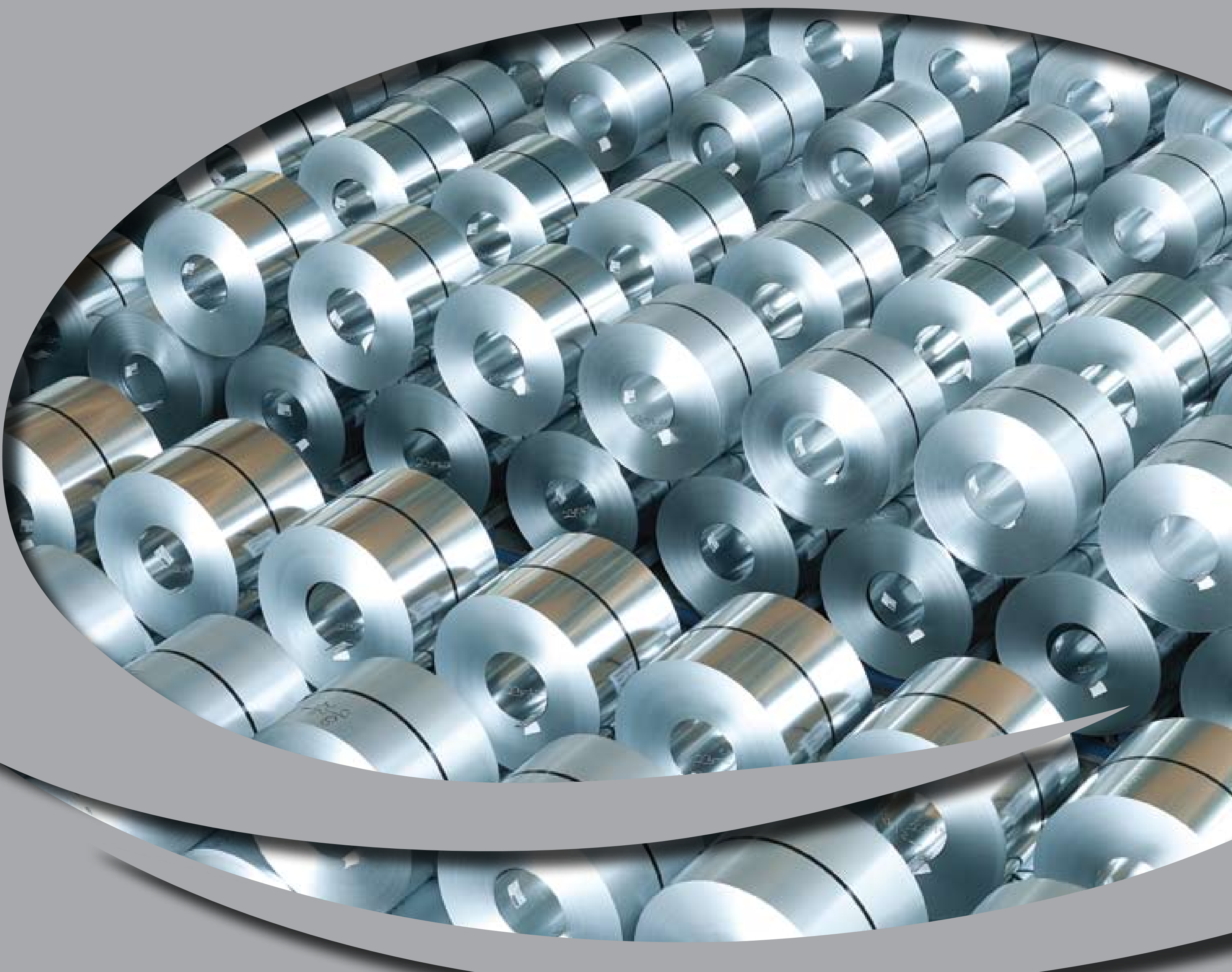
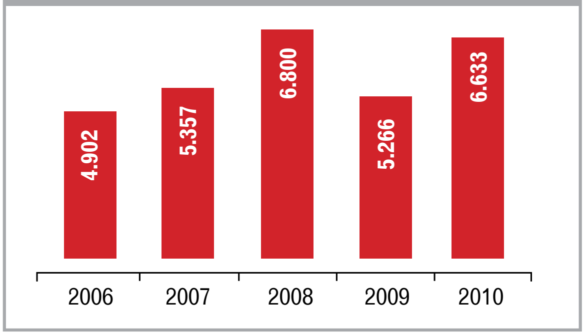
ERDEMİR GROUP ANNUAL REPORT 2010

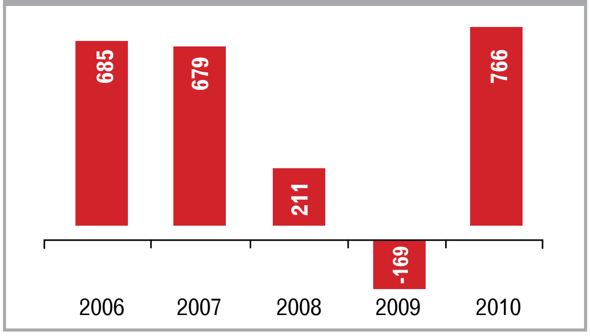


ERDEMİR Group Consolidated Indicators

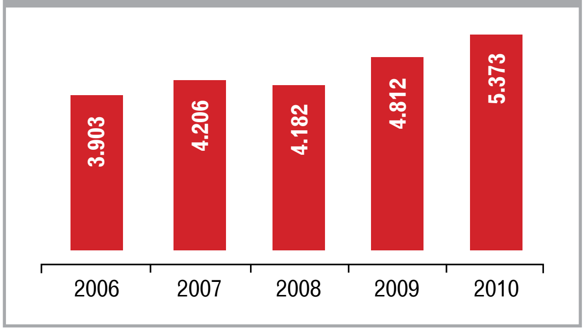
Sales Revenues (Million TRY)



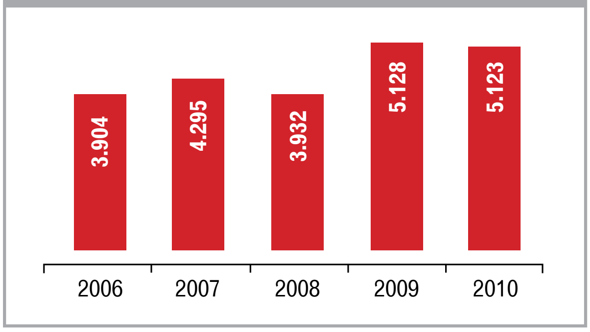
Income/Loss for the Period (Million TRY)



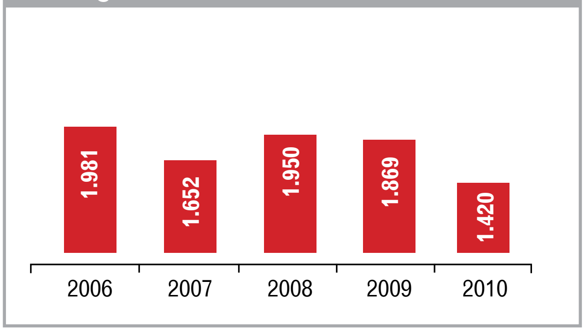
Flat Steel Production (Thousand Tons)



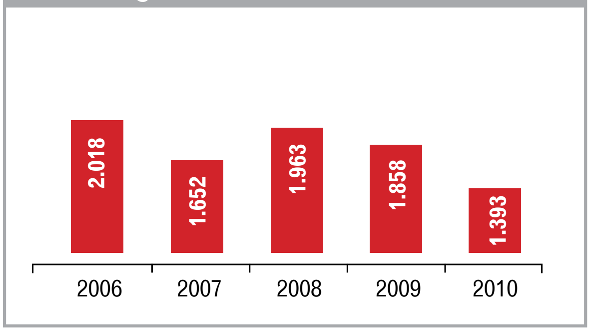
Flat Steel Sales (Thousand Tons)



Long Steel Production (Thousand Tons)



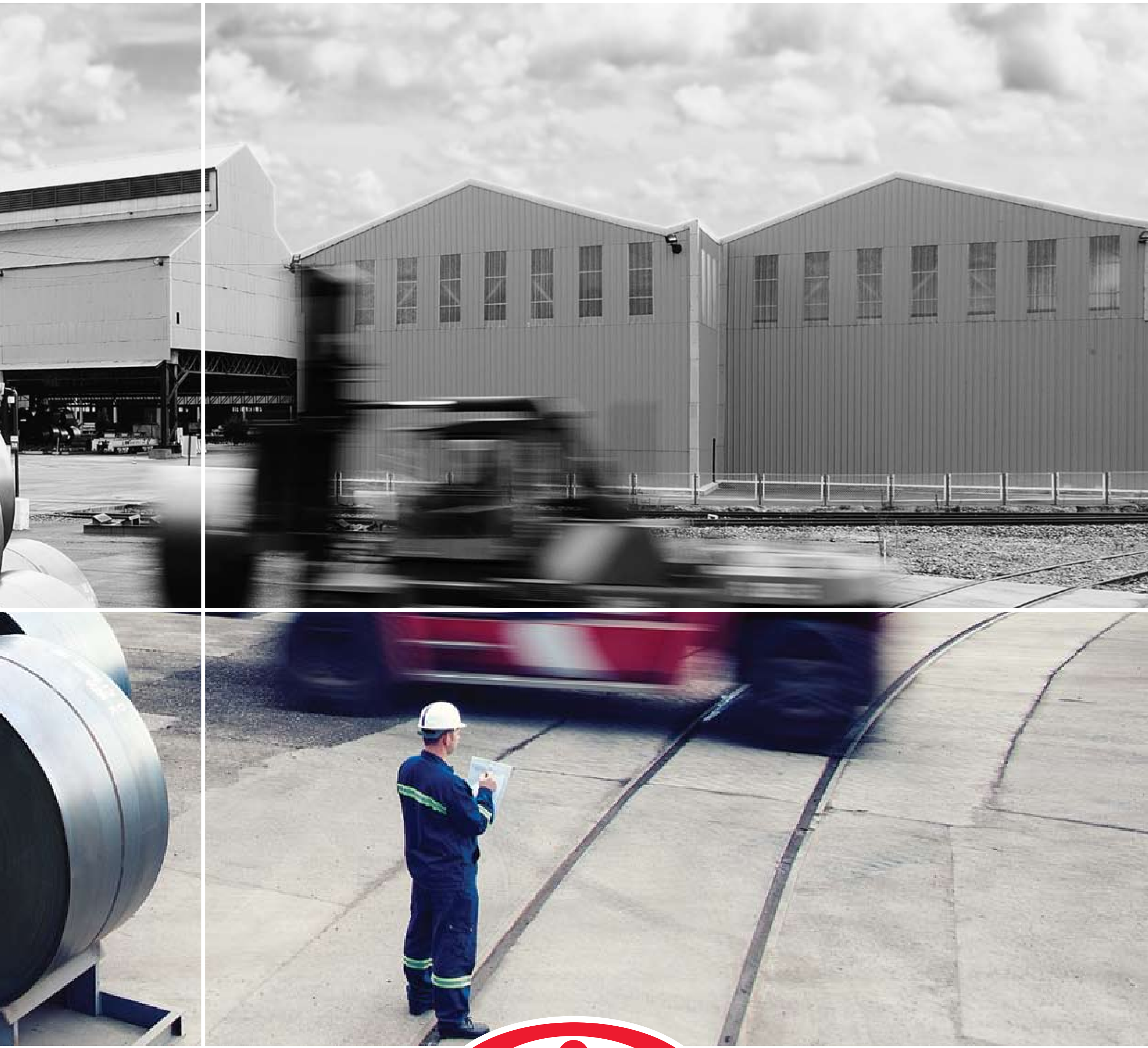
Long Steel Sales (Thousand Tons)



		2006	2007	2008	2009	2010
Flat steel production	(thousand tons)	3.903	4.206	4.182	4.812	5.373
Flat steel sales	(thousand tons)	3.904	4.295	3.932	5.128	5.123
Domestic	(thousand tons)	2.908	3.639	3.132	3.809	4.389
Export	(thousand tons)	996	656	800	1.319	734
Long steel production	(thousand tons)	1.981	1.652	1.950	1.869	1.420
Long steel sales	(thousand tons)	2.018	1.652	1.963	1.858	1.393
Domestic	(thousand tons)	1.574	1.419	1.404	1.236	1.240
Export	(thousand tons)	444	233	559	622	153
Sales Revenues	(million TRY)	4.902	5.357	6.800	5.266	6.633
	(million USD)	3.430	4.117	5.240	3.404	4.427
Operating Profit	(million TRY)	814	724	517	52	1.121
	(million USD)	570	557	398	33	748
EBITDA	(million TRY)	1.111	1.097	775	382	1.420
	(million USD)	777	843	597	247	948
Income/(Loss) for the Period	(million TRY)	685	679	211	(169)	766
	(million USD)	479	522	163	(109)	511
Current Assets	(million TRY)	3.119	3.233	4.649	3.730	6.325
	(million USD)	2.274	2.776	3.074	2.477	4.091
Fixed Assets	(million TRY)	5.469	6.396	7.285	7.421	7.216
	(million USD)	3.891	5.492	4.817	4.929	4.668
Total Assets	(million TRY)	8.665	9.629	11.934	11.150	13.541
	(million USD)	6.165	8.268	7.892	7.405	8.759
Short-Term Liabilities	(million TRY)	1.426	1.542	3.356	1.621	3.764
	(million USD)	1.015	1.324	2.219	1.077	2.434
Long-Term Liabilities	(million TRY)	1.707	1.924	2.475	3.611	3.086
	(million USD)	1.214	1.652	1.636	2.398	1.996
Shareholders' Equity	(million TRY)	5.399	6.004	5.936	5.762	6.511
	(million USD)	3.841	5.155	3.925	3.827	4.212
Market Value	(million TRY)	4.391	8.693	4.733	7.200	8.160
	(million USD)	3.124	7.464	3.130	4.782	5.278
Gross Profit Margin	(%)	20,5	16,9	12,3	4,5	19,9
Income/(Loss) Margin for the Period	(%)	14,0	12,7	3,1	(3,2)	11,5
Current Rate		2,2	2,1	1,4	2,3	1,7
Debt/Shareholders' Equity Rate	(%)	36/64	36/64	49/51	47/53	51/49
Funds From Operations & Total Adjusted Debt	(%)	43,8	34,1	46,3	(22,1)	22,2
Financial Liabilities/EBITDA	(%)	185,8	227,2	584,8	1.091,2	412,1

Note: Long steel consists of İskenderun billet, wire rod and rebar. Excludes slab dispatched to Ereğli plants.
Being accepted as by product, pig iron is excluded from long steel production and sales.

Contents



ERDEMİR

Chairman's Message

Dear Shareholders;

Our country recorded an 8% growth in 2010 while global economy achieved a 5% growth, marking a relatively positive recovery compared to the previous year. According to World Steel Association, the world crude steel production capacity reached up to 2,0 billion tons while crude steel production increased up to 1,41 billion tons with a 15% rise compared to the previous year. Despite the frequent worldwide steel price and demand fluctuations, with 29,1 million tons of crude steel production, our country recorded a 15,2% increase compared to last year and maintained its position at the 10th rank in world ranking. The domestic demand for steel was strong in comparison with the previous year, which had a positive effect on our industry.

We think that fluctuations in prices, demand and cost of raw material will continue despite our positive expectations regarding growth of the industry in year 2011.

In 2010, our Group achieved one of the highest profits of our history, recording a net profit of TRY 766 million. Our sales revenues were realized in amount of TRY 6.633 million. In addition to our investments in total value of USD 2,3 billion between 2006 and 2009, our Group made an investment expenditure of USD 152 million in 2010.

Fundamental changes in 2010, such as fluctuations in price, varying customer demand and market structure, increasing domestic competition, integration of new investments into production led our Group towards restructuring in line with our strategic objectives. We have rearranged our sales and marketing function to better execute on our goals; that is to increase customer satisfaction and loyalty through more dynamic structure with a specialized sector specific focus and to sell the products that addresses market needs through the right channels with optimal profitability. In our sales practices, we have achieved significant improvements by implementing technology supported lean processes to effectively address customer needs.

Integrated steel company administration has recently evolved to be the management of the risk over controlling price formation periods for manufactured goods as well as for raw materials which have been subject to greater and more accelerated fluctuations compared to previous years. Prices of raw materials and manufactured goods in our industry are formed in the market place between major manufacturers and buyers, where the production supply over-exceeds the demand. The fundamental effort for the management in this current market outlook would be to perform production at lower costs by using less energy and sources for every single ton of manufactured steel as well as to manage the production plants more efficiently than their competitors.

We have been taking measures to improve efficiency in our production and outsource the operations other than steel production to more experienced corporations. With the effort to secure raw material supply, we look to integrating new coal and iron ore reserves into our corporate and boost the production of current reserves.

The recent economic crises have manifested the significance of quick adaptation to changes in the markets, maintaining our determination to implement the measures taken, questioning certain previous practices, though being painfully challenging, and coming up with brand new solutions born out of different perspectives in every field. We as ERDEMİR Group, have left behind the year 2010 with satisfactory results and many invaluable experiences. We believe that, in 2011, we will sustain the improvement in our industry despite fluctuations in prices and demands and will achieve successful results. Our very objective is to strengthen our position as a group through; perpetually creating added value at gradually higher efficiency and lower costs in the industry, making the necessary investments, hence increasing our competitive advantage, and carrying out all the activities ensuring sustainable profitability.

I tender my thanks to our valuable shareholders, employees, customers and suppliers, who provided us with their kind supports throughout our journey.

Kind Regards,

Fatih TAR
Chairman of Board and Managing Director

Chief Executive Officer's Message

Dear Partners;

We are leaving 2010 behind as a much more positive year compared to the previous two years, in which sharp decreases in prices and regressions in employment rates were observed, international trade became more challenging and extraordinary measures were implemented. 2010 was a positive year for the steel industry albeit the tough competitive conditions and rapid price fluctuations even during periods when markets followed a routine course. Steel prices displayed an increasing vector in their fluctuating course during this period, yet did not achieve the pre-crisis levels. The overall improvement of economy and the corresponding rise in industrial production, as well as increasing raw material prices were all influential on the price surge.

In addition to this progress, we observe that China and India displayed a tendency to get through the impacts of crisis at a higher speed thanks to strong domestic demand and infrastructure oriented support packages in the rather fragile steel industry; however, the crisis seems to have left deeper marks on the Europe and NAFTA economies. We have been witnessing that the demand for steel in many developed countries has still been below the pre-crisis figures, and that the expectations on overall economic activity and demand for steel maintains its ambiguity in the short term.

Crude steel production in the world was achieved in quantity of 1,41 billion tons in 2010, with a 15% increase. Rising at the same ratio as that of world production figures compared to the previous year, crude steel production of Turkey has increased up to 29,1 million tons. Our country has retained its position at the 10th rank in world ranking, while taking the 4th rank in Europe and the 2nd rank in EU-27, following Germany. Meanwhile, our Group has achieved a crude steel production of 7,1 million tons, with a 10% increase compared to the last year.

At the early days of the crisis, we manifested our determination to consider this tough period as a step towards transformation and regeneration, aimed to survive in the short term and to create the conditions in which we would gain more strength in the long term, hence immediately positioned ourselves to implement new ways of performing business, brand new solutions to address our needs and new practices to create higher value than conventional methods. Carrying our business culture towards higher standards, taking measures for cost reduction in our processes hence raising our efficiency, orienting towards the common goal in management, production and marketing functions, and having determined and dedicated support of our employees in all these efforts, had shaped our success today.

Reinforcing the leading position by implementing major investment projects of our domestic industry, our Group has continued investments in conformity with our schedule, as planned, to be effectively responsive to future needs, closely monitoring the domestic and overseas progress in fields of capacity increase, new product development and technology, handling risks and taking opportunities in the markets, with a view to maintain and improve our competitive advantage and strength.

It is envisaged that, the continuing sovereign debt crisis overwhelming Europe zone that is also reflecting on neighbouring regions and its' real sector, the on-going problems in the real estate markets within several developed countries, coupled with the risks including high rates of unemployment will drive the economic outlook in 2011, leading to expectations that the economic growth will be subject to a regress both globally and nationally, bringing along the need for a longer term recovery.

We, ERDEMİR Group, will continue to manage the risks and opportunities with a view to always exceed expectation and never be content with the current achievements, will be prudent against any possible problems which are likely to affect the global economy, our country and the industry. We will continue to create value for our shareholders, clients, employees and all stakeholders within the framework of our principles constituting our corporate management approach; based upon transparency, justice, responsibility and accountability.

I tender my gratitude to you, our valuable shareholders, employees, customers and suppliers for your huge support on our achievements.

Oğuz ÖZGEN
Chief Executive Officer and
Board Member

Board of Directors

Fatih TAR
Chairman of Board and Managing Director
09.03.2010

Nihat KARADAĞ
Vice Chairman of Board and Managing Director
30.09.2009

Arzu Hatice ATİK
Board Member
26.02.2008

Dinç KIZILDEMİR
Board Member and Managing Director
27.02.2006

Ertuğrul AYDIN
Board Member
31.03.2008

Fatma CANLI
Board Member
09.03.2010

Oğuz ÖZGEN
Chief Executive Officer and Board Member
17.07.2006

Ahmet Türker ANAYURT
Auditor
09.03.2010

Ali Güner TEKİN
Auditor
31.03.2008

Changes in Position within the Period

Vice Chairman of Board and Managing Director Mehmet Aydın MÜDERRİSOĞLU, and Board Members Celalettin ÇAĞLAR and Ergün Oktay OKUR resigned on 22.02.2010, and one of these vacant Board Membership positions was occupied by Fatih TAR, who was appointed as a Managing Director.

Fatih TAR was again appointed as a Member of Board at the General Assembly dated 09.03.2010, and the Chairman of Board was appointed as a Managing Director upon distribution of tasks.

Coşkun ULUSOY, PhD, was the Chairman of Board and Managing Director between 27.02.2006 – 09.03.2010.

Nihat KARADAĞ, who was appointed as a Member of Board on 30.09.2009, was again appointed as a Member at the General Assembly which was held on 09.03.2010, and later as Vice Chairman of Board and Managing Director in the subsequent distribution of tasks.

Fatma CANLI was appointed as Member of Board and Ahmet Türker ANAYURT was appointed as an Auditor in lieu of Fatma CANLI during the General Assembly held on 09.03.2010.

Executive Management

Fatih TAR
Chairman of Board and Managing Director
09.03.2010

Ayhan KALMUKOĞLU
ERDEMIR Group Dep. Marketing and Sales Coordinator
12.07.2010

Muammer Alp ARSLAN
Long Products Marketing and Sales Coordinator
01.11.2010

Öner SONGÜL
ERDEMİR Group Deputy IT Coordinator
12.08.2010

Changes in Position within the Period

Deputy General Management of Sales and Marketing was reorganized on 12.07.2010 and its name was changed to ERDEMIR Group Marketing and Sales Coordination Department; Ayhan KALMUKOĞLU was appointed as deputy Marketing and Sales Coordinator.

ERDEMIR Group IT Coordinator position was created on 12.08.2010 and this position was occupied by Öner SONGÜL as deputy.

Long Products Marketing and Sales Coordinator position was created on 26.10.2010 and this position was occupied by Muammer Alp ARSLAN.

Executive Management

Oğuz ÖZGEN
Chief Executive Officer and Member of Board
13.07.2006

Esat GÜNDAY
Executive Vice President of Operations
13.07.2006

Samim ŞAYLAN
Executive Vice President of Human Resources and Administrative Affairs
13.07.2006

Bülent BEYDÜZ
Executive Vice President Chief Financial Officer
15.01.2010

Ozan BEKÇİ
Executive Vice President of Procurement
13.07.2006

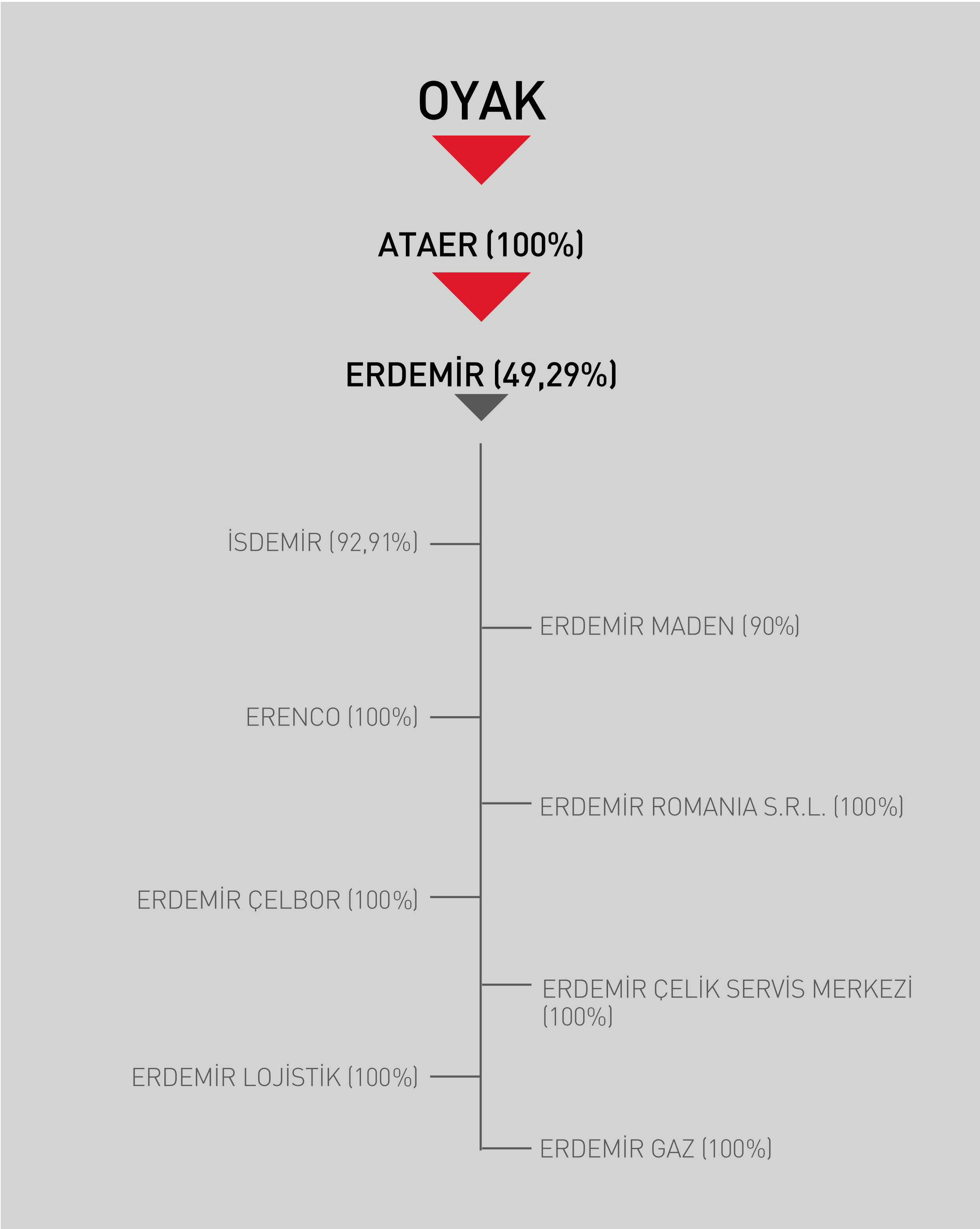
Müçteba BEKCAN
Executive Vice President of Technical Services and Investments
14.07.2010

Changes in Position within the Period

The Executive Vice President of Technical Services and Investments position which was vacant due to expiration of the contract of İsmail Hakkı GÜROL by 13.07.2010 was occupied by Müçteba BEKCAN as deputy on 14.07.2010 and as alternate on 14.03.2011.

Ozan BEKÇI departed from Executive Vice President of Procurement position on 22.03.2011.

Group Profile



An Overview on ERDEMİR Group

ERDEMİR Group's main fields of activity are production of flat steel, long steel and pipes, mining, engineering, project management and logistics services. The companies of ERDEMİR Group are; dedicated to ensuring health and safety of employees, meeting shareholders' expectations in a consistent manner, pursuing business ethics and good corporate citizenship norms, committed to secure efficient use of sources, enhance the capacity to produce new products, technologies and services for future needs, and exhibits environment-friendly production performance.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Oğuz ÖZGEN
Chief Executive Officer and
Board Member

As one of the most valuable assets of our country and one of the major steel manufacturers of Europe, with its trading as the most valuable investment tool at İstanbul Stock Exchange since its establishment, Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (ERDEMİR) is the parent company of the group.

ERDEMİR's publicly held shares were transferred through a share transfer agreement on 27.02.2006, to ATAER Holding which is fully owned by OYAK. ATAER Holding owns 49,29% of ERDEMİR's shares. The current shareholding structure is as follows:
ATAER Holding A.Ş. 49,29%
ERDEMİR Portfolio 3,08%
Other 47,63% (Free float on İstanbul Stock Exchange)

ERDEMİR, the first and the biggest integrated flat steel manufacturer of Turkey, started production in 1965 and have recently reached a capacity of over 4 million tons/year crude steel production and over 5 million tons/year finished products. The Company produces plate, hot and cold rolled coil and tinplate, chrome and zinc coated flat steel products at international quality standards. ERDEMİR provides fundamental input for sectors such as defense industry, construction, pipes, automobiles, ship building, durable household appliances, agricultural instruments, pressure vessels, food and packaging materials and office materials, and pioneers development of the national industry at the same time. As part of its growth strategy, Erdemir acquired plants both at home and in the overseas markets and erected new plants, thereby formed a Group structure and identity.

Web : www.erdemir.com.tr

Headquarter:
Eskişehir Devlet Yolu No: 12 06530 Söğütözü / ANKARA
Phone : + 90 (312) 292 66 40
Fax : + 90 (312) 287 44 39

General Directorate and Plants:
Uzunkum Cad. No:7 67330 Kdz. Ereğli / ZONGULDAK
Phone : + 90 (372) 323 25 00
Fax : + 90 (372) 316 39 69- 316 03 01- 323 57 55
e-mail : iletisim@erdemir.com.tr

Investor Relations:
Küçükbakkalköy Mah. Merdivenköy Yolu Cad. No:2
34750 Ataşehir / İSTANBUL
Phone : +90 (216) 578 80 61
Fax : +90 (216) 469 48 20
e-mail : erdemir_ir@erdemir.com.tr

İskenderun Demir ve Çelik A.Ş.

İsmail AKÇAKMAK
President and
Board Member

İskenderun plant joined ERDEMİR Group on 01.02.2002. Commissioned in 1975 to produce long steel, Modernization and Transformation Investments (MTI) were carried out as the biggest industrial investment of the private sector throughout the history of our Republic with a view to eliminate the imbalance of long-flat products in steel sector of our country; production of flat products was initiated in 2008. Billet and wire rod production is still available at our İskenderun plant.

Web : www.isdemir.com.tr
e-mail : info@isdemir.com.tr
Address : İSDEMİR 31319 İskenderun / HATAY
Phone : +90 (326) 758 40 40 (Santral PBX)
Fax : +90 (326) 755 11 84 - 758 53 51 - 758 38 38

ERDEMİR Madencilik San. ve Tic. A.Ş.

Sedat ORHAN
President

ERDEMİR Group owns 11 iron and 1 manganese ore sites. Having the sole pellet plant of our country, ERMADEN meets 50% of domestic iron ore production and 20% of our Group's need for iron ore.

Web : www.erdemirmaden.com.tr
e-mail : ermaden@erdemirmaden.com.tr
Address : Cürek Yolu 5. km Divriği / SİVAS
Phone : +90 (346) 419 11 21 (5 hat)
Fax : +90 (346) 419 11 50

ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.

İlhami ACAR
President and
Board Member

Our Group provides a wide range of engineering and project management services in iron and steel and other industries from planning to implementation.

Web : www.erenco.com.tr
e-mail : erenco@erenco.com.tr
Address : Küçükbakkalköy Mah.
Merdivenköy Yolu Cad. No:2
34750 Ataşehir / İSTANBUL
Phone : +90 (216) 578 80 00
Fax : +90 (216) 469 48 30

ERDEMİR-RO

ERDEMİR Romania S.R.L.

Erdoğan GÜNAY*
President

Our plant in Târgovişte, Romania produces silicon flat steel, which is one of the main inputs of the engine and transformer industries.

* The President Fuat ALA, whose commission expired on 13.09.2010, was substituted by Ahmet Türker ANAYURT as Acting President between 13.09.2010-26.09.2010 and by Erdoğan GÜNAY between 27.09.2010 -27.12.2010; Erdoğan GÜNAY was appointed to the President position as alternate by 28.12.2010.

Web : www.erdemir.ro
e-mail : office@erdemir.ro
Address : 18, Soseaua Gaesti, Targoviste Dambovita County / ROMANIA
Phone : +40 245 60 71 10
Fax : +40 245 60 60 70

ERSEM

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

Burak BÜYÜKFIRAT*
President

The plant in Gebze Organized Industrial Zone provides service for manufacturers of automobiles, white goods and panel radiators.

* Burak BÜYÜKFIRAT was appointed as deputy President on 21.04.2010 and as alternate on 01.06.2010 in lieu of Osman AKYÜREK who was the Acting President between 15.02.2010 20.04.2010.

Web : www.erdemir-csm.com.tr
e-mail : info@erdemir-csm.com.tr
Address : Organize Sanayi Bölgesi 700. Sk. No: 724 Gebze / KOCAELİ
Phone : +90 (262) 679 27 27
Fax : +90 (262) 679 27 67 - 87 - 97

ERLO

ERDEMİR Lojistik A.Ş.

Dinç KIZILDEMİR
Chairman of Board and Acting President

Our logistics company serves for the Companies of our Group and third parties with its activities in fields of sea, train & ferry transportation, ship chartering and agency.

Web : www.erdemirlojistik.com.tr
e-mail : info@erdemirlojistik.com.tr
Address : Küçükbakkalköy Mah.
Merdivenköy Yolu Cad. No:2
34750 Ataşehir / İSTANBUL
Phone : +90 (216) 578 81 81
Fax : +90 (216) 469 48 22

ERDEMİR ÇELBOR Çelik Çekme Boru San. ve Tic. A.Ş.

Feramuz GÜLERYÜZ
Acting President

Our plant installed in Kırıkkale produces hot extruded and rolled seamless steel pipe, cold drawn sensitive pipe, petroleum line pipes and drilling pipes (OCTG-Oil Country Tubular Goods), seamless steel sections and boiler tubes. Upon the Resolution dated July 14, 2010 no 334 passed by the Board of Directors of ERDEMİR Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. (ERBOR) and the Resolution dated July 14, 2010 no 22 passed by the Board of Directors of ERDEMİR Çelik Servis Merkezi San ve Tic. A.Ş. (ERSEM), as subsidiaries of our Company, all necessary preliminary works were performed and it was resolved that ERBOR be integrated to ERSEM with all remaining assets and liabilities thereof through acquisition by ERSEM.

Web : www.celbor.com.tr
e-mail : satis.celbor@erdemir.com.tr
Address : Kayseri Yolu 7.km PK.21, 71300 KIRIKKALE
Phone : +90 (318) 225 46 96
Fax : +90 (318) 224 28 71

Our Subsidaries and Investments in Associates

Pursuant to the resolution dated 16.06.2009 no 09-28/600-141 of the Competition Authority,

1) The Company's partnership at Arcelor Mittal Ambalaj Çeliği San. ve Tic A.Ş. was dissolved upon the transfer of the Company's 25% shares on 28.02.2011,

2) The Company's partnership at BORÇELİK Çelik San. Tic. A.Ş. was dissolved upon the transfer of the Company's 9,34% shares on 04.11.2010.

Detailed information as to the mentioned procedures was published respectively on 28.02.2011 and 05.11.2010 at Public Disclosure Platform. The mentioned information can be viewed on **www.kap.gov.tr.**

World Steel Industry

World Steel Industry

An Outlook to 2010

The year 2010 was a period in which the world steel market tried to be released from impacts of the dramatic fall in 2008 and 2009, and when the industry was comparatively recovered. The improvement led by China and developing economies was stronger than expected; steel manufacturers put their blast furnaces into operation, increased their production, accelerated their investments and set out efforts to eliminate the impacts of crisis by increasing mergers and acqusitions. However, experts of the industry point out to the fact that the industry maintains its fragility despite this positive outlook.

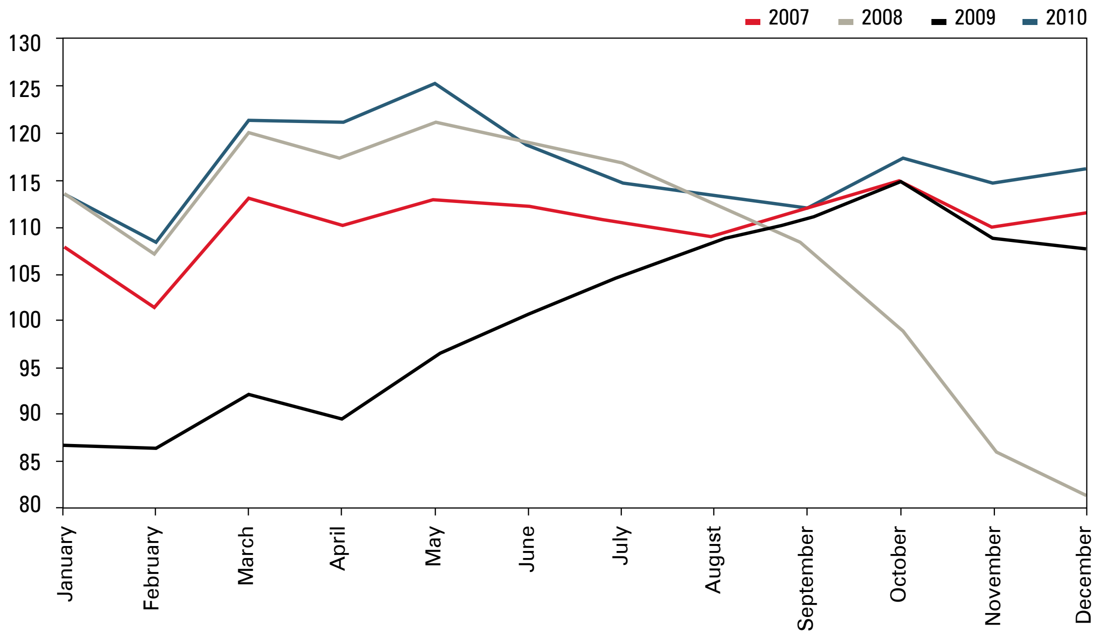
The improvement was especially seen in Asia region in 2010 in which world steel trading followed a positive course. Japan and South Korea increased their export levels in order to be responsive to the dramatic demand of Asia; EU steel export returned to the pre-crisis levels as a result of demands by North Africa and Middle-East countries. The China export which marked a sharp decrease in 2009, seemed to be on the increase yet followed a course below pre-crisis level; the slow improvement in export levels of Commonwealth of Independent States showed that the European markets also had a slow process of recovery.

The prices that was on the upswing until April 2010 were declined following this month, and started to increase again in July with the effect of increase in costs of raw material, primarily in iron ore and coal. Even though the prices cannot reach to the levels as of 2008, they were subject to a considerable increase compared to 2009.

Having caught a normal production level towards the end of year with rapid increases in 2009, world steel production followed a stable course in 2010, without decreasing below 100 million tons on monthly basis and a new record was broken by realizing 1,41 billion tons of crude steel production with a 15% increase compared to the previous year.

Crude Steel Production in the World

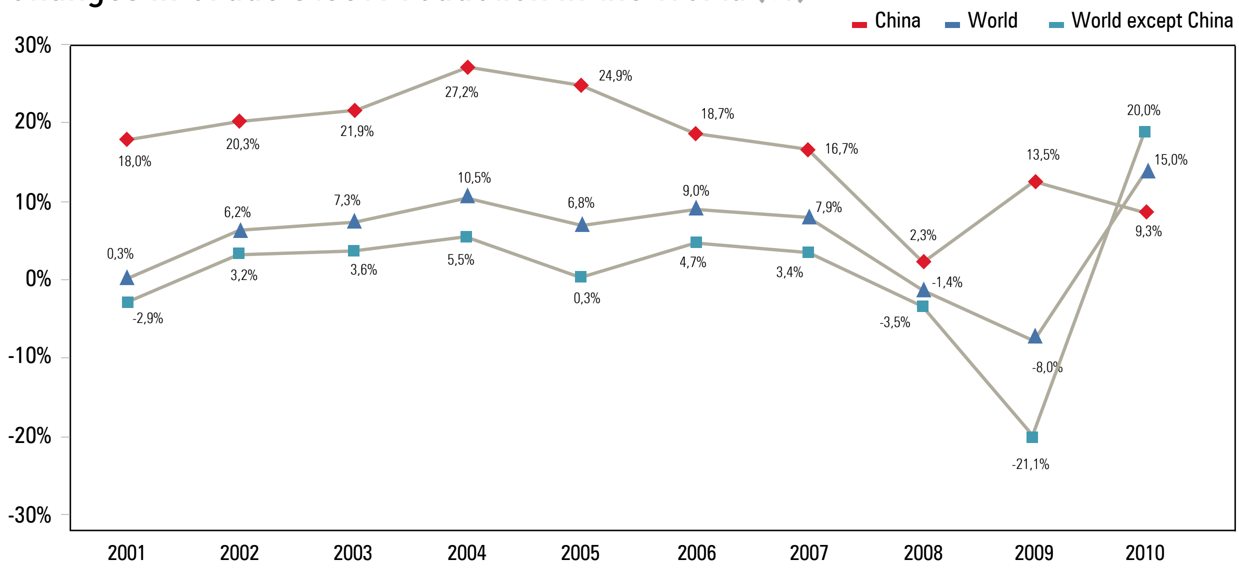
(Million Tons)



Source: World Steel Association (worldsteel)

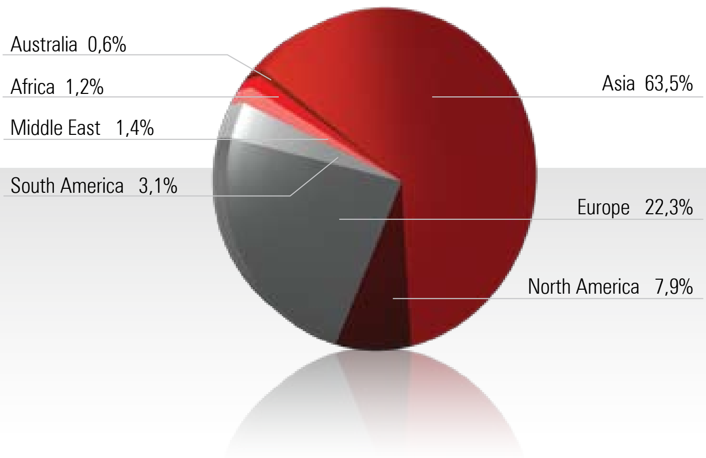
Led by China, world crude steel production has recently gained acceleration and displays gradual increase. Following the crisis, world production rate displayed a decrease of 21,1% except China; however, the fall in production in global terms remained at the level of 8% with the effect of production increase observed in China. Whereas, in 2010, the production increase rate of China remained at the level of 9,3% and countries other than China displayed an increase of 20%.

Changes in Crude Steel Production in the World (%)

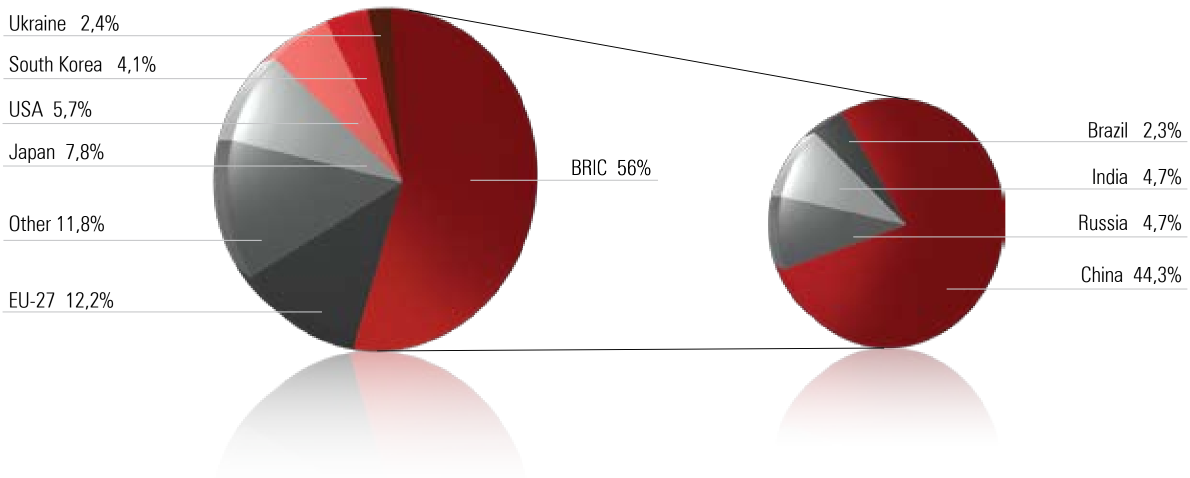


Source: World Steel Association (worldsteel)

Distribution of World Crude Steel Production by Region (%)



Distribution of World Crude Steel Production by Country (%)



World Steel Industry

With an increase of 11,6% compared to 2009, Asia had the biggest share in world crude steel production in 2010, followed by Europe. Following the unfavourable picture in 2009, North America, European Union and Australia/New Zealand regions displayed the highest rate of increase in production.

The rate of increase observed was 35,7% in North America, 24,6% in EU-27, 35,5% in Australia/ New Zealand, 15,9% in South America and 11,2% in Commonwealth of Independent States. Looking at the top three producer countries, it is observed that crude steel production increased at the rate of 9,3% in China, 25,2% in Japan and 38,5% in USA.

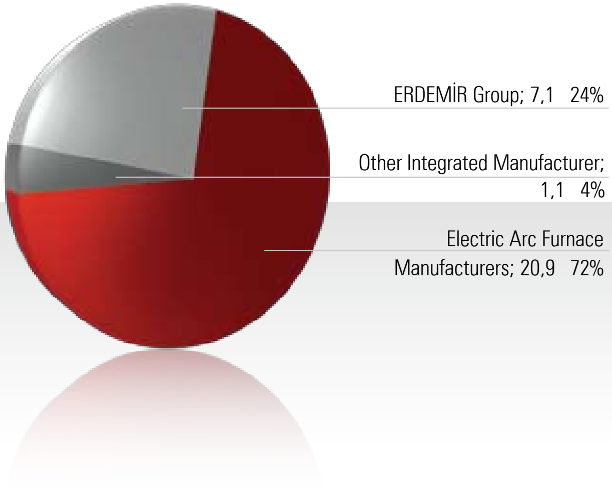
Crude Steel Production in the World (Million Tons)

Country	2010		2009		Change in Rank	% 10/09
	Product	Rank	Product	Rank		
China	626,7	1	573,6	1	→	9,3
Japan	109,6	2	87,5	2	→	25,2
USA	80,6	3	58,2	5	↑	38,5
Russia	67,0	4	60,0	4	→	11,7
India	66,8	5	62,8	3	↓	6,4
South Korea	58,5	6	48,6	6	→	20,3
Germany	43,8	7	32,7	7	→	34,1
Ukraine	33,6	8	29,9	8	→	12,4
Brazil	32,8	9	26,5	9	→	23,8
Turkey (*)	29,1	10	25,3	10	→	15,2
İtaly	25,8	11	19,8	11	→	29,7
Taiwan	19,6	12	15,9	12	→	23,7
Mexico	17,0	13	14,0	14	↑	22,1
Spain	16,3	14	14,4	13	↓	13,6
France	15,4	15	12,8	15	→	20,1
WORLD	1.413,6		1.229,4			15,0

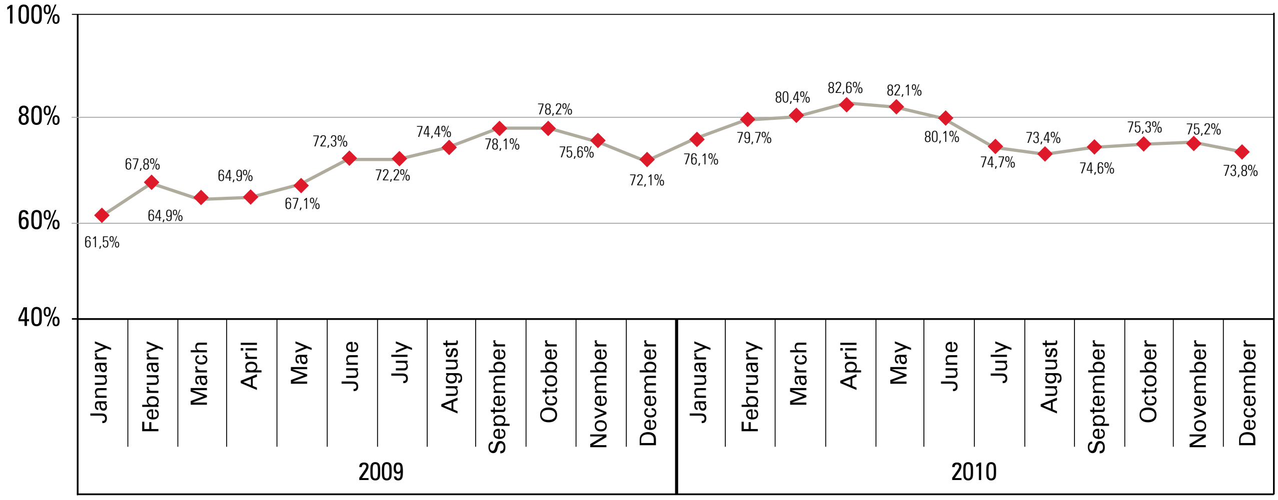
Source: World Steel Association (worldsteel), Annual statistics, 20.01.2011; (*) Data provided by Iron & Steel Producers' Association.

Having performed an increase in production at the rate of 15,2% compared to the previous year, Turkey maintained its position at the tenth rank with 29,1 million tons of crude steel production. 20,9 million tons of this production was at electric arc furnace plants and 8,2 million tons at integrated plants. Meanwhile, our Group has achieved crude steel production of 7,1 million tons, with a 10% increase compared to the last year.

Distribution of Crude Steel Production in Turkey (Million Tons; %)



World Crude Steel Capacity Utilization Ratio (%)



Source: World Steel Association (worldsteel)

Having recorded a rate of 82,6% in the first half of 2010, the global capacity utilization ratio was subject to a recession at the second half and closed the year at the level of 73,8%.

Following an ease-down during and after the crisis, mergers and acquisitions revived in 2010, primarily in China. Especially raw material and technology based mergers are considerably observed. Another significant event in 2010 was the official termination of merger plans between Rio Tinto and BHP Billiton in October, due to the opposition raised by the regulators from Europe, Japan, Korea and Australia regarding the start of a joint operation in Western Australia. The decision received positive reactions from steel manufacturers.

World Steel Industry

2011 Forecast

According to the data of World Steel Association, the world steel demand which decreased by 5,9% in 2009 and increased by 13,1% in 2010 is estimated to increase by 5,5% in 2011 and the strongest growth is estimated to take place in non EU-27 Europe regions by 11% and in NAFTA region by 10,9%. The strongest growth among developing countries is estimated to take place in India and Turkey.

In addition to the rise in spot iron ore prices in the world in recent months, steel scrap prices are also in a tendency to increase at a fast pace. The challenging process of collecting steel scrap due to harsh winter conditions especially in Russia, Europe and USA, and the decrease in supply in the international market constitute the basic reason for the increase in scrap prices. According to the analysts' projections steel prices will continue to increase due to the rise in raw material prices supported by the growing demand in developing countries such as China, Turkey, India, Qatar and Saudi Arabia. Whereas, according to the estimations of World Steel Dynamics, the visible increase in steel consumption will display a slower pace of growth compared to the previous year; the fast recovery pace in 2010 will be rather slower and the prices will continue fluctuating within the year. MEPS International, an England-based steel consultancy company, attributes the upward movement of prices to the boosts in raw material prices and increase in stocks by steel distributors, anticipating that the stocking activity will continue in the first half of 2011.

The estimates by Oxford Economics are that the world construction industry is expected to grow at an average rate of 5,2%, and the automobile industry at the rate of 6,4%, while engineering and metal appliances industry is expected to have the highest rate of growth in 2011 by 10,1%.

Although the world steel industry has been at a satisfactory level in general terms, it is pointed out that capacity increases might endanger the economic sustainability of the industry, that there is 500 million tons of surplus in world crude steel capacity, which reached up to 1,9 billion tons in 2010 by an increase of 800 million tons in the last decade, and that, therefore, steel manufacturers are focused on decreasing their costs of production, increasing their operational efficiency with horizontal and vertical integrations and on globalization. It is mentioned that one of today's biggest problems in steel industry is raw material, globally increasing steel production led to an increase in raw material prices, and there has been a contraction in raw material supply partially due to high demand and partially as a result of restricting practices of particular countries on raw material export despite the efforts of a number of raw material producers which tried to respond to increasing demands by boosting their production levels.

Another challenge to be encountered by steel manufacturers in the following periods is the emission reduction issue. Having realized 3,9% of global carbon dioxide emissions and 3% of greenhouse gas emissions, the world steel industry plays a significant role in reduction of the impacts of climatic changes. It is reported that the emission trade in OECD countries is among the instruments used for reduction of emissions in steel industry while countries except OECD have been applying practices such as closing down old facilities, entering into voluntary agreements and energy conservation certificates; and that emission reduction practices need much more progress despite major achievements in energy efficiency and environmental performance areas of steel industry.

Production

Production

Leaving behind 2009, a year that most marked the impacts of the crisis, with the most optimum production levels possible; our Group carried out a production level that maximised its profitability in 2010, in parallel to the relative improvement of economy and the positive progress in domestic steel market.

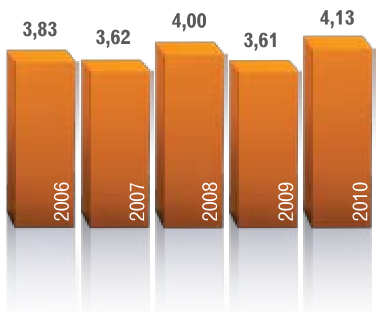
Ensuring an efficiency increase in our production lines through the use of optimization techniques, creation of detailed work schedules by using a large number of parameters concurrently, and planning of our plant capacities with the objective of maximum efficiency, the Advanced Planning and Scheduling Systems which was implemented in stages has positively affected our production performance. Throughout the past two years, a synergy was created aligned to our business plans covering our short and medium term objectives, supporting our business results in terms of optimum utilization of our sources, efficient management of costs and cash, increase in our efficiency and raising awareness on savings.

Production (Thousand Tons)	2006	2007	2008	2009	2010
Hot Metal	**4.931**	**5.236**	**5.637**	**5.933**	**6.551**
Ereğli	2.811	2.762	2.791	3.339	3.196
İskenderun	2.120	2.474	2.846	2.594	3.355
Liquid Steel	**5.271**	**5.486**	**6.122**	**6.619**	**7.311**
Ereğli	3.221	3.200	3.201	3.798	3.634
İskenderun	2.050	2.286	2.921	2.821	3.677
Crude Steel	**5.155**	**5.366**	**5.976**	**6.465**	**7.116**
Ereğli (Slab)	3.135	3.128	3.124	3.715	3.539
İskenderun (Slab)	18	552	871	854	2.135
İskenderun (Billet)	2.002	1.686	1.981	1.896	1.442
Flat Final Product	**3.903**	**4.206**	**4.182**	**4.812**	**5.373**
Ereğli Tinplate	161	232	247	166	238
Ereğli Galvanized	360	281	318	285	263
Ereğli Cold Rolled	1.168	1.119	921	1.139	999
Ereğli Hot Rolled	2.126	2.355	2.343	2.356	1.840
Ereğli Plate	88	219	212	48	66
İskenderun Hot Rolled	-	-	141	818	1.967
Long Final Product	**1.981**	**1.652**	**1.950**	**1.869**	**1.420**
Billet	1.461	1.154	1.378	954	715
Wire Rod	465	478	502	517	445
Rebar	55	20	70	398	260
Silicon Flat Steel	**47**	**59**	**73**	**47**	**62**
Iron Ore	**1.792**	**1.919**	**1.740**	**2.334**	**2.705**
Pellet	1.135	1.292	1.118	1.371	1.493
Other	657	627	622	963	1.212
Steel Tube	**2**	**4**	**4**	**3**	**1**

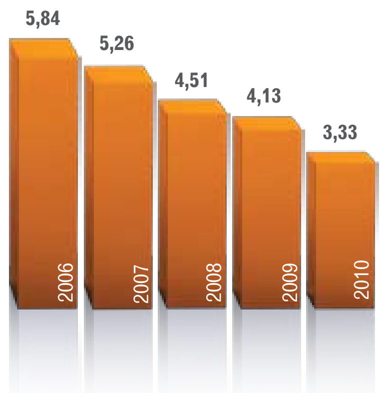
Efficiency values of our plants were increased, thanks to the measures deployed during and after the crisis. Capacity utilization ratio was 87,7% at our Ereğli plant and was 72,5% at our İskenderun plant. Overall equipment effectiveness (OEE), showing effectiveness and productivity of the manufacturing operation and ensuring monitoring of the operating performance, was 70,4% at our Ereğli plant.

Labor Productivity in Production of Final Products (Man-hour/Ton)

Ereğli Plant



İskenderun Plant

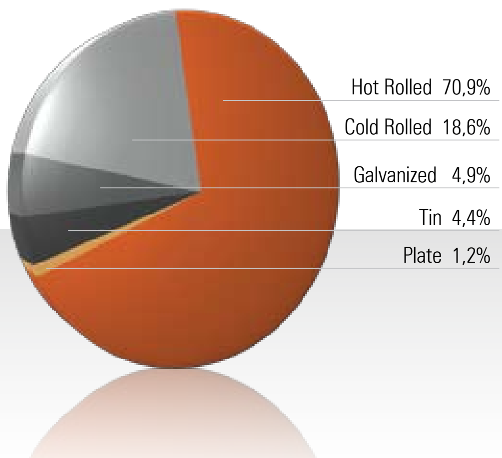


The labour spent for each ton of final product manufactured was 4,13 man hour/ton at our Ereğli plant, and 3,33 man hour/ton and at our İskenderun plant.

Flat Steel Production

Production of flat products was realized in amount of 5.373 thousand tons in 2010. 3.406 thousand tons of flat products were produced at Ereğli plant in 2010, including 1.906 thousand tons of hot rolled products and 1.500 thousand tons of cold rolled products. Production of flat final products at İskenderun plant was realized in amount of 1.967 thousand tons.

Distribution of Flat Final Products by Product Group



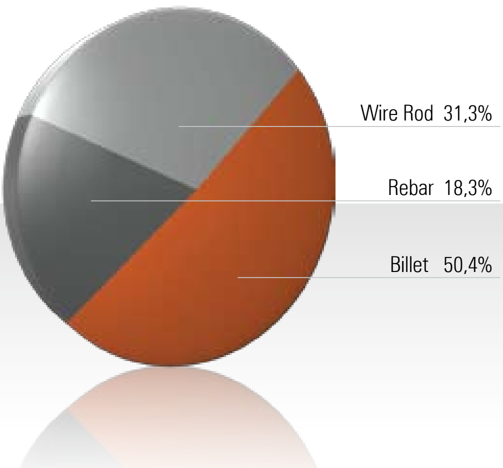
Our Romania plant producing silicon steel, realized a production of in amount of 62 thousand tons in 2010, with an increase of 32% compared to the previous year. In 2010, our Romania plant continued to develop new high added-value qualities and high-transmission qualities with higher efficiency.

Production

Long Steel Production

In 2010, long steel production of our Group was realized in amount of 1.420 thousand tons, including 715 thousand tons of billets, 445 thousand tons of wire rod and 260 thousand tons of rebar.

Distribution of Long Final Products by Product Group



Iron Ore Production

1.493 thousand tons of pellets were produced in 2010 and total production amount of other products such as lump ore, fine ore and magnetite was 1.212 thousand tons.

Steel Tube Production

1.000 tons of seamless steel pipe were produced in total, including petroleum line pipes, drilling pipes, cold drawn pipes, seamless steel sections and boiler tubes.

Steel Service

104 thousand tons of products are sized at the Steel Service Center according to our customers' demands.

Engineering and Project Management Services

In 2010, ERENCO continued to manage our Group's investments. New projects were initiated at Ereğli plant within the year, namely; Coke Battery No.4, New Turbo Blower (Steam Turbine-Blower No.5), Air Separation Plant No.7 and Blast Furnace Top Pressure Recovery Turbines (TRT).

As for İskenderun plant, 34 projects have been completed under MTI (Modernization and Transformation Investments); and activities have been in progress in Blast Furnace No. 4 and Coke Battery No. 4 Modernization projects. With commissioning of the 3rd Converter on 06.12.2010, the capacity of the BOF shop increased from 2,2 million ton/year up to 5,3 million ton/year. Moreover, activities have been in progress in Environmental Investments and Development of Product Stock Fields projects which were initiated in addition to MTI. Slab Tongs, design and project management of which were carried out by ERENCO and manufacturing of which was performed by Mechanical Workshops of Ereğli plant, were delivered to İskenderun Plant.

Constituted at ERENCO in 2010 in conformity with "Energy Efficiency Act" no 5627, Energy and Environmental Management Project Coordination Office continues to provide energy studies and energy efficiency consultancy services for Group Companies and other institutions. ERENCO has been providing technical consultancy since 08.11.2010 in energy efficiency and renewable energy projects with a budget of 50 million Euro, which Turkish Economic Bank plans to make available. In scope of this contract, approximately TRY 20 million of energy efficiency and renewable energy credits were approved for companies which can be regarded as the leader of their own industry.

Petkim Engineering Services and Yatağan Thermal Power Plant Waste Heat Recovery pilot project were completed.

Logistics Services

Continuing to meet primarily the logistics needs of our Group, our Company maintained its services for third parties in 2010, with sea and train-ferry transportation, ship chartering and agency services.

Port Activities

Ereğli plant realized a 10,4 million tons of loading and discharging service at its ports. Moreover, an income of USD 5.7 million was generated through 1,5 million tons of loading-discharging services in total, for 3rd parties. Annual total port income was realized in amount of USD 8,8 million.

Approximately 10,3 million tons of materials were handled at the ports of İskenderun plant in 2009, 2,3 million tons of this service was directly offered to our customers and a port service income of around USD 10,9 million was generated.

Production

Raw Materials Procurement

China remained the most efficient country in world steel industry as in the past. The country's annual crude steel production averaged 630 million tons, with an increase of 9,3% compared to 2009. Metallurgical coal import of China increased up to 45 million tons following a rise of nearly 30% compared to the previous year, in connection with the increase in steel production. Being the biggest iron ore importer, India imposed a number of export restrictions over China which then chose to supply iron ore from other overseas sources; this resulted in huge pressure on raw material supply. Thus, iron export levels of Australia and Brazil reached up to record levels of all times with 390 million tons and 300 million tons, respectively.

Our efforts to extract maximum amount of supply from domestic iron ore and coal sources had continued in 2010. On this regard, coal was purchased from TTK and private enterprises in Zonguldak and Armutçuk regions to the extent of their physical capacities; the amount of supply which was 280 thousand tons in 2009 displayed a rise up to 360 thousand tons with an approximate increase of 29% in 2010. The amount of supply which was 2.600 thousand tons in 2009 was raised up to 3.540 thousand tons in 2010, recording a 36% increase. Following the increase in our domestic coal and iron ore consumptions, amounts of supply for imported coal and iron ore were decreased.

Sales

Sales

With contributions of developing countries, a growth of 5% was observed in world economy and 8% in Turkish economy at the end of the year 2010. As a result of positive reflections of economic growth and stock movements, an increase was realized in consumption of iron and steel products. According to the data of Iron & Steel Producers' Association, total flat and long steel consumption of Turkey achieved an increase at the level of 30,6% compared to the previous year, reaching up to 23,6 million tons. Having a major share in realization of this increase, flat steel consumption increased up to 12 million tons by 43,1% while long steel consumption displayed an increase of 20%, and realized in amount of 11,6 million tons.

The economic environment led the end users of steel act cautiously on their supply processes. In line with this, we restructured marketing and sales organization in order to enhance our competitive advantage and productivity and to satisfy customer expectations in a sustainable manner. Marketing and sales activities were initiated from a single center by means of Group Marketing and Sales Coordination Office and Long Products Marketing and Sales Coordination Office, which directly report to the Board of Directors.

The adaptation of technology based lean processes for customer requirements assessment and order processing systems were reengineered which resulted in more effective and streamlined processes for our customers. Moreover, another new advantage for our customers is that they are able to receive quotations for their longer-term demands without any guarantee requirement until the finalization of order.

Through adaptation of this dynamic structure that promotes customer focused orientation and sector specific specialization, we aim to increase customer loyalty, offer profitable product mix that meets market needs, provide prompt service delivery to our customers, and increase our domestic and international market share. In this respect, customer representatives are involved in one-to-one relationships and active communication with customers, playing a significant role in reflecting 'voice of customer' to the processes. The outcome of structured marketing planning and development efforts based on customer representatives' feedback, resulted in new investment decision to improve distribution channels. As the first step of this investment process, the tender procedures have been continuing under the Steel Service Center project planned in Ereğli. With the new plant, our modified and enhanced product features will be developed in line with customer expectations and our product range will be expanded with die-cut products. The service qualities of slitting and shearing lines available at İskenderun plant were improved and efforts were initiated to transform them into a steel service center.

Amounts of Sale (Thousand Tons)	2006	2007	2008	2009	2010
Flat Final Product	3.904	4.295	3.932	5.128	5.123
Ereğli Tinplate	151	240	236	177	222
Ereğli Galvanized	362	286	310	313	245
Ereğli Cold-Rolled	1.168	1.162	925	1.175	988
Ereğli Hot-Rolled	2.139	2.392	2.231	2.572	1.776
Ereğli Plate	84	215	200	56	53
İskenderun Hot - Rolled	-	-	30	835	1.839
Long Final Product	2.018	1.652	1.963	1.858	1.393
Billet	1.512	1.153	1.379	964	722
Wire Rod	449	479	517	522	439
Rebar	57	20	67	372	232
Iron Ore*	1.772	1.865	1.615	2.100	2.774
Pellet	1.148	1.302	1.114	1.324	1.468
Other	624	563	501	776	1.306
Silicon Flat Steel	62	75	88	104	67
Silicon Sheet	44	58	73	45	60
Carbon Steel	13	9	7	52	1
Other	5	8	8	7	6
Steel Drawn Pipe	5	7	6	4	2

* In 2010, 2.571 thousand tons of iron ore sales are downstream sales.

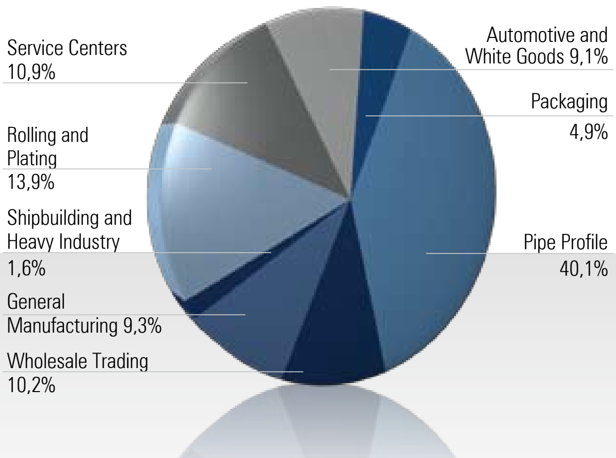
The dedicated efforts undertaken in 2010 which resulted in; the increase of active customers along with the new customer attained, the leap in quantity of orders and shipments, increased product profitability, and achievements monitored in sales indicators, suggests that the right steps were taken and smart business solutions were deployed.

In addition to all these improvements, our delivery performance was expanded through Advanced Planning and Scheduling Systems (APASS) which came into use in 2010, achieving the highest timely delivery rate of the past 10 years in yearly average. There have been ongoing efforts to ensure more effective use of APASS in line with the objective of maintaining this rate in the following years.

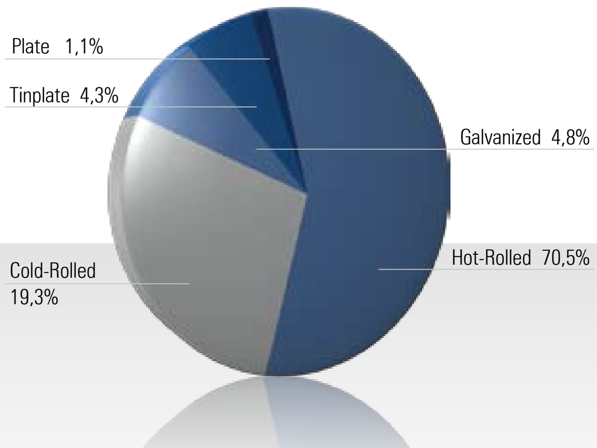
Flat Steel Products

In 2010, domestic flat product sales quantity of ERDEMİR Group displayed an increase of 15%, reaching up to the level of 4,4 million tons. Total flat product sales income increased up to USD 3,6 billion by 34,1% in 2010.

Breakdown of Domestic Flat Steel Sales by Industry

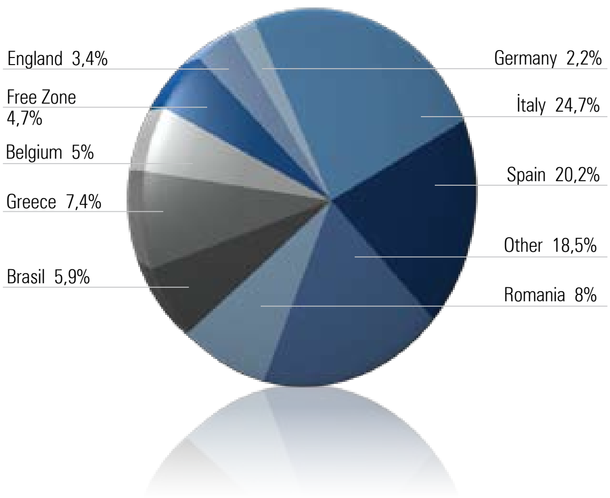


Breakdown of Flat Steel Sales by Product Group



With the increase in new capacity utilization at Iskenderun plant in 2010, the share of hot rolled flat products in product mix of our Group increased to 70,5% from 66,4%. In line with its strategy to focus in high value- added products, our Group has been increasing its sales to industries that use these products. The amount of sales to automobile, white goods and packaging industries increased by 40% in 2010 compared to 2009, reaching up to the level of 609 thousand tons.

Breakdown of Flat Steel Exports by Country



Due to the high concentration on domestic flat steel market, overseas flat steel sales regressed by 44%, and realized in amount of 734 thousand tons.

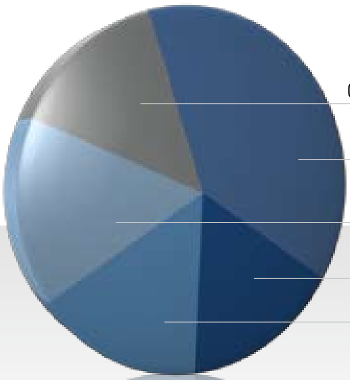
75% of the export was mainly channelled to EU countries, meeting the demand for high quality products.

Sales

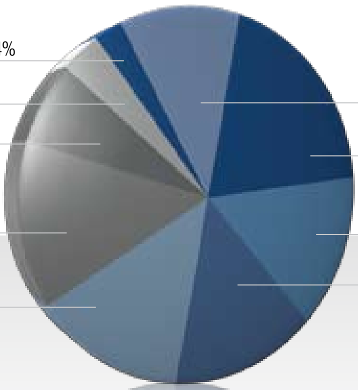
Long Steel Products

Final long product sales, including billet, was averaged in amount of 1.393 thousand tons in total, with 1.240 thousand tons for the domestic market and 153 thousand tons for overseas markets. USD 700 million was generated from domestic sales, where export sales generated USD 82,5 million.

Distribution of Domestic Long Steel Sales by Segment

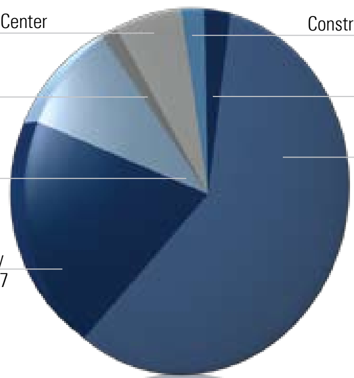


Breakdown of Long Steel Exports by Country



Services at Steel Service Center

Steel Service Center sales were realized in amount of 205 thousand tons in 2010. 50% of sales consist of products processed and shipped at ERSEM while 50% consist of products shipped to the customer without being processed. Domestic sales accounts for 97% export accounted for 3%.



Mining

Total sales increased by 32% in 2010; 2.774 thousand tons of sales were performed, including 1.468 thousand tons of pellet and 1.306 thousand tons of other ores (lump ore, fine ore, intermediate product and magnetite). 93% of the sales were within group.

Logistics Services

Logistics Company performed 139 containers of sea transportation and 531 thousand tons of railway-ferry boat transportation in 2010.

Seamless Steel Pipe

Including the sales of merchandised pipes, nearly 2.000 tons of sales were realized in 2010.

Investments

Investments

Operating with modern plants and a state-of-the-art production technology, our Group produce competitive products globally and continue its investments aligned to continuous development strategy. The Group's investment expenditure was USD 152 million in 2010.

Cold Roll No.2 Continuous Annealing Line (CAL) Automation Modernization Project was completed at our Ereğli plant.

The assembly works and preparations for commissioning at ''Cold Roll. No.2 Continuous Pickling -Tandem Line (CPL-TCM) Automation Modernization Project'', modernization activities aiming replacement of ''Combined Rolling Mills at Hot Strip Rolling Plant No.1'', the ''Blast Furnace No.2 Reline'' project and further works on complementary investments for this project, which include Investments to be made on BOF and Other Plants Depending on Reline, have currently been in progress.

''4. Coke Battery'', ''Air Separation Plant No.7'', ''Blast Furnace Top Pressure Recovery Turbines (TRT)'', ''New Turbo Blower (Steam Turbine- Blower No.5)'' and ''Ereğli Steel Service Center'' projects were approved by the Board of Directors within the year and kicked off.

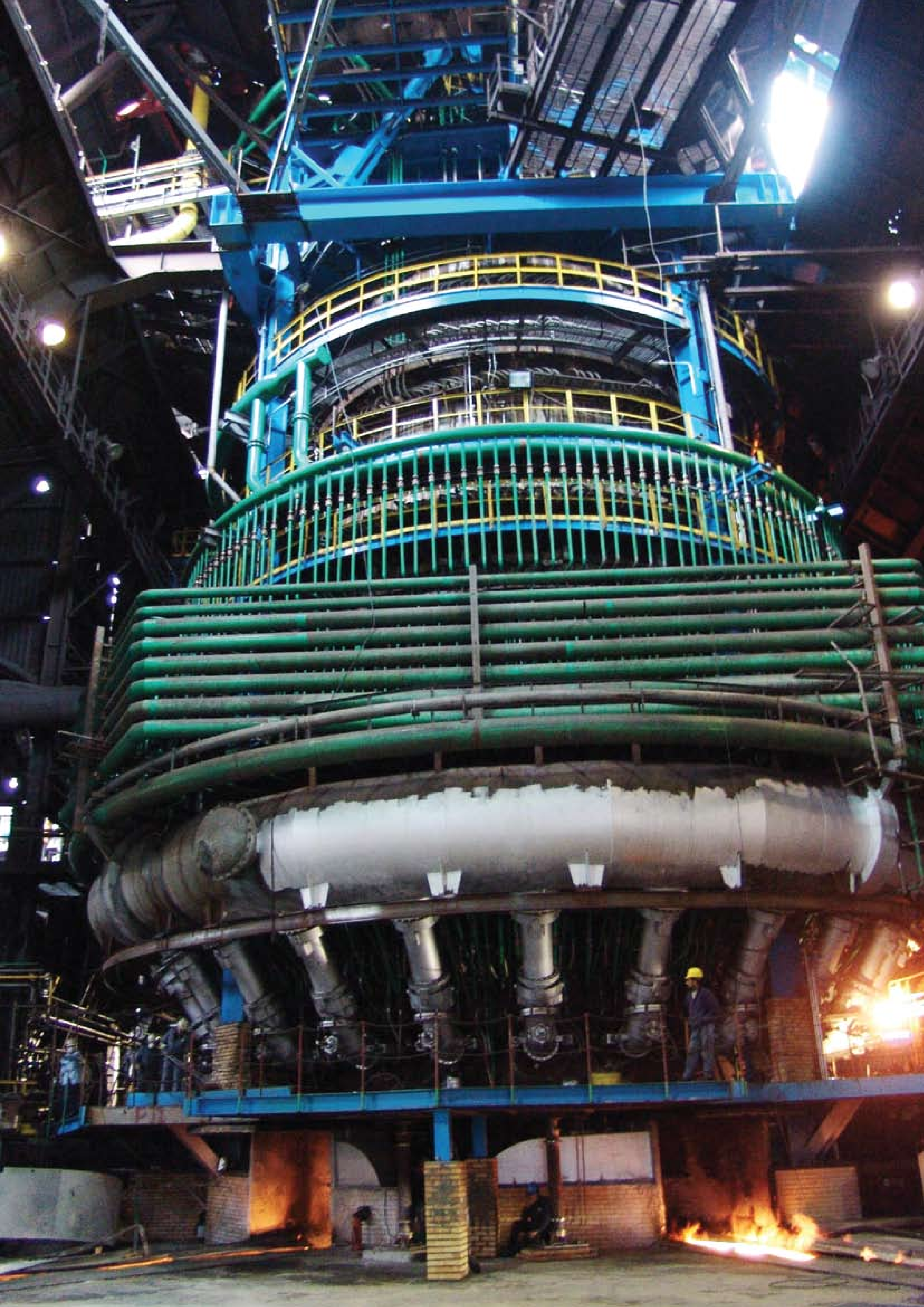
Preliminary procedures including authorizations from relevant government bodies and required leases continued in ''Yarımca Logistics Facility Project'' covering construction of ports and logistics facilities on the land of our Company in İzmit-Yarımca.

Advanced Planning and Scheduling Systems, which is a software enabling a detailed planning to ensure most efficient and productive operation of production capacities of Ereğli and İskenderun plants, and presentation of future estimations, is being commissioned in stages.

Modernization of BOF was completed in scope of Modernization and Transformation Investments (MTI) initiated in 2003 at İskenderun plant; the capacity was increased from 2,2 million tons up to 5,3 million tons. Commissioning activities for the Sinter Plant No. 2 which will have a capacity of 3,2 million tons and construction and assembly activities of the Blast Furnace No. 4 which will have a capacity of 2,2 million tons of capacity and a work volume of 2.500 m^3, modernization of the Coke Battery No.4 and Modernization activities for Automation System of Existing Boilers have been in progress. In addition to environmental investments in scope of MTI, new environmental investments consisting of 10 facilities were initiated.

Major part of legal authorizations required were obtained by our mining enterprise for the "Iron Ore Dressing and Pelletizing Plant", which is planned to be installed in Hasançelebi; the tender process will be initiated after completion of detailed laboratory tests to be carried out for the plant. Moreover, underground operation investment of the iron ore mineral in Ekinbaşı, Divriği district, Sivas has been in progress in scope of the programme.

Slitting line modernization was realized at our Romania plant.



Investments

Ongoing Investments in 2010

Investment Projects		Start Up											
		2011				2012		2013		2014		2015	
		Q1	Q2	Q3	Q4	H1	H2	H1	H2	H1	H2	H1	H2
I - Ereğli Plant													
1	Advanced Planning and Scheduling Systems			■									
2	Cold Roll. No 2 Continuous Pickling – Tandem Line (CPL-TCM) Automation Modernization			■									
3	Hot Strip Rolling Plant No. 1 Modernization of Combined Rolling Mills					■							
4	Ereğli Steel Service Center					■							
5	Reline Investment on Blast Furnace No.2												
6	Investments to be Made on BOF and Other Plants Depending on Reline						■						
7	New Turbo Blower						■						
8	Blast Furnace Top Pressure Recovery Turbines (TRT)						■						
9	Air Separation Plant No.7							■					
10	Coke Battery No.4								■				
11	Yarımca Port Construction and Logistics Plant										■		
II - İskenderun Plant													
1	Sinter Plant No.2		■										
2	Modernization of Automation System of Existing Boilers		■										
3	Blast Furnace No.4		■										
4	Modernization of Coke Battery No.4			■									
5	Development of Product Stock Fields				■								
6	Port Investments (Phase 2) Coastal Protection Building (First Stage)					■							
7	Environmental Investments						■						
III - Mining													
1	Ekinbaşı Underground Mining Project				■								
2	Hasançelebi Iron Ore Dressing and Pelletizing Plant												■

Q: Quarter   H: Half

Human Resources

Human Resources

The most valuable asset of our Group in its journey to the future is our employees who are dedicated to our corporate values, focused on our objectives, continuously improving themselves, adaptive to team work, working with strong motivation for success with a sense of responsibility. Our human resources policy and practices dictate the efforts to; acquire and retain the right talent, set out the work climate to welcome ideas with the intention to foster innovation and creativeness within the group and maintain a pivotal focus on people development and engagement.

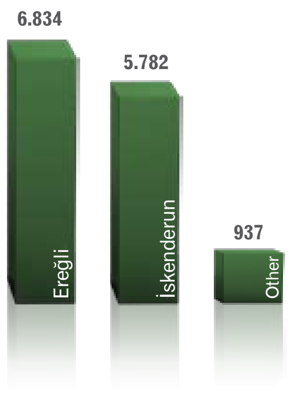
As one of the biggest employers of Turkey, Group has 13.553 employees in total as of 31.12.2010, including 10.032 blue-collar workers, 3.396 white-collar workers and 125 contracted employees.

ERDEMİR Performance Management System (EPMS)

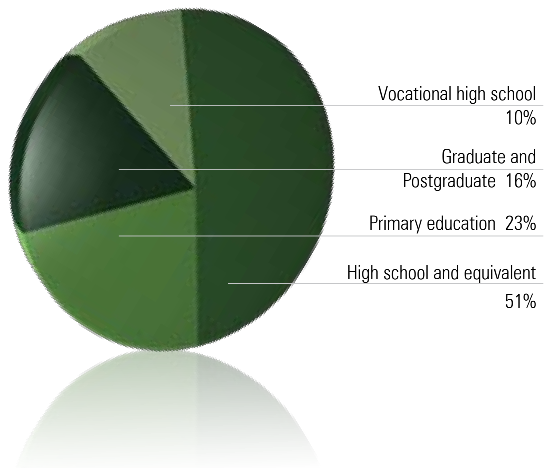
The performance management program applied both to blue and white-collar is designed to; assess the employee contribution to overarching corporate objectives, uncover their strengths, timely diagnose the training needs and increase operational efficiency. The outcome of performance management system is directly linked to career development and succession planning programs.

Employee Profile

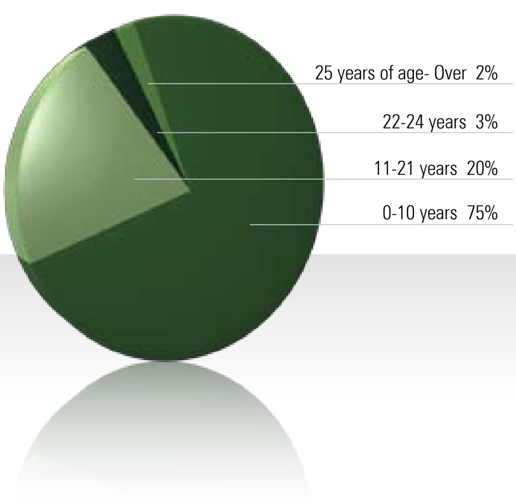
Number of Employees



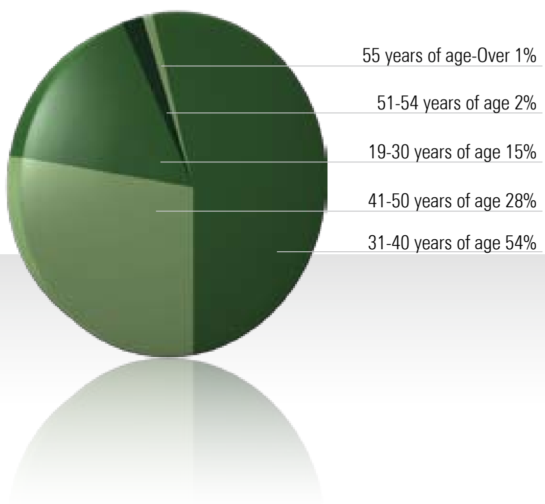
Education Levels of Employees



Service Period of Employees



Age Distribution of Employees



Collective Labour Agreement

The salary increases were effective in 2010 following the 22nd Collective Labour Agreement held at Ereğli plant in 2010.

The meetings have been in progress for the 23rd Collective Labour Agreement, initiated on 07.12.2010 between Turkish Employers Association of Metal Industries (MESS), which carries out the negotiations in the name of our Company in Collective Bargaining Agreement.

The wage increases were adopted in the 3rd and the 4th half-year periods within 2010, affecting the 23rd Collective Labour Agreement contract with Çelik-İş Labour Union, a union authorized in İskenderun plant. The contract is valid between 01.01.2009-31.12.2010.

Due to the global economic crisis, the practice of reducing wages and associated rights at the rate of 35% for a period of 16 months from 01.05.2009 at Ereğli and İskenderun plants and in engineering and logistics company, expired on 31.08.2010. Employees of our companies, who were subject to wage reduction in group, have been provided with a gross support payment of 250 TRY/month per person including legal deductions payable by the companies for a period of 4 months covering the period between May and August 2010.

According to the provisions of the Collective Labour Agreement effective between 01.07.2009 – 30.06.2011 at ERDEMİR Steel Service Center, a wage increase was applied in the 3rd half-year period.

The agreement which was effective between 01.06.2008-31.05.2009 at ERDEMİR Romania was extended until 15.01.2010, and consecutively no wage increase was applied in 2009 and 2010.

The Collective Labour Agreement which covered the period 01.01.2007-31.12.2009 at ERDEMİR Mining was signed on 12.03.2010 and wage increase was applied on hourly paid employees. Meetings for the Collective Labour Agreement for the new period could not be initiated as Turkish Union of Mining Employees could not receive authorization. A wage increase was applied for the hourly paid employees so as to be deducted when the Collective Labour Agreement is signed.

A wage increase was made in the 2nd and 3rd six-month periods in accordance with provisions under the Collective Labour Agreement as of the 4th Period which came into effect on 01.09.2008 and will be valid until 31.08.2010 at ERDEMİR ÇELBOR.

Health Services

The primary aim of the Group is to protect employees' health and to provide them with healthy and safe work environments. The health services for our employees at our Companies consist of protective medical activities, employment health examinations, activities to prevent job accidents and diseases, first-aid and emergency treatment services, periodical health checks and protective vaccines.

Miscellaneous health check-ups and examinations were performed for our employees at healthcare centers in Ereğli and İskenderun plants depending on the plant conditions training were held to raise awareness against diseases in scope of protective medical activities, and certified first aid trainings were continued. Both our employees and their families are provided with polyclinics service at our healthcare centers and our retired employees are subject to periodical examinations.

Human Resources

Training Activities

The systematic training approach applied at group companies in order to contribute to sustainable competitive advantage aims at improving employee competencies by means of covering the training needs effectively from the day of on recruitment and throughout the employment period.

With the intention to use our resources effectively and efficiently, we strive to utilize internal resources in our training programs. In 2010, 13.960 employees in total attended the trainings at Ereğli facility on personal development, Occupational Health and Safety, vocational and technical issues, all accounting for 303.860 attendee-hour and 44,9 hours of training per employee. The period of training per employee was 33,8 hours at İskenderun plant and 37,7 hours at mining company.

2.160 books are presented over the intranet, including 65 new books and the number of active trainers reached up to 1.017 with 136 In-Unit Training System (ÜYS) trainers educated at Ereğli plant within the scope of ÜYS which ensures our employees to perform their work safely and within the shortest time required to a defined standard, guarantees that the training is forwarded to new employees by specialists who personally perform that job, assures an increase in self-confidence of employees through trainings in real environment, and easy adaptation of employees into the work environment. 300 books were written at İskenderun plant within the scope of ÜYS.

532 employees from Ereğli plant and 206 from İskenderun plant attended professional seminars and conferences and presented 13 papers.

29 of our employees graduated from primary & secondary school and 1 from high school under ERDEMİR's Distance Education Project carried out at Ereğli plant. There are currently 586 employees under the project, including 222 as primary and secondary school graduates and 364 as high school graduates.

Social Services

There are wide range of facilities in our Group such as; lodging, guesthouses, cultural centers, cafes and restaurants, beaches and swimming pools, outdoor and indoor tennis courts, fitness centers, stadiums, day nurseries etc. to strengthen the communication between our employees and their families, to raise motivation of our employees, and to enrich their social lives.

Sustainability

Sustainability

Occupational Health and Safety (OHS)

Playing a leading role across a variety of fields in our national industry, we, ERDEMİR Group, are mostly proud of our Occupational Health and Safety performance. Health and Safety of our employees are of primary significance in the group. Our Occupational Health and Safety systems were designed with an idea in mind 'Accident-free steel production is not a dream, but possible to achieve', and in a manner that safety of our employees, our production, enterprises and environmental safety will be protected. Accordingly, we have been following the latest technologies and legal legislations, offering safe work environments and convenient protective work materials to our employees and carrying out training and awareness-raising activities for creation of a safety culture at our enterprises.

OHS board meetings, unit OHS committee and sub-committee meetings, scheduled or random security tours, yellow card and 'almost accident' practices, emergency drills, direct appointment of OHS engineers at units are among our exemplary practices in field of OHS. Employees of the group and employees of contractor firms have been provided with training in general occupational safety, as well as gases and chemicals and fire safety and special trainings for varying risks depending on the work atmosphere. Moreover, personnel service car drivers, automobile center vehicle drivers and contractor vehicle drivers are still provided with periodical traffic trainings. Accordingly, 93.425 hours of training in total were provided at Ereğli plant and 41.666 hours for OHS training at İskenderun plant.

The 18001 Occupational Health and Safety Management System inspection which was carried out on 29-30.09.2010 at Ereğli plant was completed with zero error; moreover, a certificate of operation with zero error was received upon inspections carried out by inspectors of the Ministry of Labour and Social Security between 04-28.10.2010. Ereğli plant attended the Safe Maintenance competition held by the Ministry of Labour and Social Security in 2010 with ERDEMİR Maintenance Management System, being entitled with the right to represent Turkey before European Agency of Occupational Health and Safety. Issue of the OHS Bulletin containing announcements, information, comics, news, teasers and interviews to provide participation of all our employees at Ereğli plant continued in 2010.

Energy Management

As an indispensable factor for survival on earth, energy has been creating the paradox of triggering a global problem both due to environmental impacts of mainly utilized sources of energy and limited nature of such sources while energy consumption is increasing day by day. 1970s were a breaking point in terms of the use of energy; the challenges encountered in that period pointed out to the energy safety, while the emerging awareness on sustainable development manifested the obvious requirement for efficient use of energy.

Today, limited fossil fuels have mainly been in use both in industry and daily life. According to forecasts of World Energy Council, increasing and continuous utilization of these sources manifest that the energy must be used at utmost efficiency. Quantity of energy consumption per person, which was once an indicator of a developed status, is now almost an expression of a less developed status.

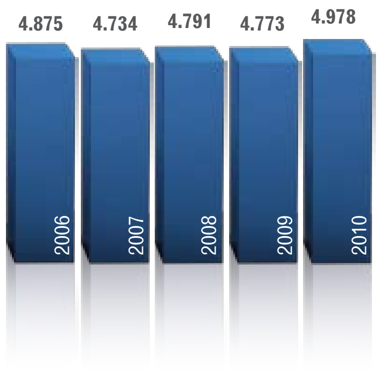
Effective management and efficient use of energy on the part of our group is of high significance for both control of our costs and minimization of environmental impacts. With the notion that the human factor is more determinant than technical opportunities in efficient use of energy, we primarily endeavour to raise awareness of our employees on this issue. Indeed, trainings covering energy, efficiency and cost issues were continued throughout the year in order to raise awareness levels of our hourly paid employees at Ereğli plant in 2010. Moreover, "Cost, Efficiency and Energy" section in monthly ERDEMİR News conveys messages to raise awareness of all employees on these issues.

All by product fuels emitted in our production processes are used as much as possible instead of purchased primary sources of energy; our production activities are reduced through use of these sources which are wastes in a sense.

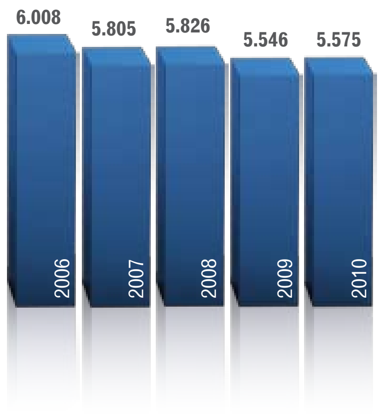
The Group companies maintained their successful performances in specific energy consumption, which is a significant performance indicator in iron & steel industry, despite negative impacts of global economic crisis which started in the last quarter of 2008 and remained effective in 2009-2010. Specific energy consumption was 4.978 Mcal/TCS at Ereğli plant and 5.575 Mcal/TCS at İskenderun plant.

Specific Energy Consumption of our Plants (Mcal/Ton Crude Steel)

Ereğli Plant



İskenderun Plant



The distribution of procured primary energies such as coal, coke, natural gas and electricity in our plants are; 83,3% coal and derivatives and 14,5% natural gas and 2,2% purchased electricity at Ereğli plant, 92,7% coal and derivatives, 2,5% natural gas and 4,8% purchased electricity at İskenderun plant.

Ereğli and İskenderun plants have a capacity to generate almost all of the electrical energy they consume; however, we also monitor market conditions interactively, balance the electricity generation amount through analysing cost advantages, and purchase electricity where outsourcing is more economic within certain hours, thereby generate considerable amount of savings.

Furthermore, investment decisions were made for 9 energy recovery projects in 2010 at Ereğli plant with a view to make use of waste heats in scope of energy saving investments. Significant amounts of energy will be saved through realization of Coke Dry Quenching Plant, Renewal of Sinter Main Fan and Engine Systems, Blast Furnace Top Pressure Recovery Turbines, Slab Furnace Evaporative Cooling, Descale Pump AC Driver, Additional Combustion System for Heat Recovery Boilers of Cogeneration Plants, Sinter Circular Cooler, Slab Furnace No.2, and Continuous Pickling Line Waste Heat Boilers projects.

In 2010, Ereğli plant effectively used the Plant Information Management System project which was initiated in 2008 for real time monitoring of all energy productions and consumptions of our Ereğli plant, acquired remarkable gains in respect of energy savings. Performing considerable activities on energy efficiency since 1982, our plant adapted its activities to the standards, finally having acquired TS EN 16001 Energy Management System Certificate. Ereğli plant is the first in the industry to have implemented the Energy Management Standard, among a few leading companies in our country.

Sustainability

Environmental Management

Iron & steel industry, regenerating steel as the most environment- friendly product of the world with its unlimited recycle feature, has covered a lot of grounds in development of environment-friendly technologies and protection of environment. Having adopted the principle of sustainable development, Companies of our Group have been continuing their efforts increasingly for protection of environment, as exemplary plants leading the steel industry with their wide knowledge and good practices.

With a sensitivity beyond compliance with legal legislations, the Group Companies have been implementing activities aiming at utilization of clean production technologies, consideration of environmental impacts of new investments, control of such impacts with a number of measures taken, maximization of recycling and minimization of wastes emitted to the nature and protection of ecologic balance; and have also been following international developments and adopting standards as guides in this field.

Ereğli, İskenderun and Romania plants have ISO 14001 Environmental Management System Certificates. Environmental impacts of all activities at our plants are being monitored; liabilities mentioned in legal legislations and undertakings within scope of EMSC are being followed through measurements performed at our plants by licensed companies and systematic reports submitted to related authorities; wastes which cannot be utilized in the production process are sent to licensed plants for either recovery or disposal. Our mining plant has also been continuing its activities for efficient use of natural resources, controlling and minimization of environmental impacts such as dust-gas emissions resulting from operational activities, dangerous solid wastes, noise etc.

ISO 14001 Environmental Management System Review Inspection held between 29.09–01.10.2010 at Ereğli Plant has been successfully completed. An application file was prepared in scope of an Emission Permission Certificate along with emission measurements performed by a company authorized by the Ministry in scope of the Regulation on Air Pollution Control Resulting from Industrial Facilities of Ereğli plant, and submitted to the Ministry of Environment and Forestry.

An online sampling device and a flow meter were mounted on the South Collector from our waste water discharge points as per the Regulation on Water Pollution Control, and continuous monitoring of waste water discharge was initiated. With this, monitoring systems at all discharge points were completed.

For prevention of dusting, a sprinkler system was activated in 2010 for BOF shop sinter stockyards in addition to the sprinkler systems on raw material stockyards; and dusting caused by wind and dry weather conditions was prevented. An income in amount of TRY 1.180.033 was obtained in 2010 from collection and recycling of wastes (paper, plastic, brick, wood, etc.) that will create added value at Ereğli plant having an efficient waste management system.

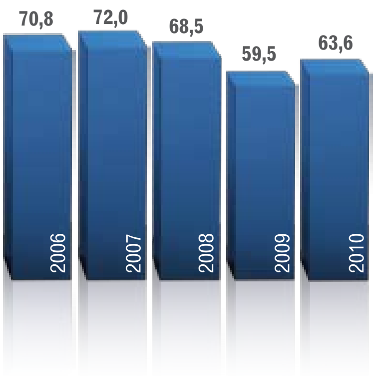
Moreover, a number of efforts were carried out to receive consultancy and certification service for consideration, in the voluntary market, of CO_2 reduction which shall be achieved through energy efficiency projects planned by benefiting from carbon credit sales in carbon market; the BOF shop sinter was registered at European Chemicals Agency in frame of REACH (Residential Energy Assistance Challenge Option) Regulation. The project submitted to TÜBİTAK-TEYDEB in frame of Industrial R&D Projects Supporting Programme by Ereğli plant regarding recovery of high iron & carbon containing solid wastes, such as pellet dust, mud from blast furnaces, mud from BOF shop, coking duff and flue dust through briquetting was approved upon an evaluation by referees.

The Group companies have been actively attending the platforms where environmental knowledge is shared. The Group was represented in activities carried out under the presidency of TOBB for Climatic Changes, which is among major elements of the environment stage during EU participation negotiations of Turkey; a member for ERDEMİR was chosen for the Group led by Iron & Steel Producers' Association. With regard to the Regulation on Recycling of Non-Dangerous Wastes, employees of our Ereğli plant submitted opinions about scrap recovery licence application at the meeting organized through attendance of the Ministry of Environment and Forestry under the leadership of TOBB; they also attended the workshop titled Environmental Management in the EU process, the Chemicals Legislation Information Meeting, and meetings regarding Iron & Steel Industry BAT (Best Available Technologies) Applications.

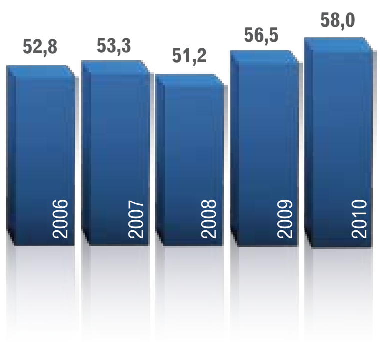
Employees of İskenderun plant attended many events including; Ministry of Environment and Forestry activities, MATRA Project Sharing Platform titled 'Hand by Hand' for Clean Air in Eskişehir and İskenderun, universities and environmental organizations, Industrial Symbiosis Workshop at İskenderun Bay, Seminar on Integrated Directive for Prevention and Control of Pollution, ICCI International Energy and Environment Exhibition and Conference, Sub-Committee Meeting in frame of the Regulation on Recovery of Non-Dangerous and Inert Wastes, Conference on Climatic Change and Environment, 12th Symposium of İTÜ on Control of Industrial Pollution, 2nd National Congress on Solid Wastes, 4th National Symposium on Air Pollution and Control.

Solid Waste Recovery Rate of our Plants (%)

Ereğli Plant

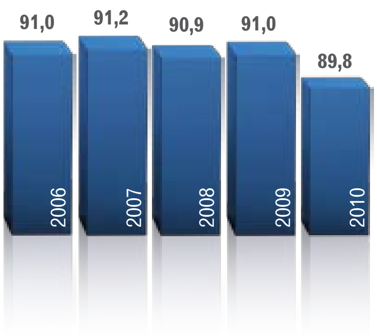


İskenderun Plant

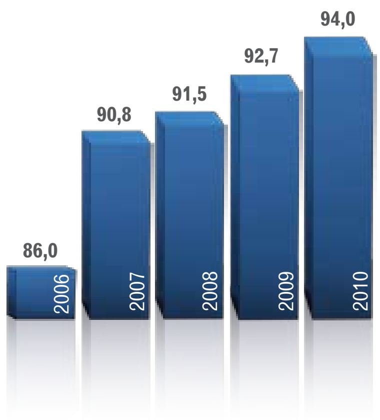


Recirculation Water Utilization Rate of our Plants (%)

Ereğli Plant



İskenderun Plant



Sustainability

R&D, Quality and Technology

ERDEMİR's total number of product range categorized by its qualities reached up to 335 with the introduction of ERDEMİR-4252 construction type steel quality developed in 2010 at Ereğli plant and offered for sale, with high resistance and convenience for galvanizing process, as well as hot rolled low carbon 3222 and 4222 qualities suitable for cold rolling which were developed for İSDEMİR.

In line with the European Union directives, CE certificates received for structural steel and pressure vessels, of the products manufactured at Ereğli plant according to international standards, and the certificate received from Turkish Lloyd for high-resistance ship plates were both renewed.

Homologation activities were started following requests of leading companies of automobile industry and accordingly, samples were collected in various qualities and industrial test operations were continued. The projects initiated in previous years were carried out through cooperation of TÜBİTAK – TEYDEB were completed by the end of 2010. An application was made to TEYDEB with the project titled "Reuse of Iron and Carbon Containing Wastes of Iron & Steel Industry in Processing through Briquetting", and the application was accepted.

The number of billet qualities produced at our Iskenderun plant, which was 231 in the year 2009, increased up to 243 by the end of 2010, while the number of flat product qualities increased up to 78 following addition of 22 new flat product qualities. The number of qualities which was 286 in total in 2009 increased up to 321 in 2010.

Operations for 1.1018_05 (SAE J 403 1018), wire and spring production were continued in nail and bar production as long products, and new cast steel qualities were developed including high carbon 5.1082_00 (DIN EN 10016-2 C82D), also 1.1355_05 (DIN EN 10025 S 355 JR) and 1.2355_05 (DIN EN 10025 S 355 J2) suitable for angle iron and bar production, 5.2450_00 (17MnV7) suitable for vanadium alloyed bar production, 1.8420_03 (BS 4449 Gr 460) suitable for structural steel production, 5.2570_01 (DIN EN 10263-4 17MnB4) and 5.2600_02 (DIN EN 10263-4 27MnB4 (Modified)) and 5.2600_03 (DIN EN 10263-4 30MnB4 (Modified)) suitable for bolt production, and 6.1470_04 (DIN EN 756 (2004) S3Mo) suitable for shielded carbon electrode welding wire. Vanadium and chromium alloyed cast steel qualities 5.6150_00 (DIN EN 10083-1 50CrV4) and 5.6150_01(DIN EN 10083-1 51CrV4) suitable for leaf spring production were successfully manufactured.

8 steel qualities in total, including 2 for electrodes, 2 for high-resistance wire and spring production, and 4 suitable for bolt and nut production, were put into service at the Wire Rod Rolling Plant. New steel qualities were manufactured, including 6.1360_10 (DIN 8559 (TS 5618) SG2 (Titanium)), 6.1470_04 (EN 759 (2004) S3Mo) of steel suitable for electrode manufacturing, 1.1045_02(DIN EN 10016-2 (1996) C42D) of steel suitable for high-resistance wire and spring production, 1.1070_02 (BEKAERT SPEC. GS-02-011 / TCN1) for rubber cord wire, 5.2570_01 (EN 10263-4 / 17MnB4), 5.2580_20 (EN 10263-4 / 20MnB4), 5.2600_02 (EN 10263-4 / 27MnB4 (Modified)), 5.2600_03 (EN 10263-4 / 30MnB4 (Modified)) of steel suitable for bolt and nut production.

Cast steel qualities produced also include 4.6016_60 (DIN EN 10025 S235 JR (Modified)) which is suitable for wide section slab production and 4.6352_61 (DIN EN 10028 P2 P355 GH) which is suitable for boiler steel production.

New steel qualities of flat products were put into application in 2010, including general structural steel, petroleum pipe steel, low and medium resistance carbon steel, steel suitable for cold rolling and deep drawing, oil drilling pipe steel and oil pipe steel. The qualities produced include 1.6244_40(DIN EN 10025-P2-04 S275 J2+N), 1.4252_40(DIN EN 10025 P2-04), 1.3018_40(ASTM A283-03) for manufacturing of construction machinery and vehicles, general construction plates, miscellaneous machine parts, land and railway vehicles, the high resistance 1.3736_40 (ABS P2-05 AH36) suitable for shipbuilding, 1.6007_40 (SAE J403 1006(Modified) for low and medium resistance carbon steel used in automobile industry, pipe, steel bar and various machine parts, 1.6341_40 (DIN EN 10028 P265 GH) boiler steel quality suitable for use under high temperature and pressure, 1.3285_40 (DIN EN 10217-2005 P235TR1) of carbon steel class suitable for use at medium and low temperatures and under pressure, 1.3222_40(DIN EN 10111 DD11), 1.4222_40(DIN EN 10111 DD11) of steel class suitable for cold rolling and deep drawing, 1.9255_40 (API 5 CT-05 J55) of casing class suitable for oil drilling and casing pipe steel class, 1.9256_40 (API 5 CT-05 J55 Custom) for tubing, 1.9030_40 (API 5 L-04 GRA PSL1), 1.9065_40 (API 5 L-04 X65 PSL2), 1.9070_40 (API 5 L-04X70 PSL2) for oil pipe steel, and 1.6406_40 (SAEJ 403-01) for steel suitable for cold rolling.

Upon the review inspection held at İskenderun plant, validity of the CARES product approval certificate was extended; an application was made for 'Product Conformity Certificate' for billet products, and TS 9914 certificate was received from Turkish Standards Institute. Romania plant continued to develop new high value-added qualities and high-transmission qualities with increased surface coating quality (varnishing).

Quality Management

Implementation of systematic approaches based on stakeholders' expectations at our group companies with the intention to sustain continuous development is an indicator of our determination to ensure effective management of our processes at lower costs, ensuring a flawless and accident-free outcome in order to achieve more successful business results we review the progress in our industry and markets, stakeholder feedbacks and our ways of doing business in light with our experiences, and we apply internationally recognized management systems in order to protect our competitive advantage and sustainable development.

Interim inspections of ISO 9001:2008 Quality Management System, OHSAS 18001 Occupational Health and Safety Management system and ISO 14001 Environmental Management System were successfully carried out at Ereğli plant and all of these certificates were extended in 2010. The ISO / TS 16949 Quality Management System Certificate for Automobile Industry were renewed for a period of three years; TS EN 16001 Energy Management System Certificate was received.

With participation systems used for employees to find out improvement opportunities related to the works performed and to develop and implement solution methods, total number of suggestions given to ERDEMİR Suggestion System (ERÖS) at our Ereğli plant exceeded 60.000 and the number of implemented suggestions exceeded 20.000. 26 Improvement Team projects were finished in 2010, with major savings in costs of our Company.

Review inspections for ISO 9001:2008 Quality Management, ISO 14001:2004 Environmental Management and TS 18001:2008 Occupational Health and Safety Management Systems and certificate renewal inspection for ISO 17025 Laboratory Management System were successfully completed. Participation of employees into the Suggestion System İSÖS of İskenderun plant by the end of year 2010 increased up to 87% and weekly average number of suggestions up to 373. 64.898 suggestions were produced in total.

TS EN ISO 9001:2008 Quality System review inspection at our steel service center and certificate renewal inspection at our engineering company were successfully concluded.

Information Systems

Our hardware and IT infrastructure are strengthened to provide seamless operations over our systems and to enable smooth integration of emerging needs with the intention to better serve the needs for business process improvements in 24 hours active plants, to enhance information security and enable easier access to data in a timely manner for management decision making needs.

Preparation, conceptual design and realization stages were completed in Logistics, Financial and Human Resources Modules and finally the ERP (Enterprise Resource Planning) - SAP, which was carried out in line with the aim to ensure an integrated structure which will help elimination of business process silos of Group Companies and allow their administration as a single economic unit, was put into operation on 01.10.2010.

Along with SAP, all integrations required to be made between SAP and external systems such as ERDEMİR Production Control System which has been in use at Ereğli and İskenderun plants, İSDEMİR Production Management System, ERDEMİR Iron Production Control System, İSDEMİR Iron Production Management System, Flat Product Sales (ERDEMİR Online), Long Product Sales, Management Information System, Maintenance and Workshop Management System, Advanced Banking, Online Banking, Office Automation Applications, Human Resources Applications, Scale Management Systems, and Personnel Attendance Monitoring were fully realized in conformity with the project plan. Technical support was provided on WEB Service, infrastructure, user environments, database, basis works and authorization issues.

Load balancing studies were executed with the scope of SAP for servers on which applications will run. These activities carried out at İstanbul headquarters were also executed at Ankara Emergency Center.
Design, matching processes and software expected from

Sustainability

the existing business systems at ERDEMİR and İSDEMİR were completed in the framework of Advanced Planning and Scheduling Systems (APASS). Integrations were performed with Level 4- Level 3- Level 2 systems and for the BOF Shop and Alpha Planner, Hot Strip Rolling Plant-1 beta), CPT for the Cold Rolling Plant-2, CAL and CGL lines (beta) and product match (PM) product; Dynamic Capacity Follow-up activity was initiated. Technical and operational support for the system was continued.

Product Family Data Management (PFDM) module, which is not available in APASS modules at ERDEMİR but required for operation of the system was separately developed and put into operation for product cost estimations purposes.

Orders management, preparation of offers and demand generation applications are designed following the restructuring of sales system and efforts were kicked off to migrate all the sales processes over to the ERDEMİR Online system. Online Customer Inventory Management System was put into operation at ERDEMİR and İSDEMİR. Since Container Shipment was put into application at ERDEMİR as a new shipment method, the related functions were developed and put into operation in the current system.

Installation of SAP-compatible help desk was executed. More efficient monitoring of events is aimed with this application.

The logic involving minimum tonnage specific to İSDEMİR and its multiples was adapted to the current applications for İSDEMİR production demand entries in ERDEMİR sales system. Integration was ensured and related applications were put into operation by means of web service which is used for works to be executed in Order Cancellation, Tonnage Reduction and Order Closedown functions.

"Demand Certificate Allocation Increase and Transfer" module in Office Automation System, which is in use at ERDEMİR, was also put into use at İSDEMİR. Website of İSDEMİR was renewed and activities were performed for new hardware and commissioning in cluster environment.

Network infrastructure operations were performed for the PIMS project, in which energy items will be managed by İSDEMİR. All flow meters and measurement devices transfer the measured values to the related systems through İSDEMİR network. Software and test operations of Energy Management System (EMS), which is realized as fully integrated to Plant Information Management System in order to manage energy gains and consumptions and to transfer information to SAP system, were completed and put into operation. Scale Management System and Port Management System at ERDEMİR were put into operation on 01.01.2010 by meeting their needs for infrastructure and technical support.

Laboratory Management System project, which shall ensure management of all laboratories at İSDEMİR under a single system, creation of sample-analysis systematics and recording of the results of analysis, has been initiated and the system is planned to be put into operation in June 2011.

Analysis and design was completed in activities for installation of Coal Manipulation module at ERDEMİR Iron Production Management System and the software were initiated. Analysis and design phases of Blast Furnace (BF) Reports were completed. The Lime Plant module at İSDEMİR Iron Production Management System was improved in such a form that production and consumption values could be separately followed for each lime plant. Coke Plant Battery Temperature and Propulsion Programme was re-developed with current technologies and put into operation. The project in which the information such as production, number of charges, number of suggestions, etc. for the Directorate of Blast Furnaces were offered online in scope of visual plant activities was completed.

Activities were initiated for installation of ERDEMİR Desulphurization and Lime Plant Level-3 System. Integration with Level-2 systems and analysis of reports were completed in this scope. Software works have been in progress. The communication between İSDEMİR BOF Shop and Continuous Casts Level-3 System and Scarf machine Level-1 was completed and put into use. Revisions were made in consideration of changing and evolving work conditions regarding Hot Strip Rolling Plant Level-3 Slab Stockyard Management. Performance reports regarding production processes of Hot Strip Rolling Plant were put into use. Rewriting of the Wire Rod Rolling Plant Level-3 system was initiated through use of up-to-date technologies.

ERDEMİR Coil sites management Level-3 System was rewritten through recent Java transfer technology and put into operation. Re-writing of the Cold Roll No.2 Continuous Annealing Line (CAL) Level-3 system was initiated through use of up-to-date technologies. Level-2,3 Interface Document was prepared in Tandem Line Modernization Project and software was started.

ERDEMİR Emergency Center Fire Fighting System was renewed. Maintenance and development activities continued on the Local Network and Wide Area Network. For purpose of load balance of critical applications related to production and service in cluster form at İSDEMİR, the second system room infrastructure installed at the electricity and automation building of the Hot BOF was also used; virtual media servers were installed and virtualization of critical servers was started on this media. Thus, information systems of critical importance are aimed to stop for the minimum time period.

The last phase has been achieved in multiple backbone infrastructure institutions which shall enable devices on İSDEMİR network to communicate with each other with backups. Finally, an infrastructure with the least interruption shall be possessed in terms of network communication. All of the computers on İSDEMİR network were included in the Active Directory domain structure, which enables central administration of computers and allows use of file servers. 31.295 meters of fibre-optic cables, 6.275 meters of UTP cables were laid and their edges were cut in scope of infrastructure improvement at İSDEMİR.

ERDEMİR Facsimile System was adapted to the new sales organization. Load balancing works of e-mail servers at İSDEMİR were executed. Advanced access from mobile devices to e-mail addresses has been enabled.

The out-of-date security wall was replaced by attack detection and prevention systems in scope of network security and management activities at İSDEMİR. Devices which shall ensure central management and security of wireless network devices were used for the first time.

Kaizen Application, the sub-module of İSDEMİR Suggestion System, was put into operation, whereby Kaizen operations which were put into operation at İSDEMİR or included in the improvement process were followed and related documents are kept and gifts were distributed with kaizen scores gained.

Additional demands, requests for change, troubleshooting and improvements from our user units in all the systems were made and sustainability was ensured for the systems which have been in operation at ERDEMİR and İSDEMİR.

ERDEMİR Information Systems service providing ratio was 99,97% in the year 2010.

Contribution to the Society

The Group companies set a strong emphasis to contribute to the community, enrich the society, as well as its employees and their families' social lives with the responsibility of bearing a modern corporate identity.

The Group Companies have been pioneering their leading position in their industry with their activities in fields of education, culture, art, healthcare and sports while creating value for the economy of our region and our country.

The Group Companies organized various conferences, seminars and various courses in 2010, which were all accessible by the residents of the region, primarily our employees working in our social facilities. Cooperation was maintained with public bodies and institutions, non-governmental organizations, universities and industrial corporations; internship opportunity was offered to university and vocational college students, primarily the children of our employees. Our Companies actively attended fire, flood etc. rescue operations in their region with their teams and equipment.

Our Ereğli and İskenderun Plants and mining company supported the High School Matematics Competition organized by OYAK Group and they held the competition organizatons in Zonguldak, Hatay and Sivas. Provisions were supplied to 2.500 families by Ereğli and İskenderun plants; and, a record was broken through attendance to blood donation campaigns of Red Crescent. Our plants continued to support the activities of ERDEMİRSPOR and İskenderun Demir Çelik Spor Clubs.

In addition to providing maintenance, repair, materials and financial support for 16 educational institutions, Ereğli plant also sponsored for a free display of the movie

Sustainability

"Dersimiz Atatürk" during November 10 activities for Commemoration of Atatürk over the course of 1 week; displayed a children's musical on 'environment' theme for primary school children thanks to World Environment Day, and also conducted environment trainings at primary schools. Moreover, traditional circumcision feasts of 177 children was organized and financed, and contributions were made to the project aiming to provide garments for 250 financially disadvantaged children in scope of the 'Love Circle Activities' realized by Women's Assembly of Kdz. Ereğli City Council.

Since 2003- 2004 academic year, İskenderun plant has been providing scholarship for 10 months a year for students who have been successful on İskenderun Demir Çelik Anatolian High School exams with the highest score. Furthermore, free lunch is still provided for financially disadvantaged students studying at İskenderun Demir Çelik Anatolian High School and İskenderun Demir Çelik High School.

Our mining enterprise has contributed to providing incomplete items needed by schools in the region, and organized chess tournaments for primary school, high school and vocational high school students as well as painting contests at primary and secondary school levels in frame of Occupational Health and Safety activities.

Corporate Governance

Corporate Governance

Corporate Governance at ERDEMİR

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. is aware of its responsibilities towards its stakeholders as a pioneer and a leader in Turkish industry and one of the widest publicly-held companies of Turkey. Transparency, management accountability, compliance with ethics and regulations have become the integral parts of corporate management, and ERDEMİR has always fulfilled all of its statutory liabilities in a proper and timely manner.

Our Company assigned personnel having 'Advanced Licence for Capital Market Activities' and 'Corporate Management Ranking Specialist's Licence' which are compulsory as per the Capital Market Board Communiqué Serial: IV No: 41 with a view to ensure coordination in increasing the level of commitment to 'Principles of Corporate Governance' and of harmony in fulfillment of its liabilities arising from the Capital Market legislation.

Compliance with Principles of Corporate Governance

I. Relationships with Shareholders

Relationships with our partners, corporate investors and analysts are systematically carried out, supporting the corporate values. For this purpose, meetings are organized with domestic and foreign investors, material disclosures are announced to the public immediately, responsibilities towards regulatory authorities such as ISE and CMB are fulfilled, and questions of our partners, analysts and portfolio managers are forthwith responded.

Request for information coming from our shareholders via telephone and mail within the year, such as stock updates, entry into the registration system, general meeting and dividend distribution; the issues are shared with independent auditors of the company and required answers are provided when and where necessary depending on the nature of information needed.

Our Company's Financial Statement and footnote explanations along with material disclosures are announced to investors in ISE and the public by means of Public Disclosure Platform; and also financial statements and footnotes are published on the company's web site.

Relationships with shareholders are carried out by Investor Relations Directorate and contact information is available in the annual report and on the company's web page.

Investor Relations Directorate
E-mail : erdemir_ir@erdemir.com.tr

General Assembly:
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. General Meeting is held within three months subsequent to the year end of the Company's accounting period, at least once a year. The meeting date is announced to the Capital Market Board and İstanbul Stock Exchange when ascertained by The Board of Directors. All of our partners are invited to attend the General Meeting via the web site of our Company and press, and are informed about the agenda.

The Annual General Meeting of our Company for the year 2009 was held on 09.03.2010, at which 50,23% of the shares were represented. The balance sheet, income statement, The Board of Directors' and Auditor's Reports as of 2009 were submitted to our shareholders for review at our Headquarters and regional directorate from 22.02.2010 and a copy of these documents was provided upon request.

Our shareholders who wanted to raise their concerns out of the agenda at the Annual General Meeting asked questions about the company's performance and strategies, which were responded to by the Assembly President and related executives under the President's guidance. Minutes of the Meeting and the List of Attendants were released on our Company's web site.

Amendments to the Articles of Association within the Period: An amendment was made to the Article 14 of the Articles of Association executed on 09.03.2010. The amendment to the articles of association is as follows:

PREVIOUS TEXT	NEW TEXT
Duties of the Board of Directors: **Article 14-** The primary duties of the Board of Directors are; to fulfill the resolutions of General Board, to invite the General Board to meeting under the law and the Articles of Association, to execute any kind of disposals deemed necessary and useful for the Company, to purchase and acquire any immovable property and similar real rights on behalf of and for the possession of the Company; to restrict the Company's immovable property under a certain real right or execute sales procedures, to lease and hire out any kind of movable and immovable property which shall be deemed necessary for the Company, to grant loans and owe on account and behalf of the Company, to furnish mortgages on the Company's immovable property in required circumstances provided necessary material disclosure shall be made in frame of the capital market legislation so as to provide clarification for the investors if the mortgage is in favour of third parties. The Board of Directors is authorized to take decisions about any procedures other than the issues exclusively left to the discretion of General Board in the Law and the Articles of Association.	**Duties of the Board of Directors:** **Article 14-** The primary duties of the Board of Directors are; to fulfill the resolutions of General Board, to invite the General Board to meeting under the law and the articles of association, to execute any kind of disposals deemed necessary and useful for the Company, to purchase and acquire any immovable property and similar real rights on behalf of and for the possession of the Company; to restrict the Company's immovable property under a certain real right or execute sales procedures, to lease and hire out any kind of movable and immovable property which shall be deemed necessary for the Company, to grant loans and owe on account and behalf of the Company, to furnish mortgages on the Company's immovable property in required circumstances, to accept mortgages from natural or legal persons in favour of the company and to give out statements related thereto, to release any kind of constraints and encumbrances and to give out statements related thereto. The principles ascertained in frame of the capital market legislation shall be complied with in respect of the Company's furnishing of guarantees, bails, securities or the right of pledge including mortgage in its own name or on behalf of third parties. The Board of Directors is authorized to take decisions about any procedures other than the issues exclusively left to the discretion of General Board in the Law and the Articles of Association.

Dividend Distribution Policy and Timing:

Our Company's policy on dividend distribution is outlined in article 37 titled 'Calculation and Distribution of Profit'. As for estimation of the rate to be allocated to our shareholders in cash and/or in form of bonus shares from the Net Distributable Profit for the Period estimated according to the legislation in force and to the procedure described in the related clause of the Articles of Association, Our Company aims for maximum distribution of profit to the extent allowed by financial leverage rates in accordance with principles of corporate management, making efforts to balance the financial burden resulting from investment expenditures with the Corporate Management expectations of the partners. Dividend distribution is performed within legal periods and principles regarding dividend distribution are disclosed to the knowledge of shareholders at the General Assembly.

Transfer of Shares:

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

Corporate Governance

II. Public Disclosure and Transparency

Our web site includes introductory and important information, financial statements and the corporate governance compliance report both in Turkish and English. An e-mail address is given for investors to submit any questions and requests.

Our Company immediately discloses any progress included in scope of our Company's Material Disclosure Communiqué under the responsibility of being a publicly held company, and continuously updates and discloses any changes and progresses to the public. A total of 41 material disclosures were made by the Company in 2010.

With the ERDEMİR Group Regulation on Principles Regarding Public Disclosure enforced on 03.03.2009 and revised on 24.11.2010, our Company aims to provide equal, concurrent, transparent and accurate information actively to all "stakeholders" such as domestic/foreign shareholders, beneficiaries, investors and capital market institutions regarding the past performance and future expectations of our Company.

Disclosure activities are carried out in compliance with our Company's Disclosure Policy, Capital Markets Legislation, decisions of the Capital Markets Board and other related legislations, and the issues to be explained are disclosed to the public in an exact, correct and timely manner.

In line with this objective; it is essential to ensure that the necessary information and explanations except commercial secrets are forwarded to all beneficiaries including shareholders, investors, employees and customers in a timely, accurate, correct, comprehensible, easy manner at the lowest cost under equal conditions.

All employees who are able to access to the information which might affect our Company's capital market instruments, disclose to the public any purchase-sales transactions they perform with the capital market instruments issued by the Company.

With a view to inform the public, Company's web site (www.erdemir.com.tr) is actively in use, containing annual assessment messages of the Chairman of the Board of Directors and the CEO, Corporate Governance, Corporate Governance Principles and Management Declaration, Board of Directors, Executive Management, Capital Structure, Trade Registry Information, Articles of Association, Minutes of General Assembly, Information about Golden Share, List of Attendants, Safe Harbour Statement, Stock Price Information, Ratings, Annual Reports, Analyst Meeting Reports and Presentations, Interim Reports, Financial Statements, Summary Information for Investors, Financial and Operational Highlights and ISE Disclosures, Dividend Payments and Capital Increases, Analyst Information, Disclosure Policy and General Assembly Proxy Form under the title of Investor Relations.

III. Beneficiaries

Written or verbal information is provided for beneficiaries such as the company's employees, customers, suppliers, labour unions, non-governmental organizations, government and potential investors, when they request for information on issues concerning themselves in addition to the information available in financial statements and reports disclosed to the public as per CMB (Capital Markets Board).

The Company's employees are informed through monthly released news bulletin and announcements containing company's practices on the intranet.

Improved product qualities and sizes, and any changes to the sales conditions are immediately disclosed to all of our customers with Customer Information Notes. Demands and expectations of our customers are received through customer visits, and new quality improvement activities are carried out depending on the changing demand in the market. Customer complaints are handled accordingly and necessary corrective actions are taken.

Tender method is applied in all domestic goods and service purchases and announced via fax/ e-mail; specifications are announced on the web site of our company. Cooperation activities are in progress for development of manufacturer suppliers in our region.

Our Company exchanges ideas with potential customers and suppliers during its participation in exhibitions.

Opinions and suggestions of our employees are received with ERDEMİR Suggestion System and Performance Management System and necessary improvements and developments are put into effect.

Our Company also fulfills its responsibilities towards the surrounding social environment.

IV. Board of Directors

Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly among shareholders under the provisions of Turkish Commercial Code. Members of the Board of Directors are selected for one year. 7 members were selected at the General Assembly of Shareholders dated 09.03.2010. Our Chairman and Vice Chairman of Board are Managing Directors, and the General Manager of our Company is also a Member of the Board. In addition, a Member of our Board of Directors was authorized as the Managing Director. The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting are subject to provisions of Turkish Commercial Code. An Audit Board is constituted within the body of the Board of Directors, consisting of 2 members and responsible for taking all necessary measures for adequate and transparent execution of any internal and independent audit. Our Company is audited by minimum 1 and maximum 3 auditors to be elected by the General Board for a period of 1 year. 2 auditors were elected at the Annual General Meeting dated 09.03.2010.

9 Meetings of the Board of Directors were held in 2010. Below are the changes realized in the Board of Directors within the year;

Board Members Mehmet Aydın MÜDERRİSOĞLU, Celalettin ÇAĞLAR and Ergün Oktay OKUR resigned on 22.02.2010, and one of these vacant Board Membership positions was occupied by Fatih TAR, who was appointed as a Vice Chairman of Board and Managing Director.

Fatih TAR was again appointed as a Board Member at the Ordinary General Meeting dated 09.03.2010, and was appointed as the Chairman of Board and the Managing Director upon distribution of tasks.

Nihat KARADAĞ, who was appointed as a Board Member on 30.09.2009, was again appointed as a Member at the Annual General Meeting which was held on 09.03.2010 and later as Vice Chairman of Board and Managing Director in the subsequent distribution of tasks.

In addition, Fatma CANLI was appointed as a Board Member at the Annual General Meeting held on 09.03.2010.

Internal Audit Mechanism:
The proficiency and functioning of internal control systems of our Company are monitored by the Account Controlling Group affiliated to the Chair of the Board of Directors.

Our Company's basic code of conduct is ascertained with the rules of code of ethics. The code of ethics contain common values of our company along with the change in legal, social and economic conditions.

Moreover, the rules of issues such as the working order within our Company, managerial hierarchy, responsibility, compliance with the Company's interests, relationships with customers and employers, compulsory attendance, assignment and transfer, confidentiality, prohibition of commercial activities and employment out of the company, kinship, releases and declarations about the Company, security, wishes and complaints are set out in the Personnel Regulation.

Risk Management

In accordance with the Risk Management Regulation, ERDEMIR Group has been continuing management of all risks defined, primarily those including the market risks encountered by the Group as it has performed raw material purchases mostly from international markets and used foreign-currency loans from domestic and foreign markets for ongoing extensive investment projects where the applicable currency is mainly the dollar. Internal systems developed to measure and manage financial risks and credit risks, and value at risk model have actively been in use. Hedging strategies are developed and derivative transactions are executed with a view to control the value at risk obtained upon estimations performed under the risk tolerance of our Board of Directors and to protect stakeholders' assets.


TRY
TRY
US Dollars
US Dollars
EURO
Jap. Yen
5,78
Libor+1,42
Euribor+0,28
JPY Libor+0,22
Weighted
Average Rate
Interest Type
Type of Currency
No interest
Floating
TRY
TRY
US Dollars

Financials

39.870.176
22.138.000
837.274.885
138.468.
3.328.72
Short Term
Portion
Portion
8.515.490
5,78
Libor+1,42
Euribor+0,28

Financials

ERDEMİR Group finalized 2010 with a net profit amounting to TRY 766 million.

The consolidated net sales income reached up to TRY 6.633 million with an increase of 26% compared to 2009. Net operating profit was TRY 1.121 million, for the year ended December 31, 2010. EBITDA increased by 272%, amounting to TRY 1.420 million compared to 2009.

Flat products manufactured at Ereğli plant decreased by 15% down to 3.406 thousand tons compared to the previous year, and the sales amount realized is 3.284 thousand tons with a fall of 24%. Overall production of long steel at İskenderun facilities totalled 1.420 thousand tons with a decrease of 24% compared to the previous year. In addition, 1.967 thousand tons of hot steel were produced at the İskenderun plant, with a rise of 140% compared to the previous year.

Raw material prices in 2010 were above the figures compared to 2009.

Total investment expenses made in 2010 at Ereğli and İskenderun plants were USD 152 million.

Research and Development Investments

3 out of 6 projects, for which our Group applied to TÜBİTAK- TEYDEB were concluded in 2010. Accordingly, TRY 368.210 was deposited into our accounts by the year end.

Güney Bağımsız Denetim ve
SMMM A.Ş.
Büyükdere Cad. Beytem Plaza
No:22 K:9-10, 34381 – Şişli
İstanbul – Turkey
Tel: +90 212 315 30 00
Fax:+90 212 230 82 91
www.ey.com

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

**Independent Auditor's report on
for the period January 1 – December 31, 2010**

To the shareholders of
Ereğli Demir Çelik Fabrikaları T.A.Ş.

We have audited the accompanying consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş ("the Company") and its subsidiaries (collectively referred to as "the Group")which comprise the consolidated balance sheet as at December 31, 2010, and consolidated statement of income, consolidated statement of comprahensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Reporting Standards published by Capital Markets Board of Turkey (CMB). This responsibility includes; designing, implementing and maintaining internal control relevant to the prepareation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud and/or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditor's responsibility

Our responsbility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by CMB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements.The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at December 31,2010, and its financial performance and cash flows for the year then ended in accordance with Financial Reporting Standards published by CMB.

Other matters

The consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries prepared in accordance with financial reporting standards issued by CMB as of December 31, 2009, were audited by another audit firm whose independent auditor's report thereon dated February 19, 2010 expressed an unqualified opinion.

Without qualifying our opinion, as explained in detail in note 16 to the accompanying consolidated financial statements, the lawsuits, which were commenced by the Privatization Administration of the Turkish Republic for the cancellation of the resolution of the Company's General Assembly dated March 30, 2006 regarding the dividend distribution and by the CMB's claim that the Company prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communique Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB, are pending as of the date of this report.

Additional paragraph for convenience translation into English:

As also disclosed in Note 34 to the accompanying financial statements, as of December 31, 2010, the accounting principles described in Note 2 (defined as CMB Financial Reporting Standards) to the accompanying consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting and the presentation of the basic financial statements and the notes to them. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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

Ethem Kutucular, SMMM
Engagement Partner

March 14, 2011
İstanbul, Türkiye

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

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2010

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

	Note	(Audited) Current Period 31 December 2010	(Audited) Previous Period 31 December 2009
ASSETS			
Current Assets		**6.324.667.258**	**3.729.502.669**
Cash and Cash Equivalents	4	2.877.790.271	1.065.737.367
Financial Investments	5	5.010.226	22.588
Trade Receivables	8	715.838.070	692.485.126
Due From Related Parties	*30*	*78.337.709*	*64.024.254*
Other Trade Receivables	*8*	*637.500.361*	*628.460.872*
Other Receivables	9	34.197.110	124.456
Inventories	10	2.502.954.372	1.644.880.477
Other Current Assets	19	177.378.552	284.483.978
		6.313.168.601	3.687.733.992
Non Current Assets Held for Sale	27	11.498.657	41.768.677
Non Current Assets		**7.216.305.378**	**7.420.919.878**
Trade Receivables	8	2.621.888	2.360.741
Due From Related Parties	*30*	*1.141.524*	-
Other Trade Receivables	*8*	*1.480.364*	*2.360.741*
Other Receivables	9	26.105.907	26.722.247
Financial Investments	5	1.427.186	41.666
Investment Properties	12	46.577.264	46.577.264
Property, Plant and Equipment	13	6.779.994.776	6.795.323.290
Intangible Assets	14	143.656.814	140.275.624
Deferred Tax Assets	28	150.892.360	353.505.904
Other Non Current Assets	19	65.029.183	56.113.142
TOTAL ASSETS		**13.540.972.636**	**11.150.422.547**

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

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

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2010

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

	Note	(Audited) Current Period 31 December 2010	(Audited) Previous Period 31 December 2009
LIABILITIES			
Current Liabilities		**3.763.668.823**	**1.620.897.962**
Financial Liabilities	6	3.053.838.952	837.296.086
Other Current Financial Liabilities	7	4.793.603	96.556.326
Trade Payables	8	359.941.902	355.004.343
Due to Related Parties	*30*	*9.911.442*	*5.147.811*
Other Trade Payables	*8*	*350.030.460*	*349.856.532*
Other Payables	9	40.320.600	53.444.045
Due to Related Parties	*30*	*1.715.000*	*1.871.365*
Other Payables	*9*	*38.605.600*	*51.572.680*
Current Tax Liabilities	28	7.115.721	2.385.751
Provisions	16	70.677.783	73.932.797
Other Current Liabilities	19	226.980.262	202.278.614
Non Current Liabilities		**3.086.059.488**	**3.610.830.559**
Financial Liabilities	6	2.797.402.328	3.328.726.727
Other Non Current Financial Liabilities	7	26.468.954	9.414.527
Provisions for Employment Benefits	18	168.289.071	121.870.564
Deferred Tax Liabilities	28	93.065.154	150.606.462
Other Non Current Liabilities	19	833.981	212.279
EQUITY	**20**	**6.691.244.325**	**5.918.694.026**
Equity attributable to equity holders of the parent		**6.511.030.270**	**5.762.058.750**
Share Capital		1.600.000.000	1.600.000.000
Inflation Adjustment to Capital		731.967.735	731.967.735
Treasury Share Adjustment (-)		(57.692.172)	(57.692.172)
Share Issue Premium		231.020.042	231.020.042
Revaluation Reserves of Fixed Assets		25.241.672	25.869.903
Cash Flow Hedging Reserves		(24.396.817)	(7.259.727)
Foreign Currency Translation Reserves		4.845.393	4.108.212
Restricted Reserves Assorted from Profit		1.696.170.542	1.688.196.335
Retained Earnings		1.537.874.215	1.714.538.844
Net Profit/(Loss) for the Period		765.999.660	(168.690.422)
Non-controlling Interests		**180.214.055**	**156.635.276**
TOTAL LIABILITIES AND EQUITY		**13.540.972.636**	**11.150.422.547**

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

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

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Note	(Audited) Current Period 1 January - 31 December 2010	(Audited) Previous Period 1 January - 31 December 2009
OPERATING INCOME			
Revenue	21	6.632.827.541	5.265.818.577
Cost of Sales (-)	21	(5.313.245.896)	(5.029.678.758)
GROSS PROFIT		**1.319.581.645**	**236.139.819**
Marketing, Sales and Distribution Expenses (-)	22	(67.064.017)	(68.086.413)
General Administrative Expenses (-)	22	(120.746.438)	(108.248.107)
Research and Development Expenses (-)	22	(2.065.999)	(2.365.699)
Other Operating Income	24	110.960.631	92.127.509
Other Operating Expenses (-)	24	(119.326.058)	(97.821.207)
OPERATING PROFIT		**1.121.339.764**	**51.745.902**
Loss from investments accounted under equity method	11	-	(642.992)
Finance Income	25	148.343.822	142.627.113
Finance Expense (-)	26	(295.799.664)	(417.205.142)
PROFIT/(LOSS) BEFORE TAX		**973.883.922**	**(223.475.119)**
Tax (Expense)/Income	28	(177.536.780)	54.993.561
- Current Tax Expense		(27.784.836)	(16.464.319)
- Deferred Tax (Expense)/Income		(149.751.944)	71.457.880
PROFIT/(LOSS) FOR THE PERIOD		**796.347.142**	**(168.481.558)**
- Non-Controlling Interests		30.347.482	208.864
- Equity Holders of the Parent		765.999.660	(168.690.422)
EARNINGS/(LOSS) PER SHARE	29	**0,4787**	**(0,1054)**
(TRY 1 Nominal value per share)			

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Note	(Audited) Current Period 1 January - 31 December 2010	(Audited) Previous Period 1 January - 31 December 2009
PROFIT/(LOSS) FOR THE PERIOD		**796.347.142**	**(168.481.558)**
Other Comprehensive Income/(Expense):			
Change in Revaluation Reserves of Fixed Assets		(628.231)	(506.938)
Change in Cash Flow Hedging Reserves		(18.345.240)	(6.083.433)
Change in Foreign Currency Translation Reserves		737.181	643.545
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD (AFTER TAX)	28	**(18.236.290)**	**(5.946.826)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**778.110.852**	**(174.428.384)**
Distribution of Total Comprehensive Income/(Loss)		29.139.332	(231.722)
- Non-controlling Interests		748.971.520	(174.196.662)
- Equity Holders of the Parent			

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Note	Share Capital	Inflation Adjustment to Capital	Treasury Share Adjustment (-)	Share Issue Premium	Revaluation Reserves of Fixed Assets	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Net Profit for the Period and Retained Earnings	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
(Audited)													
1 January 2010		1.600.000.000	731.967.735	(57.692.172)	231.020.042	25.869.903	(7.259.727)	4.108.212	1.688.196.335	1.545.848.422	5.762.058.750	156.635.276	5.918.694.026
Net profit for the period		-	-	-	-	-	-	-	-	765.999.660	765.999.660	30.347.482	796.347.142
Other comprehensive income/ (loss)		-	-	-	-	(628.231)	(17.137.090)	737.181	-	-	(17.028.140)	(1.208.150)	(18.236.290)
Total comprehensive income/ (loss)		-	-	-	-	(628.231)	(17.137.090)	737.181	-	765.999.660	748.971.520	29.139.332	778.110.852
Dividends paid		-	-	-	-	-	-	-	-	-	-	(5.560.553)	(5.560.553)
Transfers from retained earnings	20	-	-	-	-	-	-	-	7.974.207	(7.974.207)	-	-	-
31 December 2010	20	1.600.000.000	731.967.735	(57.692.172)	231.020.042	25.241.672	(24.396.817)	4.845.393	1.696.170.542	2.303.873.875	6.511.030.270	180.214.055	6.691.244.325
(Audited)													
1 January 2009		1.148.812.500	731.967.735	(43.790.843)	231.020.042	26.376.841	(1.616.880)	3.464.667	1.665.921.924	2.174.099.426	5.936.255.412	167.372.727	6.103.628.139
Net (loss)/profit for the period		-	-	-	-	-	-	-	-	(168.690.422)	(168.690.422)	208.864	(168.481.558)
Other comprehensive income/ (loss)		-	-	-	-	(506.938)	(5.642.847)	643.545	-	-	(5.506.240)	(440.586)	(5.946.826)
Total comprehensive income/ (loss)		-	-	-	-	(506.938)	(5.642.847)	643.545	-	(168.690.422)	(174.196.662)	(231.722)	(174.428.384)
Dividends paid		-	-	-	-	-	-	-	-	-	-	(10.505.729)	(10.505.729)
Transfers from retained earnings	20	451.187.500	-	(13.901.329)	-	-	-	-	22.274.411	(459.560.582)	-	-	-
31 December 2009	20	1.600.000.000	731.967.735	(57.692.172)	231.020.042	25.869.903	(7.259.727)	4.108.212	1.688.196.335	1.545.848.422	5.762.058.750	156.635.276	5.918.694.026

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Note	(Audited) Current Period 1 January - 31 December 2010	(Audited) Previous Period 1 January - 31 December 2009
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax and minority interests		973.883.922	(223.475.119)
Adjustments to reconcile net profit /(loss) before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	21/23	298.585.922	330.029.905
Provision for employee termination benefits	18	51.617.775	32.252.437
Provision for seniority incentive premium	18	3.618.888	4.608.429
Loss from investments accounted for under equity method	11	-	642.992
Loss/(gain) on sale of property plant and equipment	24	(159.277)	(495.470)
Income from sale of financial assets	24	(15.992.680)	-
Loss on write off of property plant and equipment	24	9.710.519	1.877.038
Increase in provision for doubtful receivables	8/9	18.195.409	33.919.850
Increase/(decrease) in the allowance for inventories	10	26.538.233	(976.798.270)
Increase/(decrease) in provision for unpaid vacations	19	7.885.329	(10.009.157)
Increase in provision for pending claims and lawsuits	16	12.562.031	4.138.294
Increase / (decrease) in penalty provision for obligatory employment shortage of disabled people, ex-convicts and terror victims	16	270.756	(50.352.780)
Increase in provision for salaries and wages	16	12.000.000	-
(Decrease) in provisions for tax related contingencies	16	(21.073.070)	(2.006.793)
(Decrease) in provision for purchase commitments	16	-	(101.637.544)
Increase in provision for state right on mining activities	16	1.755.048	-
Finance expense	26	230.123.313	246.298.344
Interest income	25	(133.158.624)	(122.123.232)
Unrealized foreign currency translation (gain)/loss of financial liabilities		11.837.108	(16.516.471)
Loss on fair value changes of derivative financial instruments	25	(7.791.875)	95.512.399
Net cash provided by /(used in) operating activities before changes in working capital		**1.480.408.727**	**(754.135.148)**
Changes in working capital	34	(898.651.187)	1.744.423.759
Interest paid		(237.073.393)	(253.778.518)
Interest received		124.515.439	120.159.608
Lawsuits paid	16	(7.442.765)	(5.927.888)
Penalty paid for the employment shortage of disabled people	16	(1.327.014)	-
Taxes paid	28	(23.054.866)	(15.729.336)
Employee termination benefits paid	18	(8.296.670)	(31.827.647)
Seniority incentive premium paid	18	(521.486)	(450.148)
Net cash provided by operating activities		**428.556.785**	**802.734.682**
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in marketable securities held for trading	5	22.588	(12.621)
Changes in financial assets held as available for sale	5	(15.015)	(3.546)
Proceeds from sale of financial assets		15.420.900	-
Cash used in the purchase of investment property	12	-	(603.714)
Cash used in the purchase of tangible fixed assets	13	(303.340.519)	(347.673.137)
Cash used in the purchase of intangible assets	14	(1.261.832)	(9.729.050)
Cash provided by fixed asset sales	13/14/24	1.435.601	29.570.605
Net cash used in investing activities		**(287.738.277)**	**(328.451.463)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		4.477.747.352	3.661.942.324
Repayment of borrowings		(2.811.094.824)	(4.036.759.324)
Dividends paid to non-controlling interest		(5.560.553)	(10.505.729)
Net cash provided/(used in) by financing activities		**1.661.091.975**	**(385.322.729)**
NET CHANGES IN CASH AND CASH EQUIVALENTS		**1.801.910.483**	**88.960.490**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	**1.063.284.367**	**972.980.449**
Currency translation difference, net		1.499.236	1.343.428
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	**2.866.694.086**	**1.063.284.367**
Accrued interest income	4	**11.096.185**	**2.453.000**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	4	**2.877.790.271**	**1.065.737.367**

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

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

NOTE 1 – GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of Operation	Operation	2010 Share %	2009 Share %
İskenderun Demir ve Çelik A.Ş. ("İSDEMİR")	Turkey	Iron and Steel	92,91	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00	100,00
Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00	100,00
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100,00	100,00

ArcelorMittal Ambalaj Çeliği Tic. A.Ş. which was previously accounted by using the equity pick up method has been disclosed under non-current assets held for sale in the consolidated financial statements starting from 1 April 2009 (Note 27).

According to the decisions taken by the Board of Directors of Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. dated 14 July 2010 and numbered 334 and Board of Directors of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. dated 14 July 2010 and numbered 22, it is decided to merge the two entities. As of approval date of consolidated financial statements by the Board of Directors, the merger activities have not been concluded yet.

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

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

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

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

The number of the personnel employed by the Group as at 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010 Personnel	31 December 2009 Personnel
Monthly paid personnel (A)	3.378	3.244
Hourly paid personnel (B)	7.859	8.003
Candidate worker (C)	2.173	1.786
Contractual personnel (D)	18	17
Contractual personnel (SZ)	125	111
Total	13.553	13.161

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code ("TCC") and tax legislation. The subsidiary which operates abroad maintain its books of account and prepare its statutory financial statements denominated in the currency of the foreign country and in compliance with the legislation of the foreign country. The consolidated financial statements include the adjustments and reclassifications applied on the Group's legal books in accordance with the Generally Accepted Accounting Principles issued by Capital Market Board ("CMB").

CMB, in accordance with Communiqué Serial: XI, No: 29 on "Communiqué on Financial Reporting in the Capital Markets", regulates the comprehensive set of principles, procedures and basis of preparation, presentation and announcement of financial statements prepared by the entities. This communiqué is effective for the periods from the first interim financial statements prepared subsequent to1 January 2008 and supersedes the Communiqué Serial XI, No: 25 "Accounting Standards in Capital Markets". According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards ("IAS/IFRS") endorsed by the European Union (EU). However, IAS/IFRS issued by the IASB shall be applied until the differences between IAS/IFRS that are endorsed by the European Union and the standards issued by the International Accounting Standards Board ("IASB") are announced by Turkish Accounting Standards Board ("TASB"). Accordingly, Turkish Accounting Standards/ Turkish Financial Reporting Standards ("TAS/TFRS") issued by the TASB which are in line with the aforementioned standards are essential.

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

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

2.1 Basis of Presentation (cont'd)

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

Functional and Reporting Currency

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

Functional and reporting currency for the subsidiary abroad

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

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

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 14 March 2011 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 The Adjustment of the Financial Statements in Hyperinflationary Periods

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

2.3 Changes in Accounting Estimates and Errors

The changes in accounting estimates affecting the current period are recognized in the current period, the changes in accounting estimates affecting both in the current and future periods, prospectively. Since 1 January 2009, based on the report of Hatch Associates Limited prepared as of 31 December 2008 and dated 12 May 2009, the Group has changed the depreciation method of Erdemir and İsdemir's land improvements, machinery, equipment

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

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

2.3 Changes in Accounting Estimates and Errors (cont'd)

and vehicles from straight line to the units of production method, where it is appropriate to reflect their expected consumption model in a more accurate way.

The rates that are used on and after 1 January 2009 to depreciate the fixed assets are as follows:

	1 January 2009 and after
Buildings	2-16%
Land improvements	2-33% and units of production level
Machinery and equipments	3-50% and units of production level
Vehicles	5-25% and units of production level
Furniture and fixtures	5-33%
Other tangible fixed assets	5-25%

2.4 Basis of Consolidation

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

Subsidiaries

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

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

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

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

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

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

2.4 Basis of Consolidation (cont'd)

Investments in Associates

An associate is an entity over which the Group has a significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the authority to control the financial or operational policies of the investee or has the authority to participate without a joint control.

The results of operations, assets and liabilities of the associates that are incorporated in the consolidated financial statements are accounted for via the equity method, except where the associates are held for sale.

According to the equity method, the investments in associates are carried into the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized.

Unrealized gains resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate, unrealized losses are eliminated except the case when the transferred asset is impaired.

Any excess of the cost of acquisition over the Group's share of the net fair value of the registered assets and liabilities on the date of acquisition such as identifiable assets, liabilities and contingent liabilities, is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is recognized immediately in the consolidated income statement after the revaluation.

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

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

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

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

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

The Group calculates depreciation for the fixed assets by taking into account their useful lives that are stated in Note 2.3 and 2.9.4 (Note 13, Note 14).

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

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

2.6.2 Deferred tax assets

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

2.6.3 Fair values of derivative financial instruments

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

2.6.4 Provision for doubtful receivables

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

2.6.5 Provision for inventories

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

2.6.6 Provisions for employee benefits

Discount rates are determined using actuarial valuations involve making assumptions about future salary increases and employee turnover rates. The details related with the defined benefit plans are stated in Note 18.

2.7 Offsetting

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

2.8 Adoption of New and Revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations as of 1 January 2010, noted below:

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

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

New standards, amendments and interpretations that will be valid for the yearend financial statements dated 31 December 2010 are as follows. These new standards, amendments and interpretations have no effect on the financial position or the performance of the Group.

IFRS 2 (Amendment) 'Share Based Payment Transactions' - Group cash settled share based payment transactions,

IFRS 3 (Amendment) 'Business Combinations' and IAS 27 (Revised) 'Consolidated and separate financial statements',

IFRIC 17 'Distributions of Non-cash Assets to Owners',

IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' - Eligible hedged items

Improvements to IFRSs (issued in 2008),

Improvements to IFRSs (issued in 2009),

New and amended standards and interpretations issued but not effective and not early adopted by the Group as of the date the consolidated financial statements approved are as follows:

IFRS 9 'Financial Instruments: Classification and measurement' (Effective for the periods 1 January 2013 and after): The Group is assessing the effects of the amendment. The standard has not been endorsed by EU yet.

IAS 24 (Revised) 'Related Party Disclosures' (Effective for periods beginning on or after 1 January 2011): The Group will apply the amendment in the notes to the consolidated financial statements for the periods beginning on and after 1 January 2011.

IAS 32 (Amendment) 'Classification of Rights Issues' (Effective for annual periods beginning on or after 1 February 2010): The amendment does not have an impact on Group's financial performance.

IFRIC 14 (Amendment) 'Prepayments of a Minimum Funding Requirement' (Effective for periods beginning on or after 1 January 2011, with earlier application permitted): The amendment does not have an impact on Group's financial performance.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (Effective for periods beginning on or after 1 July 2010, with earlier application permitted). The amendment does not have an impact on Group's financial performance.

UFRS 7 (Amended) 'Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities' (Effective for annual periods beginning or after 1 July 2011). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 12 (Amendment) 'Deferred Tax: Recovery of Underlying Assets' (Mandatory for annual periods beginning or after 1 January 2012). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

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

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

Improvements to IFRSs (issued in May 2010):

In May 2010, International Accounting Standards Board (IASB) made 11 changes in 7 standards. These changes have no impact on the financial performance of the Group. The revised standards are as below. This improvement project has not been endorsed by the EU yet.

IFRS 3: Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised standard

IFRS 3: Measurement of non-controlling interests

IFRS 3: Un-replaced and voluntarily replaced share-based payment awards

IFRS 7: Clarification of disclosures

IAS 1: Clarification of statement of changes in equity

IAS 27: Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements

IAS 34: Significant events and transactions

IFRIC 13: Fair value of award credits

2.9 Valuation Principles Applied / Significant Accounting Policies

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

2.9.1 Revenue recognition

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

Sale of goods

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

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

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

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

2.9.1 Revenue recognition (cont'd)

Dividend and interest revenue

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

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

Rental income

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

2.9.2 Inventories

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

2.9.3 Property, plant and equipment

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

The Group's tangible fixed assets operating in the production of iron ore, flat steel, long steel, seamless steel tube and high silicon flat steel are stated in the balance sheet at their revalued amounts, which is the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any increase arising from the revaluation of the existing assets is recorded under the revaluation reserve, in the shareholders' equity. Increase arising from the revaluation is recorded to the extent that it reverses a revaluation decrease previously recognized in the consolidated income statement. A decrease in carrying amount arising on the revaluation of assets is charged to the consolidated income statement to the extent that it exceeds the balance in the revaluation reserve that is related to the previous revaluation.

Depreciation on revalued tangible fixed assets is disclosed in the consolidated income statement. Due to a subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. Any transfer from revaluation reserve to the retained earnings cannot be made unless the asset is disposed.

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

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

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

2.9.3 Property, plant and equipment (cont'd)

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

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

The expected useful lives of property, plant and equipment are disclosed in Note 2.3.

2.9.4 Intangible assets

Purchased intangible assets

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

The amortization rates of the intangible assets are stated below:

	1 January 2009 and after
Rights	2-33%
Exploration costs and other intangible fixed assets with special useful lives	5-10% and units of production
Other intangible fixed assets	20-33%

2.9.5 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization or depreciation and are tested annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets (for the cash-generating unit). Non-financial assets that are impaired are evaluated for reversal of impairment amount at each reporting date.

2.9.6 Leases

The Group as lessee:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating lease.

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

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

2.9.6 Leases (cont'd)

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the Group is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. By this way, interest is calculated over the remaining principle of the liability.

Finance expenses are recognized immediately in the consolidated income statement, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs detailed in Note 2.9.7. Rent payments related to operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessor:

The Group presents assets subject to operating leases in the consolidated balance sheets according to their nature. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Operating leases are amortized based on their cost after deducting their residual values.

2.9.7 Borrowing costs

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

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

2.9.8 Financial instruments

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

Financial assets

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

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

Effective interest method

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

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

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

2.9.8 Financial instruments (cont'd)

Effective interest method (cont'd)

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

Available for sale financial assets

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

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

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

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

Receivables

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

Impairment of financial assets

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

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

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

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

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

2.9.8 Financial instruments (cont'd)

Financial assets (cont'd)

Impairment of financial assets

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

Other financial liabilities

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

2.9.8 Financial instruments (cont'd)

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

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

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

2.9.9 The effects of foreign exchange rate changes

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

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

2.9.10 Earnings per share

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

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

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

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

2.9.11 Subsequent events

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

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

2.9.12 Provisions, contingent liabilities and contingent assets

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

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

2.9.13 Related parties

In the presence of one of the following criteria, parties are considered as related to the Group;

(a) directly, or indirectly through one or more intermediaries, the party:
(i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
(ii) has an interest in the Company that gives it significant influence over the Company; or
(iii) has joint control over the Company;
(b) the party is an associate of the Company;
(c) the party is a joint venture in which the Company is a venture;
(d) the party is member of the key management personnel of the Company or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);
(g) the party has a defined benefit plan for the employees of the Company or a related party of the Company.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged.

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

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

2.9.14 Non current assets held for sale and discontinued operations

Discontinued operations are part of a group which either are classified as assets held-for-sale or have been disposed of and whose activities and cash flow can be treated separable from the Group's whole activities and cash flows. Discontinued operations; represent separate business or geographical segment, are parts of the plans to sell or dispose thereof, or is a subsidiary acquired for selling. The Group's discontinued operations have been valued with the lower of the book values of related asset and liabilities of the discontinued operations, or fair value less costs to sell (Note 27).

2.9.15 Investment properties

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

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

2.9.16 Taxation and deferred income taxes

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

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

Current tax

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

Deferred tax

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

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

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

2.9.16 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

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

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

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

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

Current and deferred tax for the period

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

2.9.17 Provisions for employment benefits

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

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

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

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

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

2.9.18 Statement of cash flows

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

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

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

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

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

2.9.19 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.

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

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

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

2.9.20 Treasury shares

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 329, transactions of an entity's own shares" allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 31 December 2010, the Company holds its own shares with a nominal value of TRY 49.296.859 (31 December 2009 : TRY 49.296.859). The Company's own shares have been reclassified with its indexed value in the consolidated balance sheet as a deduction under equity.

NOTE 3 – OPERATING SEGMENTS

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

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 31 December 2010 and 31 December 2009 is as follows:

	31 December 2010	31 December 2009
Cash	31.355	24.725
Banks – demand deposits	24.553.743	57.474.534
Banks – time deposits	2.853.205.173	1.008.238.108
	2.877.790.271	1.065.737.367
Time deposit interest accruals (-)	(11.096.185)	(2.453.000)
Cash and cash equivalents excluding interest accruals	2.866.694.086	1.063.284.367

The breakdown of demand deposits is presented below:

	31 December 2010	31 December 2009
EURO	9.669.081	7.594.427
TRY	7.020.913	4.538.501
US Dollars	6.936.301	40.342.507
Romanian Lei	907.542	4.949.386
GB Pound	19.624	27.229
Japanese Yen	282	22.484
	24.553.743	57.474.534

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

NOTE 4 – CASH AND CASH EQUIVALENTS (cont'd)

The breakdown of time deposits is presented below:

	31 December 2010	31 December 2009
TRY	1.703.861.484	294.414.407
US Dollars	1.130.764.952	648.714.606
EURO	18.023.995	65.109.095
Romanian Lei	554.742	-
	2.853.205.173	1.008.238.108

NOTE 5 – FINANCIAL INVESTMENTS

Current financial investments:

	31 December 2010	31 December 2009
Financial assets at fair value through profit/loss:		
Financial assets held for trading	-	22.588
Derivative financial assets (*)	5.010.226	-
Total	5.010.226	22.588

Non-current financial investments:	31 December 2010	31 December 2009
Available for sale financial assets:	56.681	41.666
Derivative financial assets at fair value through other comprehensive income/expense (*)	1.370.505	-
Total	1.427.186	41.666

(*) As explained in Note 31, the derivative financial assets comprise of forward agreements and cross currency and interest rate swap agreements.

As of 31 December 2010 and 31 December 2009 the Group's subsidiaries, their percentage shares and amounts of the ownership interest are as follows:

Company	Rate %	31 December 2010	Rate %	31 December 2009
Erdemir Gaz San. ve Tic. A.Ş. (*)	100	56.681	100	41.666

(*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 1.841 and has been dormant since its establishment, are not consolidated as their effects on the consolidated financial statements are immaterial and disclosed at cost. There are no off balance sheet liabilities and contingencies given between the Group companies and Erdemir Gaz in favor of each other.

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

NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 December 2010	31 December 2009
Short term financial liabilities	939.424.278	29.393.986
Current portion of long term financial liabilities	2.114.414.674	807.880.899
Finance lease payables	-	21.201
Total short term financial liabilities	3.053.838.952	837.296.086
Long term financial liabilities	2.797.402.328	3.328.726.727
Total long term financial liabilities	2.797.402.328	3.328.726.727
	5.851.241.280	4.166.022.813

As of 31 December 2010, the breakdown of the Group's loans with their original currency and their weighted average interest rates, is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2010
No interest	TRY	-	28.018.364	-	28.018.364
Fixed	TRY	8,84	801.299.040	450.000.000	1.251.299.040
Floating	TRY	TR Libor+1,77	909.932.197	-	909.932.197
Fixed	US Dollars	2,01	282.614.009	5.101.800	287.715.809
Floating	US Dollars	Libor+2,39	931.650.491	1.785.717.211	2.717.367.702
Floating	EURO	Euribor+0,27	77.399.320	419.233.684	496.633.004
Floating	Jap. Yen	JPY Libor+0,22	22.925.531	137.349.633	160.275.164
			3.053.838.952	2.797.402.328	5.851.241.280

As of 31 December 2009, the breakdown of the Group's loans with their original currency and their weighted average interest rates, is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	31 December 2009
No interest	TRY	-	8.515.490	-	8.515.490
Floating	TRY	TR Libor+1,86	54.204.186	855.668.943	909.873.129
Fixed rate	US Dollars	5,78	2.088.306	-	2.088.306
Floating	US Dollars	Libor+1,42	660.458.727	1.814.150.946	2.474.609.673
Floating	EURO	Euribor+0,28	89.870.176	520.438.669	610.308.845
Floating	Jap. Yen	JPY Libor+0,22	22.138.000	138.468.169	160.606.169
			837.274.885	3.328.726.727	4.166.001.612

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

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

As of 31 December 2010, according to their type of original currency and interest rates, the breakdown of the fixed-interest loans by using financial hedge agreements, is as follows:

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 December 2010
US Dollars	2,38	20.555.923	71.726.449	92.282.372
US Dollars	3,29	10.346.016	46.534.827	56.880.843
US Dollars (*)	7,22	14.576.847	93.330.665	107.907.512
US Dollars	4,30	31.031.414	-	31.031.414
US Dollars	4,32	15.508.324	-	15.508.324
US Dollars	4,65	58.139.143	-	58.139.143
US Dollars	2,40	61.878.166	-	61.878.166
US Dollars	3,34	78.073.281	-	78.073.281
US Dollars	3,28	22.335.495	32.940.081	55.275.576
EURO (**)	10,65	26.161.469	156.234.666	182.396.135
		338.606.078	400.766.688	739.372.766

(*) As described in Note 31 (f) and Note 31 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of USD. The maturity of the cross currency swap contract is 3 October 2016. The amount represents TRY equivalent of the portion of the loan amount of USD 92.531.078, with maturity of 3 April 2018, that is hedged till 2016.

(**) As described in Note 31 (f) and Note 31 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of Euro.

As of 31 December 2009, according to their type of original currency and interest rates, the breakdown of the fixed-interest loans by using financial hedge agreements, is as follows:

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 December 2009
US Dollars	3,69	29.851.889	-	29.851.889
US Dollars	4,30	30.636.967	29.799.941	60.436.908
US Dollars	4,32	15.328.004	14.879.863	30.207.867
US Dollars	4,65	57.270.085	55.827.519	113.097.604
US Dollars	2,40	61.348.704	59.137.410	120.486.114
US Dollars	3,34	153.341.601	74.467.306	227.808.907
US Dollars	3,28	22.444.722	52.909.326	75.354.048
		370.221.972	287.021.365	657.243.337

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

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

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

	31 December 2010	31 December 2009
Within 1 year	3.053.838.952	837.274.885
Between 1-2 years	521.002.564	2.264.672.684
Between 2-3 years	568.846.604	286.718.788
Between 3-4 years	522.902.322	238.613.532
Between 4-5 years	475.092.682	189.605.453
Five years or more	709.558.156	349.116.270
	5.851.241.280	4.166.001.612

The breakdown of the finance lease payables with respect to their maturities is as follows:

	31 December 2010	31 December 2009
Within 1 year	-	21.201
	-	21.201

The breakdown of the finance lease payables with respect to their original currency is as follows:

	31 December 2010	31 December 2009
EURO	-	21.201
	-	21.201

As of 31 December 2010 the net book value of the assets acquired by using finance lease is TRY 575.147 (31 December 2009: TRY 673.259).

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

NOTE 7 - OTHER FINANCIAL LIABILITIES

	31 December 2010	31 December 2009
Other current financial liabilities		
Derivative financial liabilities at fair value through other comprehensive income/loss(*)	2.955.109	327.622
Derivative financial liabilities at fair value through profit/loss (*)	1.838.494	96.228.704
	4.793.603	96.556.326
Other non-current financial liabilities		
Derivative financial liabilities at fair value through other comprehensive income/loss(*)	26.468.954	9.414.527
	26.468.954	9.414.527

(*) As explained in Note 31, the derivative financial liabilities comprise of forward agreements, interest rate swap agreements and cross currency and interest rate swap agreements.

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	31 December 2010	31 December 2009
Short term trade receivables		
Trade receivables	663.335.351	597.041.977
Due from related parties (Note 30)	78.337.709	64.024.254
Notes receivables	1.871.477	34.649.069
Other trade receivables	14.347.574	25.571.526
Discount on receivables (-)	(959.830)	(1.852.179)
Provision for doubtful trade receivables (-)	(41.094.211)	(26.949.521)
	715.838.070	692.485.126

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

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	26.949.521	19.616.118
Provision for the period	28.947.072	10.467.942
Doubtful receivables collected (-)	(3.921.085)	(8.120)
Provision released (-)	(10.881.297)	(3.126.419)
Closing balance	41.094.211	26.949.521

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

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

Long term trade receivables	31 December 2010	31 December 2009
Trade receivables	3.402.087	4.660.859
Due from related parties (Note 30)	1.141.524	-
Discount on receivables (-)	(301.930)	(680.325)
Provision for doubtful trade receivables (-)	(1.619.793)	(1.619.793)
	2.621.888	2.360.741

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

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	1.619.793	1.619.793
Closing balance	1.619.793	1.619.793

For trade receivables, a certain maturity without interest charge is identified for each customer according to the market conditions and product types. For the sales which are overdue, an interest charge is applied according to the market conditions and product types.

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

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

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

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

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

Short term trade payables	31 December 2010	31 December 2009
Trade payables	350.708.057	350.429.587
Due to related parties (Note 30)	9.911.442	5.147.811
Discount on trade payables (-)	(677.597)	(573.055)
	359.941.902	355.004.343

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

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 December 2010	31 December 2009
Receivable from sale of financial assets (Note 27)	34.012.000	-
Deposits and guarantees given	185.110	124.456
	34.197.110	124.456

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

Other non-current receivables

	31 December 2010	31 December 2009
Receivables from Privatization Authority	51.708.110	53.156.654
Provision for other doubtful receivables (-)	(25.854.055)	(26.578.327)
Deposits and guarantees given	251.852	143.920
	26.105.907	26.722.247

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

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	26.578.327	-
Provision for the period	456.531	26.578.327
Other doubtful receivables collected (-)	(853.906)	-
Provision released (-)	(326.897)	-
Closing balance	25.854.055	26.578.327

Other current payables

	31 December 2010	31 December 2009
Social security deductions payable	16.851.054	11.772.583
Taxes and funds payable	16.191.374	12.365.506
Deposits and guarantees received	5.049.640	4.161.720
Non trade payables to related parties (Note 30)	1.715.000	1.871.365
Deferred and installed payables to public institutions	513.532	23.272.871
	40.320.600	53.444.045

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

NOTE 10 – INVENTORIES

	31 December 2010	31 December 2009
Raw materials	587.683.913	379.101.687
Work in progress	452.894.395	405.266.704
Finished goods	536.598.546	225.490.145
Spare parts	314.505.754	251.488.002
Goods in transit	507.020.136	290.758.465
Other inventories	143.032.674	105.018.287
Allowance for impairment on inventories (-)	(38.781.046)	(12.242.813)
	2.502.954.372	1.644.880.477

The movement of the allowance for impairment on inventories:

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	12.242.813	989.041.083
Provision for the period (Note 21)	32.266.202	106.832.060
Provision released (-)	(5.727.969)	(1.083.630.330)
Closing balance	38.781.046	12.242.813

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

NOTE 11 – ASSOCIATES ACCOUNTED UNDER EQUITY METHOD

Name of the associate:	Country of incorporation	Share in capital %	Voting right %	Nature of business
ArcelorMittal Ambalaj Çeliği San. ve Tic.A.Ş.	Turkey	25,00	25,00	Packaging steel

The details of the Group's financial assets that were consolidated by the equity method are summarized below:

	1 January - 31 March 2009
Revenue	40.904.945
Net loss for the period	(2.571.969)
Group's share in net loss	(642.992)

The Group's financial asset which was previously consolidated by using the equity method has been reclassified to "Non-current assets held for sale" as of 1 April 2009 (Note 27). Starting from this date, the increase in the equity of the associate is not recognized in the consolidated financial statements. The sale of the Company's shares at ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. to ArcelorMittal France S.A. is completed on 28 February 2011.

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

NOTE 12 – INVESTMENT PROPERTIES

	1 January - 31 December 2010	1 January - 31 December 2009
Cost		
As of 1 January	46.577.264	45.973.550
Additions	-	603.714
As of 31 December	46.577.264	46.577.264
Book value	46.577.264	46.577.264

As of 31 December 2010, according to the valuation report dated December 2009, the fair value of the Group's investment properties with a total carrying value of TRY 46.577.264 is, TRY 203.749.000. The fair value of the investment properties has been determined in reference to the valuation of an independent valuation firm. Harmoni Gayrimenkul Değerleme ve Danışmanlık A.Ş. is the independent valuation firm that is authorized by the CMB. The valuation is undertaken predominantly by using the precedent values of similar properties as references.

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

For year ended 31 December 2010, the Group recognized rent income amounting to TRY 79.907 (31 December 2009: TRY 82.169) under other operating income.

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Buildings	Machinery and equipments	Vehicles	Furniture and fixtures	Other property plant and equipment	Construction in progress (CIP)	Total
Cost									
Opening balance as of 1 January 2010	95.165.072	1.458.251.499	2.358.203.767	9.277.136.660	656.431.800	309.769.657	14.646.852	623.238.544	14.792.843.851
Translation difference	(431.033)	-	(534.239)	(1.225.163)	(44.727)	-	(108.743)	(97.230)	(2.441.135)
Additions	10.034	718.923	922.084	24.977.356	1.592.868	3.613.609	436.639	284.747.917	317.019.430
Disposals	-	(7.931.547)	(248.574.852)	(9.289.549)	(2.394.466)	(5.883.487)	(575.305)	-	(274.649.206)
Transfer from CIP (**)	-	2.665.356	471.432	41.447.459	1.819.704	2.781.352	407.145	(65.854.163)	(16.261.715)
Closing balance as of 31 December 2010	94.744.073	1.453.704.231	2.110.488.192	9.333.046.763	657.405.179	310.281.131	14.806.588	842.035.068	14.816.511.225
Accumulated Depreciation									
Opening balance as of 1 January 2010	-	(978.573.598)	(1.678.082.627)	(4.870.606.725)	(322.161.994)	(135.320.203)	(12.775.414)	-	(7.997.520.561)
Translation difference	-	-	144.998	790.087	28.342	-	66.465	-	1.029.892
Charge for the period	-	(21.792.463)	(63.883.526)	(187.175.527)	(17.016.352)	(13.219.825)	(864.341)	-	(303.952.034)
Disposals	-	7.799.280	240.210.898	8.376.654	2.068.565	5.272.017	198.840	-	263.926.254
Closing balance as of 31 December 2010	-	(992.566.781)	(1.501.610.257)	(5.048.615.511)	(337.081.439)	(143.268.011)	(13.374.450)	-	(8.036.516.449)
Net book value as of 31 December 2009	95.165.072	479.677.901	680.121.140	4.406.529.935	334.269.806	174.449.454	1.871.438	623.238.544	6.795.323.290
Net book value as of 31 December 2010	94.744.073	461.137.450	608.877.935	4.284.431.252	320.323.740	167.013.120	1.432.138	842.035.068	6.779.994.776

(*) The amount of capitalized financial expense is TRY 13.678.911 for the current period (The capitalized financial expenses for the year ended 31 December 2009 is: TRY 30.519.676).

(**) TRY 16.261.715 is transferred to intangible assets (Note 14).

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

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

	Land	Land improvements	Buildings	Machinery and equipments	Vehicles	Furniture and fixtures	Other property plant and equipment	Construction in progress (CIP)	Total
Cost									
Opening balance as of 1 January 2009	95.435.452	1.420.508.894	2.117.904.966	8.828.843.282	597.767.332	267.285.408	14.628.397	1.477.565.472	14.819.939.203
Translation difference	(345.920)	-	(370.411)	(958.024)	(35.920)	(58.806)	-	(80.204)	(1.849.285)
Additions	75.540	565.125	1.286.241	10.387.745	1.770.136	1.907.288	322.100	361.878.638	378.192.813
Disposals	-	(16.650.436)	(33.232.507)	(311.776.963)	(7.376.175)	(8.283.729)	(497.731)	(24.847.668)	(402.665.209)
Transfer from CIP (**)	-	53.827.916	272.615.478	750.640.620	64.306.427	48.919.496	194.086	(1.191.277.694)	(773.671)
Closing balance as of 31 December 2009	95.165.072	1.458.251.499	2.358.203.767	9.277.136.660	656.431.800	309.769.657	14.646.852	623.238.544	14.792.843.851
Accumulated Depreciation									
Opening balance as of 1 January 2009	-	(976.715.844)	(1.639.740.716)	(5.010.906.051)	(314.908.831)	(129.764.453)	(12.424.075)	-	(8.084.459.970)
Translation difference	-	-	33.342	585.600	18.582	32.482	-	-	670.006
Charge for the period	-	(18.506.803)	(68.947.818)	(170.677.212)	(14.343.634)	(12.432.439)	(552.850)	-	(285.460.756)
Disposals	-	16.649.049	30.572.565	310.390.938	7.071.889	6.844.207	201.511	-	371.730.159
Closing balance as of 31 December 2009	-	(978.573.598)	(1.678.082.627)	(4.870.606.725)	(322.161.994)	(135.320.203)	(12.775.414)	-	(7.997.520.561)
Net book value as of 31 December 2008	95.435.452	443.793.050	478.164.250	3.817.937.231	282.858.501	137.520.955	2.204.322	1.477.565.472	6.735.479.233
									0
Net book value as of 31 December 2009	95.165.072	479.677.901	680.121.140	4.406.529.935	334.269.806	174.449.454	1.871.438	623.238.544	6.795.323.290

(*) TRY 773.671 is transferred to intangible assets (Note 14).

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

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

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

	31 December 2010	31 December 2009
Cost of sales	253.412.014	258.738.073
Capitalized on inventories	34.278.145	15.459.746
General administration expenses	15.577.691	10.672.510
Marketing, sales and distribution expenses	684.184	586.948
Research and development expenses	-	3.479
	303.952.034	285.460.756

NOTE 14 – INTANGIBLE ASSETS

	Rights	Exploration costs and other assets with specific useful life	Other intangible fixed assets	Total
Cost				
"Opening balance as of 1 January 2010"	150.893.966	61.949.696	4.073.415	216.917.077
Translation difference	(18.776)	-	(68.061)	(86.837)
Additions	143.516	-	1.118.316	1.261.832
Disposals	-	(355.811)	-	(355.811)
Transfers from CIP	16.261.715	-	-	16.261.715
"Closing balance as of 31 December 2010	167.280.421	61.593.885	5.123.670	233.997.976
Accumulated amortization				
"Opening balance as of 1 January 2010"	(37.560.044)	(36.049.539)	(3.031.870)	(76.641.453)
Translation difference	3.976	-	10.421	14.397
Charge for the period	(10.265.489)	(2.707.863)	(832.674)	(13.806.026)
Disposals	-	91.920	-	91.920
"Closing balance as of 31 December 2010"	(47.821.557)	(38.665.482)	(3.854.123)	(90.341.162)
"Net book value as of 31 December 2009"	113.333.922	25.900.157	1.041.545	140.275.624
"Net book value as of 31 December 2010"	119.458.864	22.928.403	1.269.547	143.656.814

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

NOTE 14 – INTANGIBLE ASSETS (cont'd)

	Rights	Exploration costs and other assets with specific useful life	Other intangible fixed assets	Total
Cost				
"Opening balance as of 1 January 2010"	141.311.026	61.966.819	3.296.855	206.574.700
Translation difference	(13.339)	-	(20.872)	(34.211)
Additions	8.907.934	-	821.116	9.729.050
Disposals	(41.876)	(17.123)	(67.134)	(126.133)
Transfers from CIP	730.221	-	43.450	773.671
"Closing balance as of 31 December 2010	150.893.966	61.949.696	4.073.415	216.917.077
Accumulated amortization				
"Opening balance as of 1 January 2010"	(29.785.963)	(33.312.024)	(2.426.753)	(65.524.740)
Translation difference	2.287	-	4.382	6.669
Charge for the period	(7.818.244)	(2.737.515)	(676.633)	(11.232.392)
Disposals	41.876	-	67.134	109.010
"Closing balance as of 31 December 2010"	(37.560.044)	(36.049.539)	(3.031.870)	(76.641.453)
"Net book value as of 31 December 2009"	111.525.063	28.654.795	870.102	141.049.960
"Net book value as of 31 December 2010"	113.333.922	25.900.157	1.041.545	140.275.624

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

	31 December 2010	31 December 2009
Cost of sales	12.227.639	10.214.554
Capitalized on inventories	537.555	183.816
General administration expenses	1.035.390	776.049
Marketing, sales and distribution expenses	5.442	57.973
	13.806.026	11.232.392

NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES

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

	1 January - 31 December 2010	1 January - 31 December 2009
Social security grants	424.401	502.765
Research and development grants	368.210	808.035
Energy grants	-	5.018.685
Tax grants	-	57.401
	792.611	6.386.886

These grants and incentives can be used by all companies who meet the related legislative requirements.

There is an investment incentive right of the Group amounting to TRY 40.604.341, deductable 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.

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

NOTE 16 – PROVISIONS

	31 December 2010	31 December 2009
Provision for lawsuits	29.398.275	24.279.009
Provision for tax exposures	21.556.149	42.629.219
Provision for salaries and wages	12.000.000	-
Penalty provision for employment shortage of disabled personnel	5.968.311	7.024.569
Provision for state right on mining activities	1.755.048	-
	70.677.783	73.932.797

Movement of provisions during the period:

The movement of the provision for tax exposures are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	42.629.219	44.636.012
Provision for the period	-	3.167.479
Provision released (-)	(21.073.070)	(5.174.272)
Closing balance	21.556.149	42.629.219

The movement of the provision for the pending lawsuits are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	24.279.009	26.068.603
Provision for the period	15.550.196	8.034.248
Paid lawsuits amount (-)	(7.442.765)	(5.927.888)
Provision released (-)	(2.988.165)	(3.895.954)
Closing balance	29.398.275	24.279.009

The movement of the penalty provisions for the shortage related with obligatory employment of disabled, ex-convicts and terror victims are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	7.024.569	57.377.349
Provision for the period	2.078.128	2.144.828
"Paid penalty for the employment shortage of disabled personnel (-)"	(1.327.014)	-
Provisions released (-)	(1.807.372)	(52.497.608)
Closing balance	5.968.311	7.024.569

The Group is exempt from the obligatory employment of ex-convicts and terror victims in line with the amendments to the legislation by the "Law Amending Employment Law and Certain Other Laws" dated 26 May 2008 and numbered 5763 and regulation on "Domestic Work Placement Services" published and put in force in the Official Gazette, numbered 27210 on 25 April 2009.

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

NOTE 16 – PROVISIONS (cont'd)

Movement of provisions during the period:

The movement of the provision for the purchase commitments are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	-	101.637.544
Provision released (-)	-	(101.637.544)
Closing balance	-	-

The movement of the provision for state right on mining activities are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Provision for the period	1.755.048	-
Closing balance	1.755.048	-

According to "Mining Law" numbered 3213 and regulation on "Mining Law Enforcement" published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is obliged to pay state right on mining activities based on the stope sale prices of related year. %50 of the state right is paid to Special Provincial Administration while remaining %50 of it is paid to Government Treasury.

The movement of the provision for the salaries and wages are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Provision for the period	12.000.000	-
Closing balance	12.000.000	-

As of 31 December 2010 and 31 December 2009, lawsuits filed by and against the Group are as follows:

Lawsuits filed by the Group	31 December 2010	31 December 2009
TRY	51.747.049	56.205.828
US Dollars	81.795.465	82.990.942
	133.542.514	139.196.770

Provision for lawsuits filed by the Group		
TRY	6.264.631	12.921.691
US Dollars	4.495.465	7.705.942
	10.760.096	20.627.633

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

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

NOTE 16 – PROVISIONS (cont'd)

Lawsuits filed against the Group	31 December 2010	31 December 2009
TRY	78.871.445	78.248.219
US Dollars	108.640.318	4.664.410
	187.511.763	82.912.629

Provision for lawsuits filed against the Group		
TRY	18.948.314	19.010.920
US Dollars	10.449.961	5.268.089
	29.398.275	24.279.009

As of 31 December 2010 and 31 December 2009, USD 25.000.000 (TRY 38.650.000) of the lawsuits filed by the Group is against the insurance company for the compensation of the losses of a crane destructed due to a shipping accident in 2005, for which the value of the crane was recognized over scrap value in the consolidated financial statements. Again for the same accident, ship owner, captain and indemnity insurance company of the ship is sued by the Group and the amount of this lawsuit is USD 25.000.000 (TRY 38.650.000).

At the end of the Competition Authority's investigation to determine whether the Article 4 of the "The Act on the Protection of Competition" (No. 4054) had been violated in iron and steel products market, commenced by the decision of the Competition Board dated 2 April 2008 no. 08-27/313-M taken on the meeting dated 2 April 2008, no. 08-27, on ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş., ArcelorMittal FCE Çelik ve Ticaret A.Ş., Borçelik Çelik San. ve Tic. A.Ş. and the Company, it has been concluded that the stock transfer agreement between the Company and ArcelorMittal Group regarding the transfer of 25% of shares from ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. and accompanying Commercial Agreement and the applications related to the agreements were against article 4 of Act: 4054 and a fine of TRY 10.057.232,49, which is 0,2% of the Company's annual gross revenues generated by the end of the fiscal year of 2008 amounting to TRY 5.028.616.243,94 shall be applied to the Company because the Share Purchase Agreement between ArcelorMittal Group and the Company, and the Commercial Agreement annexed thereto are inconsistent with the Article 4 of the Act on the Protection of Competition No. 4054 together with the practices conducted there under; additionally another fine of TRY 10.057.232,49, which is 0,2% of the Company's annual gross revenues generated by the end of the fiscal year of 2008 amounting to TRY 5.028.616.243,94 shall be given to the Company because the Company's partnership with Borçelik is violating the Article 4 of the Act on the Protection of Competition No. 4054 and the partnership of the Company both with the ArcelorMittal and Borçelik shall be dissolved.

Reasoned decision of the Competition Board dated 16 June 2009 no. 09-28/600-141 was communicated to the Company on 29 September 2009 and the Company filed an annulment lawsuit before the Council of State against that decision with an additional claim to get the execution of this decision be suspended by an interim decision until the end of the adjudication process. This lawsuit is still pending before the 13th Chamber of the Council of State (File No. 2009/7029E). However, Erdemir paid those fines as TRY 15.085.848 on 26 October 2009 by benefiting an early payment discount. Company's partnership with Borçelik Çelik San. ve Tic. A.Ş. and ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. resolved on 04 November 2010 and 28 February 2011 respectively.

As of 31 December 2010 and 31 December 2009, the lawsuit which amounts to TRY 35.673.249 among the lawsuits initiated against the Group was filed by the Privatization Administration (PA). In this lawsuit PA asked the court to declare the Company's General Assembly Decision as to the dividend distribution for the year 2005 void. However, 3rd Commercial Court of Ankara rejected the case by its decision dated 23 September 2008 no. 2006/218 E., 2008/480 K. as explained below.

NOTE 16 – PROVISIONS (cont'd)

Information about the stages of the cases is given below:
CMB's Communiqué Serial: XI No: 25 "Communiqué on Accounting Standards in the Capital Market" (the "Communiqué") and its supplementary communiqués with some amendments are not in force today which were effective as of the first interim financial statements ending after 1 January 2005. The Company prepared its consolidated financial statements as of 31 March 2005, 30 June 2005 and 31 December 2005 in accordance with the related Communiqué. However, the Communiqué declared that as an alternative, the application of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and the International Accounting Standards Committee ("IASC") shall be counted as in compliant with the CMB's financial reporting standards. According to CMB letter sent to the Company's management on 7 March 2006 and numbered SPK 017/83-3483, instead of Communiqué XI No: 25, the Company prepared its annual consolidated financial statements in accordance with IFRS and announced to public as of 31 December 2005. According to the CMB's Communiqué Serial: XI No: 29 "Communiqué on Financial Reporting Standards in Capital Markets" which abrogated CMB's old Communiqué Serial: XI No: 25, companies must prepare their financial tables according to IFRS starting from 1 January 2008.

However, Erdemir prepared its consolidated financial statements as of 31 December 2005 in accordance with a new set of accounting standards (IFRS) instead of the standard applied in the interim periods of 2005 (Communiqué Serial: XI No: 25) net profit for the year 2005 has been affected by (TRY 152.329.914) CMB, through a letter sent to Erdemir numbered B.02.1.SPK.0.13-855-7484 of 5 May 2006 notifying its decision No: 21/526 also made on 5 May 2006, decided that, Erdemir's consolidated financial statements as of 31 December 2005 should be revised in accordance with the set of accounting standards that were used in the interim periods (standards regulated in the "Communiqué"), publicly disclosed and should be immediately presented to the General Assembly for approval.

Erdemir filed an annulment lawsuit before 11th Administrative Court of Ankara against that decision (CMB's decision No: B.02.1.SPK.0.13-855-7484 of 5 May 2006 made at the meeting No. 21/526 of 5 May 2006) which was rejected by the court with a decision numbered E. 2006/1396; K. 2007/494 dated 29 March 2007. Erdemir appealed to this decision on 11 October 2007 before the 13th Chamber of the State Council (File number 2007/13762). The Chamber, ratified the first instance court's decision by its judgement dated 12.05.2010 no. 2007/13762 E.; 2010/3984 K. However the Company appealed the Chamber's decision on 2 September 2010. The case is still pending before State Council.

On the other hand, the Privatization Administration (PA) had filed a lawsuit before the 3rd Commercial Court of First Instance of Ankara against Erdemir on 1 May 2006 (E. 2006/218) asking the Court to cancel Erdemir's General Assembly Resolution of 30 March 2006 regarding the dividend distribution which was also rejected by the Court by a decision dated 23 October 2008 and numbered E. 2006/218; K.2008/480. PA appealed this decision on 7 January 2009 before the 11th Chamber of the Supreme Court of Appeals (E. 2009/1319). The Chamber reversed the first instance court's decision upon PA'a appeal by it judgment No. E. 2009/1319; K. 2010/12257 of 30 November 2010. However, this time, Erdemir has appealed the Chamber's decision on 18 February 2011, so the case is still pending before the Supreme Court of Appeals.

Due to the Erdemir's considerations that there was a permission of CMB about "Application of IFRS on consolidated financial statements prepared in 2005" numbered B.02.1.SPK.0.17/83-3483 dated 7 March 2006 and the related lawsuits are also pending, Erdemir has not fulfilled CMB's request and consequently CMB restated the Erdemir's consolidated financial statements as of 31 December 2005 by adding negative goodwill of TRY 152.329.914, which was previously classified into the retained earnings, to the profit for the year ended 31 December 2005 on its own initiative, and published them in the Istanbul Stock Exchange (ISE) bulletin dated 15 August 2006.

NOTE 16 – PROVISIONS (cont'd)

Therefore the Company has also filed a new annulment lawsuit in 10th Administrative Court of Ankara on 10 October 2006 against CMB's restatement of consolidated financial statements as of 31 December 2005 on 15 August 2006. Later, the lawsuit has been forwarded to the 11th Administrative Court of Ankara. The 11th Administrative Court of Ankara has rejected this lawsuit with the decision numbered E.2006/2548; K.2007/1071 dated 25 June 2007. This decision has been declared to the Company on 18 September 2007 and the Company appealed this decision on 11 October 2007 with a motion to suspend the execution of this decision. Accordingly, the Chamber decided to suspend the execution of the decision of 11th Administrative Court of Ankara numbered E.2006/2548; K.2007/1071 dated 25 June 2007 and CMB's related action no. B.02.1.SPK.0.13-855-7484 taken on the meeting dated 5 May 2006 and numbered 21/526, by its decision numbered 2007/13724 and dated 4 December 2007 and consequently abolished the first instance court's decision by its judgment dated 12 May 2010, no. 2007/13724; K. 2010/3985. CMB has appealed the Chamber's decision on 06 September 2010, so the case is still pending before the state Council.

If the Company had started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended 31 December 2010 and 31 December 2009 will not be affected from the above mentioned disputes.

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

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. has filed a lawsuit in the 7th Commercial Court of First Instance against the Company on 27 March 2010 asking for the Company's bankruptcy and indemnity amounting to US Dollars 68.312.520. Final agreement was not settled on the technical qualifications of the product, such as dimensions and main features that must be assessed to fulfill the Export Protocol numbered 69187 dated 2 July 2009 ("Protocol") and "Additional Requirements to Erdemir-Enerjia Export Protocol numbered 69187" ("Additional Requirements") and Energia Metal Maden Sanayi ve Ticaret A.Ş. asked for indemnity claiming that the Company did not deliver the goods as committed. Energia Metal Maden Sanayi ve Ticaret A.Ş. applied to Ankara Bankruptcy Directorate and started execution with a bankcrupcy request against the Company. In response to the Company's opposition, Energia Metal Maden Sanayi ve Ticaret A.Ş. filed bankruptcy lawsuit numbered 2010/259 E. in the 7th Commercial Court of First Instance against the Company .

General procedures regarding preparation of the petition and collection of evidences has been completed. The Company's request for the postponement of exploration on sight, submission of evidences and expert assessment has been rejected and the court experts started to investigate the case. At the first court trial on 27 January 2011, the court rejected the request of Enerjia Metal Maden Sanayi ve Ticaret A.Ş. to send the legal opinion they have obtained to the court experts and the court decided the case file to be submitted to the court experts ten days before next trial which shall be held on 31 March 2011. The Company does not allocate any provision for that lawsuit as of 31 December 2010.

In relation to the other lawsuits that are filed against the Group, as of 31 December 2010 a total of TRY 29.398.275 (31 December 2009: TRY 24.279.009) provision is allocated.

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2010	31 December 2009
Letters of guarantees received	865.668.485	952.654.202
	865.668.485	952.654.202

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

	31 December 2010	31 December 2009
A. Total CPM given for the Company's own legal entity	99.285.751	70.876.259
B. Total CPM given in favour of subsidiaries consolidates on line-by-line basis	3.105.933.822	2.858.040.065
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	-	-
	3.205.219.573	2.928.916.324

As of 31 December 2010, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2009: 0%). Total CPM given in favour of subsidiaries consolidated on line-by-line basis amounting to TRY 3.105.933.822 has been given as collateral for financial liabilities explained in Note 6.

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

	31 December 2010	31 December 2009
US Dollars	1.958.447.651	1.975.880.815
TRY	704.068.880	314.694.461
EURO	454.938.549	551.898.588
Japanese Yen	86.645.822	85.263.083
Romaian Lei	1.118.671	1.179.377
	3.205.219.573	2.928.916.324

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

NOTE 18 – PROVISIONS FOR EMPLOYMENT BENEFITS

	31 December 2010	31 December 2009
Provisions for employee termination benefits	161.033.388	117.712.283
Provisions for seniority incentive premium	7.255.683	4.158.281
	168.289.071	121.870.564

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 2010, the amount payable consists of one month's salary limited to a maximum of TRY 2.517,00 (31 December 2009: TRY 2.365,16).

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

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that, the maximum liability for each employment year will increase parallel with the inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. In the consolidated financial statements as of 31 December 2010, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5,10% and a discount rate of 10% (31 December 2009: the annual inflation rate 4,80% and the discount rate 11%). The probability of retirement is assumed as 99,43%. (31 December 2009 : 99,67%).

The anticipated rate of resignations which do not result in the payment of employee benefits is also considered in the calculation. As the maximum liability is revised semi annually, the maximum amount of TRY 2.623,23 effective from 1 January 2011 has been taken into consideration in calculating the provision for employee termination benefits of the Group (31 December 2009: TRY 2.427,04 effective as of 1 January 2010).

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

NOTE 18 – PROVISIONS FOR EMPLOYMENT BENEFITS (cont'd)

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

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	117.712.283	117.287.493
Service cost	28.290.256	20.979.286
Interest cost	5.469.835	7.317.478
Actuarial loss	17.857.684	3.955.673
Termination benefits paid	(8.296.670)	(31.827.647)
Closing balance	161.033.388	117.712.283

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 are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	4.158.281	-
Provision for the period	3.775.870	4.608.429
Incentive premium paid	(521.486)	(450.148)
Provision released (-)	(156.982)	-
Closing balance	7.255.683	4.158.281

NOTE 19 – OTHER ASSETS AND LIABILITIES

Other current assets	31 December 2010	31 December 2009
Other VAT Receivable	104.236.142	121.519.926
Advances given	42.025.211	20.676.146
Prepaid expenses	16.673.349	19.866.609
VAT carried forward	4.163.009	113.531.395
Prepaid taxes and funds	2.945.856	1.684.548
Income accruals	1.184.826	3.942.238
Due from personnel	902.704	245.841
Job advances given	129.693	117.856
Other current assets	5.117.762	2.899.419
	177.378.552	284.483.978

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

NOTE 19 – OTHER ASSETS AND LIABILITIES (cont'd)

Other non-current assets

	31 December 2010	31 December 2009
Prepaid expenses	51.418.209	34.260.652
Advances given	13.248.585	21.852.490
Other non-current assets	362.389	-
	65.029.183	56.113.142

Other current liabilities

	31 December 2010	31 December 2009
Advances received	137.846.609	55.895.729
Provision for unpaid vacations	47.690.347	39.805.018
Due to personnel	23.338.388	12.928.323
VAT payable	13.776.894	69.064.860
Expense accruals	618.788	1.524.371
Deferred income	317.518	279.781
Other VAT payable	301.866	8.812.583
Accrual for insurance premium	-	8.218.785
Other current liabilities	3.089.852	5.749.164
	226.980.262	202.278.614

Other non-current liabilities

	31 December 2010	31 December 2009
Deferred income	85.019	212.279
Other non-current liabilities	748.962	-
	833.981	212.279

NOTE 20 – EQUITY

As of 31 December 2010 and 31 December 2009, the capital structure is as follows:

Shareholders	(%)	31 December 2010	(%)	31 December 2009
Ataer Holding A.Ş.	49,29	788.563.515	49,29	788.563.515
Held by public	47,63	762.139.626	47,63	762.139.626
Erdemir's own shares	3,08	49.296.859	3,08	49.296.859
Historical capital	100,00	1.600.000.000	100,00	1.600.000.000
Effect of inflation		731.967.735		731.967.735
Restated capital		2.331.967.735		2.331.967.735
Treasury shares		(57.692.172)		(57.692.172)
		2.274.275.563		2.274.275.563

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

NOTE 20 – EQUITY (con't)

The issued capital of the Company in 2010 consists of 160.000.000.000 lots of shares (2009: 160.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2009: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 1.599.999.999,99 shares representing TRY 159.999.999.999 of the issued capital.

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

Other equity items	31 December 2010	31 December 2009
Share premium	231.020.042	231.020.042
Revaluation reserves	25.241.672	25.869.903
- Revaluation reserves of fixed assets	*25.241.672*	*25.869.903*
Cash flow hedging reserves	(24.396.817)	(7.259.727)
Foreign currency translation reserves	4.845.393	4.108.212
Restricted reserves assorted from profit	1.696.170.542	1.688.196.335
- Legal reserves	*489.243.225*	*481.269.018*
- Statutory reserves	*1.206.927.317*	*1.206.927.317*
Retained earnings	1.537.874.215	1.714.538.844
- Extraordinary reserves	*537.873.352*	*537.873.352*
- Accumulated profit	*1.000.000.863*	*1.176.665.492*
	3.470.755.047	3.656.473.609

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

- "Capital restatement differences" account, following the "paid-in capital" line item in the financial statements, if the differences are caused by "paid-in capital" and have not been added to capital yet.

- "Retained earnings", if the differences are arising from "restricted profit reserves" and "share premium" and have not been associated with either profit distribution or capital increase yet

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

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

NOTE 20 – EQUITY (con't)

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

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

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

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

Complying with the decision related to the profit distribution principles for the operating profits made in 2008 by the publicly traded companies; which is announced in the CMB communiqué numbered 1/6 and dated January 9, 2009; the companies which are obliged to prepare consolidated financial statements are allowed to calculate the profits to be distributed by considering the net profit amount included in the financial statements which are prepared according to the CMB communiqué Serial:XI, No:29 – Communiqué on Principles of Financial Reporting in Capital Markets; regardless of the decision taken by the general assembly to distribute the profit, as long as the profit portions transferred from the subsidiaries, joint managing companies and affiliates shown under the profit presented in the consolidated financial statements, to the parent's consolidated financial statements are afforded by the companies' sources according to legal bookings.

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

Remaining portion of the current year profit after deduction of prior periods' losses and other sources which might be used in dividend distribution in statutory books of the Company are equal to TL 3.143.063.948 as of December 31, 2010.

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

NOTE 20 – EQUITY (con't)

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

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

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

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

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

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

NOTE 21 – SALES AND COST OF SALES

	1 January - 31 December 2010	1 January - 31 December 2009
Sales Revenue		
Domestic sales	5.675.999.524	3.911.876.422
Export sales	875.921.137	1.207.385.381
Other revenues (*)	97.705.782	151.419.498
Sales returns (-)	(3.076.564)	(3.428.632)
Sales discounts (-)	(12.621.588)	(199.586)
Other discounts (-)	(1.100.750)	(1.234.506)
	6.632.827.541	5.265.818.577
Cost of Sales (-)	(5.313.245.896)	(5.029.678.758)
Gross profit	1.319.581.645	236.139.819

(*) The total amount of by product exports in other revenues is TRY 13.799.921 (31 December 2009: TRY 9.303.911).

The breakdown of cost of sales for the periods 1 January – 31 December 2010 and 1 January – 31 December 2009 is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Raw material usage	(3.774.205.925)	(3.217.390.500)
Personnel expenses	(649.381.276)	(625.085.540)
Auxiliary material expenses	(374.586.690)	(301.229.721)
Energy expenses	(342.322.916)	(377.826.113)
Depreciation and amortization expenses	(281.283.215)	(317.932.946)
Inventory write-downs within the period (Note 10)	(32.266.202)	(106.832.060)
Change of finished goods and work in progress inventories	339.563.954	(1.145.246.634)
Reversal of inventory write-downs	5.727.969	1.014.074.780
Reversal of provision for purchase commitments	-	101.637.544
Other	(204.491.595)	(53.847.568)
	(5.313.245.896)	(5.029.678.758)

(Amounts are expressed in 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 2010 and 1 January – 31 December 2009 is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Marketing, sales and distribution expenses (-)	(67.064.017)	(68.086.413)
General administrative expenses (-)	(120.746.438)	(108.248.107)
Research and development expenses (-)	(2.065.999)	(2.365.699)
	(189.876.454)	(178.700.219)

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 2010 and 1 January – 31 December 2009 is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Personnel expense (-)	(22.521.985)	(23.993.635)
Depreciation and amortization(-)	(689.626)	(644.921)
Other (-)	(43.852.406)	(43.447.857)
	(67.064.017)	(68.086.413)

The breakdown of general administration expenses for the periods 1 January – 31 December 2010 and 1 January – 31 December 2009 is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Personnel expense (-)	(73.586.021)	(62.569.487)
Depreciation and amortization (-)	(16.613.081)	(11.448.559)
Other (-)	(30.547.336)	(34.230.061)
	(120.746.438)	(108.248.107)

The breakdown of research and development expenses for the periods ended 1 January – 31 December 2010 and 1 January – 31 December 2009 is as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Personnel expense (-)	(927.481)	(1.162.577)
Depreciation and amortization (-)	-	(3.479)
Other (-)	(1.138.518)	(1.199.643)
	(2.065.999)	(2.365.699)

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

NOTE 24 – OTHER OPERATING INCOME/(EXPENSE)

	1 January - 31 December 2010	1 January - 31 December 2009
Other operating income		
Provisions released	39.606.349	62.445.377
Income from water line construction	19.596.651	-
Revenue from sale of financal assets (Note 27)	15.992.680	-
Insurance indemnity income	5.052.237	1.589.167
Rent income	3.528.586	3.733.257
Service income	3.547.087	2.959.136
Indemnity and penalty detention income	2.691.190	5.348.389
Client deposits income	2.477.181	1.245.725
Maintenance and repair income	2.230.721	2.745.679
Dispatch income	1.083.831	265.765
Gain on sale of fixed assets	230.224	1.324.908
Other income and gains	14.923.894	10.470.106
	110.960.631	92.127.509

	1 January - 31 December 2010	1 January - 31 December 2009
Other operating expenses (-)		
Provisions expenses	(46.603.149)	(64.898.020)
Penalty expenses	(15.496.192)	(4.762.373)
Lawsuit compensation expenses	(13.641.013)	(2.723.465)
Loss on disposal of fixed assets	(9.710.519)	(1.877.038)
Service expenses	(6.292.302)	(5.127.853)
Rent expenses	(1.959.382)	(762.128)
Demuragge expense	(1.938.074)	(4.499.404)
Loss on sale of fixed assets	(70.947)	(829.438)
Other expenses and losses	(23.614.480)	(12.341.488)
	(119.326.058)	(97.821.207)

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

NOTE 25 – FINANCE INCOME

	1 January - 31 December 2010	1 January - 31 December 2009
Interest income	88.555.387	49.702.883
Interest income from sales with maturity	44.603.237	72.420.349
Fair value differences of derivative financial instruments	7.791.875	-
Discount income	1.727.664	3.838.908
Foreign exchange gains from financial liabilities (net)	-	10.206.187
Dividend income	-	2.808.166
Other financial income	5.665.659	3.650.620
	148.343.822	142.627.113

NOTE 26 – FINANCE EXPENSES

	1 January - 31 December 2010	1 January - 31 December 2009
Interest expenses	(230.123.313)	(220.443.621)
Foreign exchange loss from bank deposits (net)	(34.010.427)	(24.079.166)
Foreign exchange loss from trade receivables and payables (net)	(8.351.712)	(11.794.235)
Foreign exchange loss from financial liabilities (net)	(5.462.063)	-
Foreign exchange loss from forward contracts	(3.695.859)	(26.536.477)
Interest expense from related parties	-	(25.854.723)
Fair value differences of derivative financial instruments	-	(95.512.399)
Other financial expenses	(14.156.290)	(12.984.521)
	(295.799.664)	(417.205.142)

During the period, TRY 9.461.902 of financial expenses related to foreign currency translation losses and TRY 4.217.009 of interest expenses in total TRY 13.678.911, have been capitalized as part of the Group's property, plant and equipment (1 January – 31 December 2009: the foreign currency translation losses of TRY 24.445.899, the interest expenses of TRY 6.073.777, in total TRY 30.519.676 has been capitalized).

NOTE 27 –NON CURRENT ASSETS HELD FOR SALE

Company	Ratio %	31 December 2010	Ratio %	31 December 2009
ArcelorMittal Ambalaj Çeliği Tic. A.Ş.	25	11.498.657	25	11.498.657
Borçelik Çelik San. Tic. A.Ş. (*)	-	-	9,34	48.415.165
Allowance for impairment		-		(18.145.145)
		11.498.657		41.768.677

(*) The sale of Borçelik Çelik San. Tic. A.Ş. shares was completed on 4 November 2010 with the sale price of TRY 46.262.700 (TRY equivalent of US Dollars 33.000.000). The gain from the sale of the shares is TRY 15.992.680 and recognised under other operating income (Note 24).

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

NOTE 27 –NON CURRENT ASSETS HELD FOR SALE (cont'd)

In accordance with the decision taken by the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş., ArcelorMittal Ambalaj Çeliği Tic. A.Ş. which was previously accounted by using the equity pick up method was reclassified as non-current assets held for sale as of 1 April 2009 as their sales are highly probable within the next twelve months. The sales of shares are completed on 28 February 2011.

NOTE 28 –TAX ASSETS AND LIABILITIES

	31 December 2010	31 December 2009
Corporate tax payable:		
Current corporate tax provision	27.784.836	16.464.319
Prepaid taxes and funds (-)	(20.669.115)	(14.078.568)
	7.115.721	2.385.751

	1 January - 31 December 2010	1 January - 31 December 2009
Taxation:		
Current corporate tax expense	27.784.836	16.464.319
Deferred tax expense/(income)	149.751.944	(71.457.880)
	177.536.780	(54.993.561)

Corporate tax

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

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

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 31 December 2010 (31 December 2009: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2010 is TRY 23.054.866 (31 December 2009: TRY 15.729.336).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2010 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (2009: 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.

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax (con't)

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

Income withholding tax

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

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

Investment allowance application

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

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. 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. (2010: 20%)

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

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax

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

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) is 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2009: 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 2009: 5%).

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

	31 December 2010	31 December 2009
Deferred tax assets:		
Carry forward tax losses(*)	(152.001.407)	(248.555.949)
Provision for employee benefits	(33.657.814)	(24.358.517)
Tangible and intangible assets	(15.529.249)	(12.638.949)
Inventories	(14.136.332)	(6.153.079)
Provision for unpaid vacations	(9.538.069)	(7.961.004)
Investment incentive	(8.120.868)	(7.459.235)
Provision for lawsuits	(5.879.655)	(4.855.800)
Fair values of the derivative financial instruments	(4.976.365)	(21.194.170)
Provision for other doubtful receivables	(5.170.811)	(5.315.665)
Prepaid expenses	(1.686.290)	(2.115.284)
Amortized cost adjustment on loans	-	(10.315.636)
Other	(6.324.608)	(2.582.616)
	(257.021.468)	(353.505.904)
Deferred tax liabilities:		
Property, plant, equipment and intangible assets	178.603.233	121.918.357
Amortized cost adjustment on loans	15.452.593	23.671.943
Insurance expenses	1.965.207	2.276.625
Other	3.173.229	2.739.537
	199.194.262	150.606.462
	(57.827.206)	(202.899.442)

(*) As almost all of the carry forward tax losses occurred in 2009, the Group has the right to deduct the carry forward losses from taxable profit until 31 December 2014. According to the projections made, the Group's Management recorded deferred tax asset for the portion of carry forward tax losses which is projected to be used within the future taxable income.

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

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

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

Presentation of deferred tax (assets)/liabilities:	31 December 2010	31 December 2009
Deferred tax (assets)	(150.892.360)	(353.505.904)
Deferred tax liabilities	93.065.154	150.606.462
	(57.827.206)	(202.899.442)

Deferred tax (asset)/ liability movements:	1 January - 31 December 2010	1 January - 31 December 2009
Opening balance	(202.899.442)	(129.845.457)
Deferred tax expense/(income)	149.751.944	(71.457.880)
The amount netted under equity	(4.586.311)	(1.596.105)
Translation difference	(93.397)	-
Closing balance	(57.827.206)	(202.899.442)

Reconciliation of tax provision:	1 January - 31 December 2010	1 January - 31 December 2009
Profit/ (loss) before tax	973.883.922	(223.475.119)
Effective tax rate	20%	20%
Calculated tax	194.776.784	(44.695.024)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	6.279.573	6.844.799
- Non-taxable income	(2.201.130)	(9.971.843)
- Effect of non-taxable adjustments	(23.367.830)	(3.084.760)
- Investment incentive	(661.633)	(7.459.235)
- Effect of unused deferred tax assets	1.921.682	2.609.473
- Effect of the different tax rates due to foreign subsidiaries	817.517	769.271
- Other	(28.183)	(6.242)
Tax expense/(income) in income statement	177.536.780	(54.993.561)

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

NOTE 28 –TAX ASSETS AND LIABILITIES (cont'd)

As of 1 January - 31 December 2010 and 2009, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January - 31 December 2010			1 January - 31 December 2009		
Other comprehensive income in the current period	Amount before tax	Tax income/ (expense)	Amount after tax	Amount before tax	Tax income/ (expense)	Amount after tax
Change in revaluation reserves of fixed assets	(628.231)	-	(628.231)	(582.185)	75.247	(506.938)
Change in cash flow hedging reserves	(22.931.551)	4.586.311	(18.345.240)	(7.604.291)	1.520.858	(6.083.433)
Change in foreign currency translation reserves	737.181	-	737.181	643.545	-	643.545
	(22.822.601)	4.586.311	(18.236.290)	(7.542.931)	1.596.105	(5.946.826)

NOTE 29 – EARNINGS/ (LOSS) PER SHARE

	1 January - 31 December 2010	1 January - 31 December 2009
Number of shares outstanding(*)	160.000.000.000	160.000.000.000
Net profit/(loss) attributable to equity holders – TRY	765.999.660	(168.690.422)
Profit/(loss) per share with 1 TRY nominal value TRY %	0,4787 / %47,87	(0,1054) / (%10,54)

(*)The issued capital of the Company in 2010 consists of 160.000.000.000 lots of shares (2009: 160.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2009: 1 Kr).

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

NOTE 30 –RELATED PARTY DISCLOSURES

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

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

The trade payables to related parties mainly arise from purchased service transactions.

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

	31 December 2010	31 December 2009
Due from related parties (short term)		
ArcelorMittal Amb. Çel. San. ve Tic. A.Ş.(1) (*)	72.010.724	61.746.999
Oyak Renault Otomobil Fab. A.Ş.(5)	6.017.296	1.241.900
Adana Çimento Sanayi T.A.Ş.(3)	-	783.325
Oyak Beton A.Ş.(3)	-	250.680
Other	309.689	1.350
	78.337.709	64.024.254

Due from related parties (long term)	31 December 2010	31 December 2009
Oyak Savunma ve Güvenlik Sistemleri A.Ş (3)	1.141.524	-
	1.141.524	-

	31 December 2010	31 December 2009
Due to related parties (short term)		
Omsan Lojistik A.Ş.(3)	1.748.199	1.750.319
Oyak Pazarlama Hizmet ve Turizm A.Ş.(3)	1.763.229	1.069.752
Adana Çimento Sanayi T.A.Ş. (3)	1.222.847	-
Omsan Logistica SRL(3)	590.783	493.637
Omsan Denizcilik A.Ş.(3)	581.339	26.389
Oyak Beton A.Ş.(3)	182.930	-
Oyak Telekomünikasyon A.Ş.(3)	144.886	-
Other	3.677.229	1.807.714
	9.911.442	5.147.811

(1) Investment in associate
(2) Payables to shareholders are the liabilities for dividend distributions outstanding.
(3) Subsidiaries of the parent company
(5) Investment in associates of the parent company

(*) The Group sold its shares in ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. on 28 February 2011.

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

NOTE 30 –RELATED PARTY DISCLOSURES (cont'd)

Non trade payables due to related parties (short term)	31 December 2010	31 December 2009
Payables to shareholders [2]	1.709.879	1.789.615
Other	5.121	81.750
	1.715.000	1.871.365

Major sales to related parties	1 January - 31 December 2010	1 January - 31 December 2009
ArcelorMittal Amb.Çel. San. ve Tic. A.Ş.[1] [*]	149.992.805	98.490.031
Borçelik Çelik San. Tic. A.Ş.[4] [*]	70.369.054	88.573.499
Oyak Renault Otomobil Fab. A.Ş.[5]	27.387.464	1.380.388
Adana Çimento Sanayi T.A.Ş.[3]	13.159.343	19.207.226
Ünye Çimento Sanayi ve Ticaret A.Ş.[3]	2.027.136	1.561.270
Oytaş İç ve Dış Ticaret A.Ş.[3]	1.679.086	1.615.623
Bolu Çimento Sanayi A.Ş.[3]	1.645.789	1.343.712
Aslan Çimento A.Ş.[3]	1.169.355	-
Oyak Beton A.Ş.[3]	-	988.271
Other	-	5.593
	267.430.032	213.165.613

[1] Investment in associate
[2] Payables to shareholders are the liabilities for dividend distributions outstanding.
[3] Subsidiaries of the parent company
[4] Financial asset
[5] Investment in associates of the parent company

[*] The Group sold its shares in Borçelik Çelik San. ve Tic. A.Ş. on 4 November 2010. The related party sales amount stems from the transactions till the share transfer date. The Group sold its shares in ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. on 28 February 2011.

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

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

NOTE 30 –RELATED PARTY DISCLOSURES (cont'd)

Major purchases from related parties	1 January - 31 December 2010	1 January - 31 December 2009
Oyak Pazarlama Hizmet ve Turizm A.Ş.[3]	15.748.997	10.467.101
Innovation Resources B.V.[3]	8.783.034	-
Omsan Logistica SRL[3]	8.209.431	1.908.342
Omsan Lojistik A.Ş.[3]	6.290.701	7.963.159
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[3]	4.374.529	4.949.101
Oyak Telekomünikasyon A.Ş.[3]	1.433.724	-
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş.[3]	778.284	7.762.102
Oyak Genel Müdürlüğü	641.900	-
Other	1.123.471	671.692
	47.384.071	33.721.497

[3] Subsidiaries of the parent company

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

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

The year end balances are unsecured, interest free and their collections will be done in cash. As of 31 December 2010, the Group provides no provision for the receivables from related parties (31 December 2009: nil).

For the period ended 31 December 2010, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 7.220.654 (31 December 2009: TRY 7.519.780).

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS

Additional information about financial instruments

(a) Capital risk management

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

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

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

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

As of 31 December 2010 and 31 December 2009 the net debt/equity ratio is as follows:

	Note	31 December 2010	31 December 2009
Total financial liabilities	6	5.851.241.280	4.166.022.813
Less: Cash and cash equivalents	4	2.877.790.271	1.065.737.367
Net debt		2.973.451.009	3.100.285.446
Total adjusted equity (*)		6.715.641.142	5.925.953.753
Total resources		9.689.092.151	9.026.239.199
Net debt/Total adjusted equity ratio	20	%44	%52
Distribution of net debt/ total adjusted equity		31/69	34/66

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

(b) Significant accounting policies

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(c) Financial risk management objectives

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

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

(d) Market risk

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

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

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

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management

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

Credit risk of financial instruments	Receivables					
	Trade receivables		Other receivables			
31 December 2010	Related Party	Third Party	Related Party	Third Party	Bank Deposits	Derivative financial instruments
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	79.479.233	638.980.725	-	60.303.017	2.877.758.916	6.380.731
- Secured part of the maximum credit risk exposure via collateral etc.	73.374.880	510.674.641	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	79.479.233	634.946.885	-	34.448.962	2.877.758.916	6.380.731
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	-	4.033.840	-	25.854.055	-	-
- secured part via collateral etc.	-	3.806.398	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	42.714.004	-	25.854.055	-	-
- Impairment (-)	-	(42.714.004)	-	(25.854.055)	-	-
- 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.

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments	Receivables					
	Trade receivables		Other receivables			
31 December 2009	Related Party	Third Party	Related Party	Third Party	Bank Deposits	Derivative financial instruments
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	64.024.254	630.821.613	-	26.846.703	1.065.712.642	-
- Secured part of the maximum credit risk exposure via collateral etc.	61.746.999	502.520.675	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	64.024.254	591.479.696	-	268.376	1.065.712.642	-
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	39.341.917	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	26.578.327	-	-
- secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	28.569.314	-	26.578.327	-	-
- Impairment (-)	-	(28.569.314)	-	(26.578.327)	-	-
- 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.

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

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

	Receivables					
31 December 2010	**Trade receivables**	**Other receivables**	**Bank deposits**	**Derivative financial instruments**	**Other**	**Total**
Overdue 1-30 days	4.033.840	-	-	-	-	4.033.840
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years		25.854.055	-	-	-	25.854.055
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	4.033.840	25.854.055	-	-	-	29.887.895
Secured part via collateral etc.	3.806.398	-	-	-	-	3.806.398

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

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

	Receivables					
31 December 2009	**Trade receivables**	**Other receivables**	**Bank deposits**	**Derivative financial instruments**	**Other**	**Total**
Overdue 1-30 days	-	-	-	-	-	-
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	26.578.327	-	-	-	26.578.327
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	-	26.578.327	-	-	-	26.578.327
Secured part via collateral etc.	-	-	-	-	-	-

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(f) Foreign currency risk management

As of 31 December 2010, the foreign currency position of the Group in terms of original currency is as follows:

	31 December 2010				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	607.232.660	380.971.391	8.874.251	3.520.873	-
2a. Monetary financial assets	1.165.423.290	735.904.698	13.515.554	14.895	8.216
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	81.459.746	52.206.574	361.134	-	3.510
4. CURRENT ASSETS (1+2+3)	**1.854.115.696**	**1.169.082.663**	**22.750.939**	**3.535.768**	**11.726**
5. Trade receivables	-	-	-	-	-
6a. Monetary trade receivables	-	-	-	-	-
6b. Non-monetary trade receivables	-	-	-	-	-
7. Other	8.420.261	2.936.026	1.747.172	15.900.000	-
8. NON-CURRENT ASSETS (5+6+7)	**8.420.261**	**2.936.026**	**1.747.172**	**15.900.000**	**-**
9. TOTAL ASSETS (4+8)	**1.862.535.957**	**1.172.018.689**	**24.498.111**	**19.435.768**	**11.726**
10. Trade payables	205.031.840	113.518.117	7.108.880	788.065.850	19.080
11. Financial liabilities	1.314.589.351	785.423.351	37.772.349	1.210.876.831	-
12a. Other monetary financial liabilities	69.500.369	39.834.137	3.863.547	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. CURRENT LİABİLİTİES (10+11+12)	**1.589.121.560**	**938.775.605**	**48.744.776**	**1.998.942.681**	**19.080**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	2.347.402.328	1.158.356.411	204.594.058	7.254.509.745	-
16a. Other monetary financial liabilities	748.962	484.452	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. NON-CURRENT LİABİLİTİES (14+15+16)	**2.348.151.290**	**1.158.840.863**	**204.594.058**	**7.254.509.745**	**-**
18. TOTAL LİABİLİTİES (13+17)	**3.937.272.850**	**2.097.616.468**	**253.338.834**	**9.253.452.426**	**19.080**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**314.008.128**	**74.024.862**	**97.391.875**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	314.008.128	74.024.862	97.391.875	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.760.728.765)**	**(851.572.917)**	**(131.448.848)**	**(9.234.016.658)**	**(7.354)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.164.616.900)**	**(980.740.379)**	**(230.949.029)**	**(9.249.916.658)**	**(10.864)**
22. Fair value of derivative financial instruments used in foreign currency hedge	(17.663.649)	2.924.151	(10.826.405)	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	314.008.128	74.024.862	97.391.875	-	-
25. Exports	889.721.058	491.514.103	77.036.379	-	-
26. Imports	3.959.868.035	2.596.001.755	35.165.959	-	-

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

As of 31 December 2009, the foreign currency position of the Group in terms of original currency is as follows:

	31 December 2009				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	516.469.522	337.845.709	3.599.147	-	-
2a. Monetary financial assets	761.808.876	457.632.406	33.654.364	1.379.217	10.780
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	2.134.133	853.440	1.628	51.870.500	-
4. CURRENT ASSETS (1+2+3)	**1.280.412.531**	**796.331.555**	**37.255.139**	**53.249.717**	**10.780**
5. Trade receivables	-	-	-	-	-
6a. Monetary trade receivables	-	-	-	-	-
6b. Non-monetary trade receivables	-	-	-	-	-
7. Other	16.755.725	10.561.360	395.077	-	-
8. NON-CURRENT ASSETS (5+6+7)	**16.755.725**	**10.561.360**	**395.077**	**-**	**-**
9. TOTAL ASSETS (4+8)	**1.297.168.256**	**806.892.915**	**37.650.216**	**53.249.717**	**10.780**
10. Trade payables	244.360.943	120.843.964	26.403.244	325.806.621	23.422
11. Financial liabilities	774.555.949	440.025.923	41.601.128	1.357.992.902	-
12a. Other monetary financial liabilities	27.435.055	18.218.498	1.603	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. CURRENT LIABILITIES (10+11+12)	**1.046.351.947**	**579.088.385**	**68.005.975**	**1.683.799.523**	**23.422**
14. Trade payables	-	-	-	-	-
15. Financial liabilities	2.473.057.784	1.204.855.512	240.910.369	8.493.937.469	-
16a. Other monetary financial liabilities	-	-	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. NON-CURRENT LIABILITIES (14+15+16)	**2.473.057.784**	**1.204.855.512**	**240.910.369**	**8.493.937.469**	**-**
18. TOTAL LIABILITIES (13+17)	**3.519.409.731**	**1.783.943.897**	**308.916.344**	**10.177.736.992**	**23.422**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**402.021.900**	**267.000.000**	**-**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	402.021.900	267.000.000	-	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.820.219.575)**	**(710.050.982)**	**(271.266.128)**	**(10.124.487.275)**	**(12.642)**
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.241.131.333)**	**(988.465.782)**	**(271.662.833)**	**(10.176.357.775)**	**(12.642)**
22. Fair value of derivative financial instruments used in foreign currency hedge	(96.228.704)	(63.909.613)	-	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	402.021.900	267.000.000	-	-	-
25. Exports	1.216.689.292	649.815.806	97.410.457	-	879.616
26. Imports	3.024.687.623	1.955.448.424	-	-	-

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Foreign currency sensitivity

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

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

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

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

	31 December 2010	31 December 2009
Foreign Currency Position Parametric VaR	27.931.843	37.320.644

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

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

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

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

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

As of 31 December 2010 asset and liability balances are translated by using the following exchange rates: TRY 1,5460 = US $ 1,TRY 2,0491 = EUR 1 and TRY 0,0189 = JPY 1 (31 December 2009: TRY 1,5057 = US $ 1,TRY 2,1603 = EUR 1 and TRY 0,0163 = JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2010	Appreciation of foreign currency against	Depreciation of foreign currency against
1- US Dollars net asset/liability	(143.097.417)	143.097.417
2- Hedged portion from US Dollars risk (-)	11.444.244	(11.444.244)
3- Effect of capitalization (-)	13.506.594	(13.506.594)
4- US Dollars net effect (1+2+3)	(118.146.579)	118.146.579
5- EURO net asset/liability	(46.891.753)	46.891.753
6- Hedged portion from EURO risk (-)	19.956.569	(19.956.569)
7- Effect of capitalization (-)	-	-
8- EURO net effect (5+6+7)	(26.935.184)	26.935.184
9- Jap. Yen net asset/liability	(17.482.764)	17.482.764
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	1.458.324	(1.458.324)
12- Jap. Yen net effect (9+10+11)	(16.024.440)	16.024.440
13- Other currencies net asset/liability	(1.757)	1.757
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	(1.757)	1.757
TOTAL (4+8+12+16)	**(161.107.960)**	**161.107.960**

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interests	
31 December 2009	Appreciation of foreign currency against	Depreciation of foreign currency against
1- US Dollars net asset/liability	(147.114.568)	147.114.568
2- Hedged portion from US Dollars risk (-)	40.202.190	(40.202.190)
3- Effect of capitalization (-)	32.740.492	(32.740.492)
4- US Dollars net effect (1+2+3)	(74.171.886)	74.171.886
5- EURO net asset/liability	(58.601.621)	58.601.621
6- Hedged portion from EURO risk (-)	-	-
7- Effect of capitalization (-)	-	-
8- EURO net effect (5+6+7)	(58.601.621)	58.601.621
9- Jap.Yen net asset/liability	(16.504.940)	16.504.940
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	1.458.955	(1.458.955)
12- Jap. Yen net effect (9+10+11)	(15.045.985)	15.045.985
13- Other currencies net asset/liability	(2.873)	2.873
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	(2.873)	2.873
TOTAL (4+8+12+16)	**(147.822.365)**	**147.822.365**

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Cross currency and interest rate swap agreements:

As of 31 December 2010 the details of the cross currency and interest rate swap agreements are provided in the table below:

31 December 2010	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	107.835.715	74.024.862	107.835.718	106.486.712	1.349.006
TRY sale/ EURO purchase	2,0820	202.817.020	97.391.875	202.817.020	225.001.406	(22.184.386)
More than 5 years						
						(20.835.380)

Forward agreements

31 December 2010	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
TRY sale/ US Dollars purchase	1,4827	111.202.500	75.000.000	111.202.500	106.255.344	4.947.156
US Dollars sale/ TRY purchase	1,5310	75.000.000	114.354.500	115.950.000	117.752.445	(1.802.445)
EURO sale/ US Dollars purchase	1,3380	2.410.000	3.224.580	4.938.331	4.911.310	27.021
Less than 3 months						
						3.171.732

31 December 2009	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
TRY sale/ US Dollars purchase						
Less than 3 months	1,8673	498.582.400	267.000.000	498.582.400	594.811.104	(96.228.704)
						(96.228.704)

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(g) Interest rate risk management

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

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

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

Interest rate sensitivity

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

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

Interest position table

Floating interest rate financial instruments	31 December 2010	31 December 2009
Financial liabilities	3.544.835.301	3.498.154.479

In addition to these, as of 31 December 2010, the amount of the Group's financial loans is TRY 739.372.766 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2009: TRY 657.243.337) (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 21.811.516 (31 December 2009: TRY 19.028.635).

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Interest rate swap agreements

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

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

31 December 2010 Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Less than 3 months	%1,84	77.300.000	(450.865)
Between 1-5 years	%2,55	331.837.857	(5.536.430)
Over 5 years	%2,39	62.008.772	(1.230.883)
		471.146.629	(7.218.178)

31 December 2009 Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Between 3-6 months	%3,19	29.720.653	(327.622)
Between 1-4 years	%2,55	624.865.500	(9.414.527)
		654.586.153	(7.218.178)

(*) In order to hedge against the interest rate risk of the borrowings with floating rates, the Group trades floating interest rates with fixed rates by making swap agreements. The fair value of the interest rate swap agreements with a nominal amount of TRY 471.146.629 (31 December 2009: TRY 654.586.153) 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 (5.476.236) (31 December 2009: TRY (7.259.727).

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Cross currency and interest rate swap agreements

31 December 2010

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	107.835.718	1.349.006
Over 5 years			
TRY sale / EURO purchase	%10,65	202.817.020	(22.184.386)
Over 5 years			
		310.652.738	(20.835.380)

(*) In order to hedge against the interest and foreign exchange rate risk of the Euro and US Dollars borrowings, the Group trades floating interest rates with fixed rates and Euro and US Dollars amounts with TRY amounts by making cross currency swap agreements. The fair value of such agreements which are categorized as cash flow hedges and found to be effective, with nominal amount of TRY 310.652.738 is recognized under equity net off its deferred tax effect, unrealized foreign exchange gain/losses and non-controlling interests as TRY (18.920.581).

(h) Liquidity risk management

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

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

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

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

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2010 Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	5.851.241.280	6.415.179.491	1.474.980.774	1.724.757.494	2.468.055.946	747.385.277
Trade payables	359.941.902	360.619.499	208.373.082	152.246.417	-	-
Other financial liabilities(*)	170.533.176	170.533.176	168.703.852	1.829.324	-	-
Total liabilities	**6.381.716.358**	**6.946.332.166**	**1.852.057.708**	**1.878.833.235**	**2.468.055.946**	**747.385.277**
Derivative financial liabilities						
Derivative cash inflows	6.380.731	574.471.379	236.693.369	55.725.598	253.224.204	28.828.208
Derivative cash outflows	(31.262.557)	(683.373.395)	(234.331.034)	(87.227.193)	(330.497.021)	(31.318.147)
	(24.881.826)	**(108.902.016)**	**2.362.335**	**(31.501.595)**	**(77.272.817)**	**(2.489.939)**

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

31 December 2009 Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	4.166.001.612	4.393.228.578	187.624.741	660.570.786	3.139.056.417	405.976.634
Finance leasing liabilities	21.201	21.370	-	21.370	-	-
Trade payables	355.004.343	355.577.398	152.303.618	203.273.780	-	-
Other financial liabilities(*)	79.247.300	79.247.300	78.512.051	735.249	-	-
Total liabilities	**4.600.274.456**	**4.828.074.646**	**418.440.410**	**864.601.185**	**3.139.056.417**	**405.976.634**
Derivative financial liabilities						
Derivative cash outflows	(105.970.853)	(106.811.528)	(97.314.299)	(6.104.016)	(3.393.213)	-
	(105.970.853)	**(106.811.528)**	**(97.314.299)**	**(6.104.016)**	**(3.393.213)**	-

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

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

NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

31 December 2010	**Cash and cash equivalent**	**Loans and receivables**	**Available for sale financial assets**	**Held for trading financial instruments**	**Financial liabilities at amortized cost**	**Derivative financial instruments through other comprehensive income/loss**	**Derivative financial instruments through profit/ loss**	**Carrying value**	**Note**
Financial Assets									
Cash and cash equivalents	2.877.790.271	-	-	-	-	-	-	2.877.790.271	4
Trade receivables	-	718.459.958	-	-	-	-	-	718.459.958	8
Financial investments	-	-	56.681	-	-	-	-	56.681	5
Other financial assets	-	60.303.017	-	-	-	-	-	60.303.017	9
Derivative financial instruments	-	-	-	-	-	1.370.505	5.010.226	6.380.731	5
Financial Liabilities									
Financial liabilities	-	-	-	-	5.851.241.280	-	-	5.851.241.280	6
Trade payables	-	-	-	-	359.941.902	-	-	359.941.902	8
Other liabilities	-	-	-	-	170.533.176	-	-	170.533.176	9/19
Derivative financial instruments	-	-	-	-	-	29.424.063	1.838.494	31.262.557	7
31 December 2009									
Financial Assets									
Cash and cash equivalents	1.065.737.367	-	-	-	-	-	-	1.065.737.367	4
Trade receivables	-	694.845.867	-	-	-	-	-	694.845.867	8
Financial investments	-	-	41.666	22.588	-	-	-	64.254	5
Other financial assets	-	26.846.703	-	-	-	-	-	26.846.703	9
Derivative financial instruments	-	-	-	-	-	-	-	-	7
Financial Liabilities									
Financial liabilities	-	-	-	-	4.166.022.813	-	-	4.166.022.813	6
Trade payables	-	-	-	-	355.004.343	-	-	355.004.343	8
Other liabilities	-	-	-	-	79.247.300	-	-	79.247.300	9/19
Derivative financial instruments	-	-	-	-	-	9.742.149	96.228.704	105.970.853	7

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

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

NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (con't)

Additional information about financial instruments (cont'd)

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

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2010	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	5.010.226	-	5.010.226	-
Derivative financial liabilities	(1.838.494)	-	(1.838.494)	-
Financial assets and liabilities at fair value through other comprehensive income/ expense				
Derivative financial assets	1.370.505	-	1.370.505	-
Derivative financial liabilities	(29.424.063)	-	(29.424.063)	-
Total	(24.881.826)	-	(24.881.826)	-

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2009	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	22.588	22.588	-	-
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(96.228.704)	-	(96.228.704)	-
Financial assets and liabilities at fair value through other comprehensive income/ expense				
Derivative financial assets	-	-	-	-
Derivative financial liabilities	(9.742.149)	-	(9.742.149)	-
Total	(105.948.265)	22.588	(105.970.853)	-

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.

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

NOTE 33 – SUBSEQUENT EVENTS

According to the decisions of the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) dated 25 January 2011, numbered 9071, the registered capital was decided to be increased by 34,375% from retained earnings in total TRY 550.000.000 from TRY 1.600.000.000 to TRY 2.150.000.000 within the registered authorized capital, TRY 5.000.000.000. New shares resulting from non-cash capital increase will be registered to shareholders in accordance with percentage of ownership on current shares. The capital increase procedure was completed by the registration and announcement of the certificate of registry dated 28 February 2011, issued by Capital Market Board.

The sale of ArcelorMittal Ambalaj Çeliği Sanayi ve Ticaret. A.Ş. shares to ArcelorMittal France S.A. has been completed on 28 February 2011 with the sale price of USD 10.500.000.

On 7 December 2010, negotiations on the 23 rd Labour Agreement started between Turkish Employers' Association of Metal Industries, which Ereğli Demir ve Çelik Fabrikaları T.A.Ş from Erdemir Group is a member of and represents the Company during labour agreements, and Turkish Metal Union. On 1 February 2011, the negotiations between both parties have suspended with minutes of dispute.

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

Changes in working capital are as follows:

	1 January - 31 December 2010	1 January - 31 December 2009
Current trade receivables	(41.418.719)	(10.452.495)
Inventories	(865.439.990)	1.852.115.364
Other short term receivables / current assets	98.864.346	148.287.718
Non current trade receivables	(261.147)	228.852
Other long term receivables / non current assets	(9.799.840)	(24.137.285)
Current trade payables	4.937.559	(38.353.131)
Other short term payables / liabilities	(103.209.525)	(192.293.801)
Other long term trade payables / liabilities	17.676.129	9.028.537
	(898.651.187)	1.744.423.759

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

Provision for doubtful receivables of TRY 6.884.571 reported in "Provision for Other Doubtful Receivables" in consolidated balance sheet as of 31 December 2009, is reclassified to "Provision for Doubtful Trade Receivables".

"VAT Receivable" and "Other VAT" which are seperately reported in the consolidated balance sheet as of 31 December 2009 are reported in total as "Other VAT Receivable"; "VAT Deductable" and "VAT Transferred" which are seperately reported in the consolidated balance sheet as of 31 December 2009 are reported in total as "VAT Transferred".

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

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

According to the Group consideration of inventories, inventories of TRY 11.830.878 reported in "Finished Goods", inventories of TRY 27.094.295 reported in "Raw Materials" in the consolidated balance sheet as of 31 December 2009; inventories of TRY 38.925.173 in total in are reclassified to "Work in Progress Goods". Inventories of TRY 13.564.281 reported in "Work in Progress Goods" in the consolidated balance sheet as of 31 December 2009 are reclassified to "Finished Goods". Inventories of TRY 41.240.455 reported in "Other Inventories", inventories of TRY 17.530.920 reported in "Raw Materials", inventories of TRY 248.056 reported in "Work in Progress" in the consolidated balance sheet as of 31 December 2009, inventories of TRY 59.019.431 in total are reclassified to "Goods in Transit".

The details and the amounts of the reclassifications made of the income statement are as follows:

Account	(Previously reported) 1 January - 31 December 2009	(Restated) 1 January - 31 December 2009	Difference
Revenues (1) (3) (5)	5.235.709.736	5.265.818.577	(30.108.841)
Cost of sales (-) (1) (2) (3) (4) (5)	(4.990.985.007)	(5.029.678.758)	38.693.751
Other operating income (2) (7)	96.877.548	92.127.509	4.750.039
Other operating expense (-) (2) (4) (7)	(111.156.156)	(97.821.207)	(13.334.949)
Financial income (6)	142.944.425	142.627.113	317.312
Financial expense (-) (6)	(417.522.454)	(417.205.142)	(317.312)
Total			-

(1) Income from electricity sales of TRY 25.856.626 which is previously netted off under "Cost of sales (-)" is reclassified to "Revenues".

(2) Dispatch income of TRY 265.765 which is previously netted off under "Cost of sales (-)" is reclassified to "Other Operating Income" and demurrage expense of TRY 4.360.624 which is previously reported in "Cost of sales (-)" is reclassified to "Other operating expenses (-)".

(3) Excess scrap and raw material sales income of TRY 715.712 which is previously netted off under "Cost of sales(-) " is reclassified to "Revenue".

(4) Company housing expenses of TRY 12.679.769 which is previously reported in "Other operating expenses (-)" is reclassified to "Cost of sales (-)".

(5) Raw material sales revenue of TRY 3.536.503 which is previously netted off under "Cost of Sales(-)" is reclassified to "Revenue".

(6) Raw material foreign exchange gain of TRY 317.312 which was previously reported in "Financial income" is netted from "Financial expenses (-)"

(7) Lawsuit compensation expenses related to the lawsuits already provided for, of TRY 5.015.804 are netted off under "Other Operating income".

Convenience translation to English:

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

AUDIT REPORT
(01.01.2010 - 31.12.2010)

TO THE GENERAL BOARD OF EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş

Details About the Partnership;	
Title	: Ereğli Demir ve Çelik Fabrikaları T.A.Ş.
Headquarters	: Ankara
Capital	: Issued Capital TRY 1,600,000,000
Scope of Activity	: Production and Sales of Iron and Steel
Details About the Auditors	
Name-Surname	: Ahmet Türker ANAYURT
Tenure	: March 2010 - March 2011
Partnership Satus	: Not a Partner
Name-Surname	: Ali Güner TEKİN
Tenure	: March 2010 - March 2011
Partnership Status	: Not a Partner
Board of Directors and Audit Board Meetings	: 9 Executive Board Meetings were held within the Calender Year 2010, and Audit Board attended all of the meetings.
Result of Census and Ispection Carried out as per Turkish Commercial Code	: Upon inspections performed on documents and automation entries through sampling method at various dates between 01.01.2010 - 31.12.2010, it was found out that Legal Partnership Ledgers were kept in compliance with provisions of Turkish Commercial Code and Tax Procedure Law, and the securities received and kept in the cash were in compliance with the entries.
Complaints and Corruptions Addressed and Related Procedures	: There is no complaint or corruption addressed to our Audit Board within the year 2010.

We have examined the accounts and transactions of Ereğli Demir ve Çelik Fabrikaları T.A.Ş., pertaining for the period between January 1, 2010 and December 31, 2010 as per the Articles of Association of the Partnership and other legislation, as well as generally accepted accounting principles and standards.

According to our view, the enclosed Balance Sheet issued as per December 31, 2010, whose contents we adopted, reflects the Partnership's financial status at the date mentioned truly and accurately and the Statement of Income pertaining to the period between January 1, 2010 and December 31, 2010 also reflects the partnerships's activity outcomes pertaining to the period mentioned truly and accurately. We kindly ask you to vote for the approval of the Balance Sheet and the Statement of Income, and to release the Board of Management.

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

Ali Güner TEKİN **[*]**
Auditor

Ahmet Türker ANAYURT
Auditor

[*] Provided my enclosed dissenting opinion is taken into consideration.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir)

Dissenting Opinion Concerning the Report of Audit Board of the Accounting Period 2010

I have reported a minute of dissent upon the report of Audit Board for the concerned period on the ground of the justifications submitted by Directorate of Privatization Administration in the General Board Meeting dated 30.3.2006 concerning the financial statements dated 31.12.2005 and the subsequent justifications in the action commenced by Commercial Court No.3 of Ankara under file no 2006/218 as well as the resolution passed in the meeting of Capital Market Board dated 05.05.2006 no 21/561 concerning accounts as of 2005 that - “Having regard to the fact that the Company issued its financial statements through a new set of accounting standards (IAS/IFRS) instead of the set of accounting standards (Serial:XI No:25) implemented within the year by the end of period, and this change made a significant impact amounting to TRY 152.329.914 upon the profit for the period, and also an assessment of expenditure was exercised, which was not taken into consideration in 3, 6 and 9-month financial statements of year 2005 and which reduces the profit of 2005 in amount of TRY 43.595.953, the financial statements dated 31.12.2005 are to be re-issued in conformity with the set of accounting standards applied within the year, announced and forthwith submitted to the Company’s General Board for approval in order to ensure accurate disclosure to public” and the conclusion that, accordingly, the financial statements for the accounting period between 01.01.2010-31.12.2010 are to be issued according to CMB (Capital Market Board) legislation instead of IFRS (International Financial Reporting Standards) by considering the effect of the financial statements dated 31.12.2005 on financial statements dated 01.01.2010-31.12.2010.

Ali Güner TEKİN
Auditor

ERDEMİR