

	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Carrying value	Note
31 December 2013							
Financial Assets							
Cash and cash equivalents	12.243.176	-	-	-	-	12.243.176	4
Trade receivables	-	540.419.809	-	-	-	540.419.809	8
Financial investments	-	-	-	-	-	-	
Other financial assets	-	25.984.887	-	-	-	25.984.887	9
Derivative financial instruments	-	-	-	-	72.621.682	72.621.682	5
Financial Liabilities							
Financial liabilities	-	-	-	1.619.591.109	-	1.619.591.109	6
Trade payables	-	-	-	206.992.306	-	206.992.306	8
Other liabilities	-	-	-	479.250.469	-	479.250.469	6/9/16
Derivative financial instruments	-	-	-	-	11.371.441	11.371.441	7
31 December 2012							
Financial varlıklar							
Cash and cash equivalents	7.127.891	-	-	-	-	7.127.891	4
Trade receivables	-	212.461.141	-	-	-	212.461.141	8
Financial investments	-	-	692	-	-	692	
Other financial assets	-	117.057.235	-	-	-	117.057.235	9
Derivative financial instruments	-	-	-	-	9.579.245	9.579.245	5
Financial Liabilities							
Financial liabilities	-	-	-	2.888.246.322	-	2.888.246.322	6
Trade payables	-	-	-	224.400.615	-	224.400.615	8
Other liabilities	-	-	-	357.198.286	-	357.198.286	6/9/16
Derivative financial instruments	-	-	-	-	13.227.394	13.227.394	7

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

Additional information about financial instruments (cont'd)

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

<u>Financial asset and liabilities at fair value</u>	31 December 2013	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	72.621.682	-	72.621.682	-
Derivative financial liabilities	(11.371.441)	-	(11.371.441)	-
Total	61.250.241	-	61.250.241	-

<u>Financial asset and liabilities at fair value</u>	31 December 2012	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	9.579.245	-	9.579.245	-
Derivative financial liabilities	(13.227.394)	-	(13.227.394)	-
Total	(3.648.149)	-	(3.648.149)	-

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.

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NOTE 31 – 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.

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

Changes in working capital are as follows:

	<u>1 January- 31 December 2013</u>	<u>1 January- 31 December 2012</u>
Current trade receivables	(328.112.148)	23.086.992
Inventories	(252.816.390)	292.808.997
Other short term receivables / current assets	169.534.161	(151.161.381)
Long term receivables	-	3.827.792
Other long term receivables / non current assets	(53.479.988)	48.222.129
Current trade payables	(17.408.309)	(270.165.351)
Other short term payables / liabilities	196.120.781	199.025.975
Other long term payables / liabilities	(1.745.942)	5.113.320
	<u>(287.907.835)</u>	<u>150.758.473</u>

Changes in working capital occur 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 Company management's preliminary assessment, the amendment is effective for annual periods beginning on or after 1 January 2013, the Company 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 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 Company could not assess the classification of cumulative actuarial gain/ loss balance for the periods before 1 January 2007.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

NOTE 32 – OTHER ISSUES AFFECTING THE FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION (cont'd)

The details and the amounts of the adjustments and reclassifications made of the balance sheet are as follows (cont'd):

In accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”), 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 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:

- 1) Prepaid expenses and advance given which was reported in “Other Current Assets” in 31 December 2011 and 31 December 2012 is reclassified to “Prepaid Expenses”.
- 2) Prepaid expenses and advances given for fixed assets which was reported in “Other Non-Current Assets” in 31 December 2011 and 31 December 2012 is reclassified to “Prepaid Expenses”.
- 3) Short term portion of long term financial liabilities which was reported in “Short Term Financial Liabilities” in 31 December 2011 and 31 December 2012 is reclassified to “Short Term Portion of Long Term Financial Liabilities”.
- 4) Due to personnel which was reported in “Other Current Liabilities” and social security premiums payable and income and stamp tax due to personnel which was reported in “Other Payables” is reclassified to “Payables for Employee Benefits”, payables to related parties which was reported in “Other Payables” is reclassified to “Trade Payables”, provision for unused vacation which was reported in “Other Current Liabilities” is reclassified to “Provision for Employee Termination Benefits”, advances received and unearned revenues which was reported under “Other Current Liabilities” is reclassified 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.

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 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 financial statements and the notes to them. Accordingly, the consolidated financial statements are not intended to present the financial position and financial performance of İskenderun Demir ve Çelik A.Ş. in accordance with the accounting principles generally accepted in such countries and IFRS.