

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29**

**1. Period of the Report**

01.01.2010 - 30.06.2010

**2. Title of the Association**

EREĞLİ IRON AND STEEL WORKS, INC.

**3. Members of the Board of Directors and Auditors**

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors and Auditors are executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership or in Auditors' Board within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next regular general assembly to be approved. The company's 2009 Regular General Assembly has been executed on 09.03.2010.

The active members of the Board of Directors as of 30.06.2010:

| <b>Board of Directors</b> | <b>Title</b>                                  | <b>Effective from</b> |
|---------------------------|---|-----------------------|
| Fatih Osman TAR           | Chairman – Executive Director (1 year)        | 22.02.2010            |
| Nihat KARADAĞ             | Deputy Chairman – Executive Director (1 year) | 30.09.2009            |
| Arzu Hatice ATİK          | Board Member (1 year)                         | 26.02.2008            |
| Dinç KIZILDEMİR           | Board Member – Executive Director (1 year)    | 27.02.2006            |
| Ertuğrul AYDIN            | Board Member (1 year)                         | 31.03.2008            |
| Fatma CANLI               | Board Member (1 year)                         | 09.03.2010            |
| Oğuz Nuri ÖZGEN           | Board Member (1 year)                         | 17.07.2006            |

**Changes in the Board of Directors within the Period**

Board Members Mehmet Aydın MÜDERRİSOĞLU, Celalettin ÇAĞLAR ve Ergün Oktay OKUR resigned on 22.02.2010 and Fatih Osman TAR was elected for one those vacant positions as of the same date and was commissioned as Deputy Chairman – Executive Director later on.

Fatih Osman TAR, has been elected to the Executive Board once again on the Regular General Assembly of the Company dated 09.03.2010 and commissioned as Chairman – Executive Director at the following task distribution meeting.

Nihat KARADAG, who was elected as a Board Member on 30.09.2009, has been once again elected to the Executive Board on the Regular General Assembly of the Company dated 09.03.2010 and commissioned as Deputy Chairman – Executive Director at the following task distribution meeting.

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Additionally, Fatma CANLI has been elected to the Executive Board for the first time on the Regular General Assembly of the Company dated 09.03.2010. The active members of the Board of Auditors who were elected on Regular General Assembly dated 09.03.2010 as of 30.06.2010:

| Board of Auditors    | Title                             | Effective from |
|----------------------|-----------------------------------|----------------|
| Ahmet Türker ANAYURT | Board of Auditors Member (1 year) | 09.03.2010     |
| Ali Güner TEKİN      | Board of Auditors Member (1 year) | 31.03.2008     |

#### Changes in the Board of Auditors within the Period

General Assembly has elected Ahmet Türker ANAYURT to the Board of Auditors for one year, as a substitution for Fatma CANLI who completed her term of office, on its regular meeting dated 09.03.2010.

#### Authorities and Limits of the members of the Board of Directors' and Auditors'

The Chairman and the members of the Board of Directors and Auditors possess duties and authorities set out in the Turkish Trade Act's relevant clauses and in the Articles of Association.

#### 4. Executive Management

| Executive Management                   | Title  | Effective from |
|--|--|----------------|
| Oğuz Nuri ÖZGEN                        | President and Chief Executive Officer                            | 13.07.2006     |
| Esat GÜNDAY                            | Executive Vice President (Operations)                            | 13.07.2006     |
| Ahmet Samim ŞAYLAN                     | Executive Vice President<br>(Human Resources and Admin. Affairs) | 13.07.2006     |
| Bülent BEYDÜZ                          | Executive Vice President<br>(Chief Financial Officer)            | 15.01.2010     |
| Mustafa Ayhan<br>KALMUKOĞLU (by proxy) | ERDEMİR Group Marketing and Sales<br>Coordinator                 | 12.07.2010     |
| Ozan BEKÇİ                             | Executive Vice President<br>(Procurement)                        | 13.07.2006     |
| Mehmet Müçteba BEKCAN<br>(by Proxy)    | Executive Vice President<br>(Technical Services and Investments) | 14.07.2010     |

Executive vice Presidency for Sales and Marketing has been reorganized and its title has been changed as ERDEMİR Group Marketing and Sales Coordinatorship, Mr. Günhan BESE, former executive vice president for sales and marketing has been assigned as consultant to our Chief Executive Officer, Mr. Mustafa Ayhan KALMUKOĞLU has been appointed as ERDEMİR Group Marketing and Sales Proxy Coordinator as of 12.07.2010.

Mr. Mehmet Müçteba BEKCAN has been assigned as Proxy Executive Vice President for Technical Services and Investments which became available due to the expiration of Mr. İsmail Hakkı GUROL's contract as of 13.07.2010.

#### 5. Compliance With The Corporate Governance Principles

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity report for the year ending 2009 were met during the period 01.01.2010 – 30.06.2010. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been charged according to the CMB Communiqué Serial IV No: 41.

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**6. Amendments in The Articles of Association**

In accordance with Capital Markets Board's decision taken on its meeting dated 09.09.2009 and numbered 28/780, Article 14 of the Company Charter headed as "Duties of the Executive Board" has been amended on the Regular Meeting of the General Assembly dated 09.03.2010 as follows:

"The primary duties of Board of Directors are; to fulfill the resolutions of General Assembly of Shareholders, to invite the General Assembly of Shareholders to meeting under the law and articles of association, to execute any kind of disposals deemed necessary and useful for the Company, to purchase and acquire any immovable properties and similar real rights on behalf of and for the possession of the Company; to restrict the Company's immovable properties under a certain real right or execute sales transactions; to lease and hire out any kind of movable and immovable properties that it shall deem as necessary for the interests of the Company; to grant and owe loans on the account and behalf of the Company, whenever necessary to establish liens on the immovable properties of the Company, and to take mortgages form real and legal entities on behalf of the Company and to submit motions of the same; to cancel such mortgages and any and all types of restrictions and limitations; and to submit the necessary cancellation motions.

The principles stipulated within the scope of Capital Market regulations shall be complied with, concerning the issues as to Company's giving guarantees, securities, warranties or giving collaterals including liens, mortgages on its behalf and for the benefit of third parties.

The Board of Directors is authorized to take decisions about any transactions other than the issues exclusively left to the discretion of General Assembly of Shareholders in the Law and the Articles of Association."

**7. The Nature and Amount of Issued Capital Market Instruments**

No change in amount of issued capital market instrument in the period.

**8. Significant Changes Occurring in the Environment the Company Operates in and the Policies Executed by the Company in Return**

No significant changes occurred in the environment the company operates in.

**9. Information about the sector**

Steel price have began to increase in the beginning of 2010 and augmented with the rise in iron ore and coke price, however, after April steel prices started to fall down. In parallel with the downward price trend, the demand has also shrunk. Consequently, steel producers were forced to cut down or halt production. Further demand decrease is also expected due to summer season and Ramadan. Nevertheless as of the third quarter of 2010, diminishing consumer inventories are expected to raise demand and prices.

Covered by the monthly report of World Steel Association (WSA), the crude steel production of 66 countries in June 2010 was 119 million tons, which points out an 18% increase y-o-y; however it went down by 5 million tons (4.3%) in comparison to May 2010. Production in the first half of 2010 has reached 706 million tons with a 28% increase y-o-y. The Association points out that production in the first half of 2010 is 7.2% higher than it was in the first half of 2007. However, the majority of the world has not returned to pre-crisis level yet. Outputs in Europe, North America and the CIS are

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15% below the pre-crisis level. In June 2010, Chinese crude steel production increased by 9% and has went up to 53.8 million tons. Other Asian steelmakers have also raised their output: Japan by 36%, Korea by 22% and India by 2% y-o-y. With a 55% increase, North America reaches 9,8 million tons production and demonstrates the largest y-o-y increase in June 2010. The production increased by 65% in the USA, 61% in Canada and 18% in Mexico. With the 47% increase in Brazil in June, South America production increased by 34%. In June 2010, production in European Union countries reached 15.3 million tons with a 36% increase. The production increased by 53% in Germany, 33% in Italy, 31% in France and 17% in Spain. The CIS production of 8.6 million tons was 6.8% higher year-on-year.

There was also an increase in the production in Africa (7.3%), Middle East (5%) and in Oceania (61%). Besides, with a 13% y-o-y increase Turkey has produced 13.5 million tons of crude steel consisting of 9.3 and 4.2 million tons produced in electrical arc furnaces and in integrated plants, respectively. World crude steel capacity utilization in June was 80.6% and it was 82% in May 2010 and 72.3% in June 2009.

**10. The Position of Erdemir Group within the Sector**

Based on the report published by WSA, in 2009 with a 6.5 million tons crude steel production, Erdemir Group became the 30<sup>th</sup> globally, 10<sup>th</sup> in Europe and 5<sup>th</sup> within EU-27. In the first half of 2010, the crude steel production in Ereğli Plant has decreased by 3% and went down to 1.774.865 tons. On the other hand crude steel production in İskenderun went up to 1.851.055 tons with a 55% y-o-y increase.

**11. Research and Development Activities**

Research and Development Activities of Ereğli Iron and Steel Works, Inc. within the period are as follows:

- The production of X-80 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process (TÜBİTAK-TEYDEB Project). The project is completed.
  - The development of DIN EN 10149 grade S500MC. Trial procedure has been completed. Due to unsuccessful results, decided to trial procedure will be done in İskenderun plant.
  - The briquetting of pellet dust using suitable additives in laboratory scale and research to enable charging of manufactured briquettes into the steel mill, sinter and blast furnace. The briquetting trials have been completed and pre-report was published. This project presented to TÜBİTAK-TEYDEB and project is in progress. The project cost is TRY 1.121.015,55.
  - Trials of sticking with sticky tape instead of steel strap were carried out and this method was taken into application in order to prevent surface defects which can be occurred by the strap within package in 0,50 in thickness and thinner steel strip.
  - Trials were carried out in two different dimension of Erdemir grade 324 quality C in order to use exposed panels at OYAK Renault. Mechanical properties and oil amount of both coils used in trials were found successful, evaluated without problem during pressforming. The production of the rest dimension is going to carried out in July.
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**12. Investment Activities**

Throughout 2010 investments have continued. The details of the main investments continuing in Ereğli and İskenderun plants are as follows:

Ereğli Plants;

- No.4 Coke Oven Battery
- New Turbo Blower
- No.7 Air Separation Plant
- Blast Furnace Top Pressure Recovery Turbines (TRT)
- Yarımca Harbor & Logistic Center
- Automation and Modernization of Continuous Pickling Line (CPL) and Tandem Cold Mill (TCM) Cold Rolling Mill No.2
- Automation and Modernization of Continuous Annealing Line (CAL) Cold Rolling Mill No.2
- Advanced Planning & Scheduling System
- Hot Strip Mill No.1 Combined Mill Drive Motor
- Reline Investment on No.2 Blast Furnace
- Probable Investments in Steel Mill and Other Plants depending to the Reline
- Enterprise Resource Planning (including İskenderun Plants)

İskenderun Plants;

- No.2 Sinter Plant
  - BOF Modernization
  - Waste Recovery System (phase I)
  - No.4 Blast Furnace
  - Modernization of No.4 Coke Oven Battery
  - Harbor Investments (2<sup>nd</sup> Stage) "First Phase of Coastal Structures"
  - Infrastructure Improvements
  - Modernization of Automation System of the existing Steam Boilers
  - Environmental Investments
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**13. Products**

The main products of Erdemir Group are as follows:

| <b>Erdemir</b> | <b>Isdemir</b>   | <b>Ermaden</b> |
|----------------|------------------|----------------|
| Tinplate       | Billet           | Pellets        |
| Galvanized     | Wire Rod - Rebar | Iron Ore       |
| Cold Rolled    | Pig Iron         |                |
| Hot Rolled     | Slab             |                |
|                | Hot Rolled       |                |

**14. Production Plants and Productivity**

The information about the main plant units and capacities of Ereğli Iron and Steel Works Inc. are stated below:

|                     | <b>01 January - 30 June 2010</b> |                              |                  | <b>01 January - 30 June 2009</b> |                              |                   |
|---------------------|----------------------------------|------------------------------|------------------|----------------------------------|------------------------------|-------------------|
|                     | <b>Capacity (*)<br/>(tons)</b>   | <b>Production<br/>(tons)</b> | <b>C.U.P.(%)</b> | <b>Capacity (*)<br/>(tons)</b>   | <b>Production<br/>(tons)</b> | <b>C.U.P. (%)</b> |
| Coke Plant          | 500.000                          | 489.647                      | 98               | 500.000                          | 480.774                      | 96                |
| Sinter Plant        | 1.000.000                        | 1.015.975                    | 102              | 1.000.000                        | 915.955                      | 92                |
| Blast Furnaces      | 1.700.000                        | 1.609.411                    | 95               | 1.700.000                        | 1.643.279                    | 97                |
| BOF                 | 1.925.000                        | 1.833.064                    | 95               | 1.750.000                        | 1.882.628                    | 108               |
| Casters             | 1.875.000                        | 1.774.572                    | 95               | 1.700.000                        | 1.828.914                    | 108               |
| Hot Strip Mill.1    | 575.000                          | 359.050                      | 62               | 575.000                          | 553.056                      | 96                |
| Hot Strip Mill.2    | 1.825.000                        | 1.398.146                    | 77               | 1.825.000                        | 1.517.184                    | 83                |
| Plate Mill          | 150.000                          | 6.590                        | 4                | 150.000                          | 15.051                       | 10                |
| Cold Mill.1         | 250000                           | 158.906                      | 64               | 225.000                          | 111.776                      | 50                |
| Cold Mill.2         | 750.000                          | 569.939                      | 76               | 775.000                          | 618.366                      | 80                |
| Galvanizing Line    | 150.000                          | 113.122                      | 75               | 150.000                          | 112.764                      | 75                |
| Elect. Tinning Line | 125.000                          | 111.631                      | 89               | 125.000                          | 69.606                       | 56                |
| <b>C.U.P %</b>      |                                  |                              | <b>87</b>        |                                  |                              | <b>93</b>         |

(\*) Actual capacity for first six months.

The information about the main plant units and capacities of İskenderun Iron and Steel Works Co. is stated below:

|                | <b>01 January - 30 June 2010</b> |                              |                   | <b>01 January - 30 June 2009</b> |                              |                   |
|----------------|----------------------------------|------------------------------|-------------------|----------------------------------|------------------------------|-------------------|
|                | <b>Capacity (*)<br/>(tons)</b>   | <b>Production<br/>(tons)</b> | <b>C.U.P. (%)</b> | <b>Capacity (*)<br/>(tons)</b>   | <b>Production<br/>(tons)</b> | <b>C.U.P. (%)</b> |
| Coke Plant     | 1.075.000                        | 947.833                      | 88                | 1.075.000                        | 774.055                      | 72                |
| Sinter Plant   | 1.500.000                        | 1.406.721                    | 94                | 1.500.000                        | 970.827                      | 65                |
| Blast Furnaces | 1.900.000                        | 1.748.081                    | 92                | 1.900.000                        | 1.135.900                    | 60                |
| BOF            | 2.000.000                        | 1.912.337                    | 96                | 1.750.000                        | 1.215.533                    | 69                |
| Billet Casting | 1.250.000                        | 839.496                      | 67                | 1.250.000                        | 1.105.876                    | 88                |
| Slab Casting   | 2.500.000                        | 1.011.559                    | 40                | 2.500.000                        | 90.193                       | 4                 |
| Hot Strip Mill | 1.750.000                        | 917.414                      | 52                | 1.750.000                        | 212.467                      | 12                |
| Wire Rod Mill  | 250.000                          | 246.786                      | 99                | 250.000                          | 257.143                      | 103               |
| <b>C.U.P %</b> |                                  |                              | <b>74</b>         |                                  |                              | <b>48</b>         |

(\*) Actual capacity for six months.

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**15. Production (quantity)**

| Final Products<br>(000 Tons) | 01 January -<br>30 June 2010 | 01 January -<br>30 June 2009 |
|------------------------------|------------------------------|------------------------------|
| Erdemir                      | 1.694                        | 2.011                        |
| Isdemir                      | 1.832                        | 1.301                        |
| Ermaden                      | 1.183                        | 996                          |

**16. Sales (quantity)**

| Final Products<br>(000 Tons) | 01 January -<br>30 June 2010 | 01 January -<br>30 June 2009 |
|------------------------------|------------------------------|------------------------------|
| Erdemir                      | 1.619                        | 2.185                        |
| Isdemir                      | 1.622                        | 1.413                        |
| Ermaden                      | 1.450                        | 844                          |

**17. Indicators and Ratios**

Financial statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and have been audited as of 30 June 2010.

**Summary of Balance Sheet**

| (TRY)                   | 30 June 2010   | 31 December 2009 |
|-------------------------|----------------|------------------|
| Current Assets          | 5.548.382.352  | 3.729.502.669    |
| Non-current Assets      | 7.196.845.832  | 7.420.919.878    |
| Total Assets            | 12.745.228.184 | 11.150.422.547   |
| Current Liabilities     | 3.566.635.303  | 1.620.897.962    |
| Non-current Liabilities | 2.839.786.678  | 3.610.830.559    |
| Shareholders' Equity    | 6.338.806.203  | 5.918.694.026    |
| Total Liabilities       | 12.745.228.184 | 11.150.422.547   |

**Summary of Income Statement**

| (TRY)                              | 01 January-<br>30 June 2010 | 01 January-<br>30 June 2009 |
|------------------------------------|-----------------------------|-----------------------------|
| Sales Revenue                      | 3.203.098.676               | 2.304.620.230               |
| Operating Profit/(Loss)            | 604.228.695                 | (78.288.401)                |
| Profit / (Loss) Before Taxation    | 532.145.467                 | (238.688.979)               |
| Profit / (Loss) for the Period (*) | 418.183.068                 | (196.140.836)               |
| EBITDA                             | 751.273.415                 | 86.252.927                  |
| Earnings / (Loss) Per Share        | 25,26%                      | (12,34)%                    |

(\*) Erdemir Group's share in the net profit/ (loss) for the period is TRY 404.135.583 in June 2010 (June 2009: TRY (197.372.839) ).

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**Key Ratios**

| (%)                             | 30 June 2010 | 30 June 2009 |
|---------------------------------|--------------|--------------|
| Operating Profit/ (Loss) Margin | 18,9         | (3,4)        |
| Profit/ (Loss) Margin           | 13,1         | (8,5)        |
| EBITDA Margin                   | 23,5         | 3,7          |

**18. Collective Labor Agreement Applications and the Benefits**

22nd Period Collective Labor Agreement, which will be valid between 01.09.2008-31.08.2010, has been signed on February 26, 2009 between the Turkish Employers' Association of Metal Industries (MESS) on behalf of Erdemir Group and the Turkish Metalworkers Union as the collective bargaining agency.

In the scope of collective agreement applications, the rights and benefits of the white-collar and blue-collar workers are classified under bonuses, social benefits, and vacations. **Bonuses and social benefits;** bonuses, holiday pay, heating allowance, paid annual leave allowance, marriage allowance, birth allowance, bereavement allowance (worker's death, spouse, children, mother, father or sibling, in the case of a death as a result of a work accident it will pass onto the worker's heir), military service allowance, children allowance, educational allowance (primary school, secondary school, higher education), meal allowance, and transportation allowance. **Vacations;** paid annual leaves, leaves for medical purposes, excused absences, unpaid leaves, and other paid leaves consisting marital leaves, bereavement leaves, maternity leaves, nursing leaves and leaves in case of a natural catastrophe.

Bonuses, holiday pay, heating allowance, children allowance, bereavement allowance (in the case the worker dies), meal allowance, and transportation allowance, derived from the social benefits, are paid both to white-collar and blue-collar workers; the rest is paid only to blue-collar workers. Paid annual leaves, leaves of absence with excuse, unpaid leaves, and nursing leaves can be taken by both white-collar and blue-collar workers; the rest is taken only by blue-collar workers.

Board of Directors of Iskenderun Iron and Steel Works Co., Erdemir Engineering Management and Consulting Services Inc and Erdemir Logistics Inc, which are all subsidiaries of Ereğli Iron and Steel Works Co., have decided as of 26.05.2010 to make 250 TRY/month support payments (including the legal withholdings which are going to be paid by the Companies) to each of their employees, for 4 months covering the period between May-August 2010. Total amount of the payment Erdemir Group will make is contemplated to be approximately 12 million 500 thousand Turkish Liras including taxes.

The number of the personnel on 30 June 2010 and 31 December 2009 are as follows:

|                                    | 30 June<br>2010 | 31 December<br>2009 |
|------------------------------------|-----------------|---------------------|
| Monthly paid personnel (A)         | 3.218           | 3.244               |
| Hourly paid personnel (B)          | 7.956           | 8.003               |
| Candidate worker (C)               | 1.967           | 1.786               |
| Contractual personnel (D)          | 18              | 17                  |
| Contractual personnel (Contractor) | 113             | 111                 |
| <b>TOTAL</b>                       | <b>13.272</b>   | <b>13.161</b>       |



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### 19. Shareholding and Capital Structure

Authorized Capital : TRY 5.000.000.000  
Paid-in Capital: TRY 1.600.000.000

| <b>Shareholders</b>  | <b>Shares (TRY)</b>  | <b>%</b>      |
|----------------------|----------------------|---------------|
| Ataer Holding A.Ş.   | 788.563.515          | 49,29         |
| Publicly Held        | 762.139.626          | 47,63         |
| Erdemir's Own Shares | 49.296.859           | 3,08          |
| <b>Total</b>         | <b>1.600.000.000</b> | <b>100,00</b> |

### 20. Dividend Distribution Policy

Erdemir Groups' Dividend Distribution Policy is as follows:

“The dividend distribution policy is explained by the Clause 37 of the Articles of Association. In compliance with the current provisions and the relevant item of the Articles of Association and as dictated by the Corporate Governance Principles, the best interest is sought between the interests of shareholders, the interests of the Group and the Group's resources in determining the ratio of net profit that is to be distributed to shareholders in the form of cash and/or bonus shares. In compliance with the Corporate Governance Principles, such policy is mentioned in the annual activity report, and is made public within the framework of the disclosure policy.”

### 21. The Availability of Financial Sources and The Policies The Group Applies in This Framework

Erdemir Group has full access to all national and international financial sources with its market making power based on high trading volume in money markets. New funding alternatives according to changing market conditions are continuously analyzed and offers are evaluated. The debt policy of Erdemir Group is developed based on the capability of cash generation and the strong equity structure. Hedging methods and amounts used against financial risks during the global crisis environment are developed based on a frame of systematic models. Within the risk tolerances, forward, futures, swap and options reflecting market conditions are implemented, if necessary. Sales price and terms are improved against liquidity risks. Sales prices are re-regulated in parallel with international prices and methods for increasing the sales volumes.

### 22. Risk Management Policy

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

Value at Risk method (VaR) is used to measure the market risk and the maximum loss, which might occur from changes in currency rates, is calculated weekly within %99 probability ratio and one day retain interval. The calculation results are compared with the predefined limits and necessary actions are taken if limits are exceeded.

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Additionally, stress test and scenario analysis are executed for the current foreign currency position of the Group. The compatibility of VaR model is measured using back-testing method periodically.

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

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks Erdemir Group is exposed to and the amount of gain / loss, which may arise possible interest rate changes, is measured using a sensitivity analysis. Additionally, the ratio of total amount of loans with a floating interest rate to whole credit portfolio of the Group is monitored and actions are taken to keep this ratio within a defined limit.

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

### **23. The Information About Affiliates Subject to Consolidation**

The main scope of business and the participation in their shareholding of the affiliates subject to consolidation are as follows:

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

Financial statements of Erdemir Gaz San. ve Tic. A.Ş. are not consolidated as its effect on the accompanying consolidated financial statements is immaterial.

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. (25,00%) which was previously accounted for using the equity pick-up method and Borçelik Çelik San. Tic. A.Ş. (9,34%) which was accounted for under available for sale financial assets held by the Group, were reclassified as long term assets held for sale as of 1 April 2009 as their sales are highly probable in twelve months. Nevertheless, as of June 30, 2010 the studies of the sales of share transfer is not concluded yet, the sales transactions did not take place within twelve months. The sales of shares are expected to be completed in the year 2010.

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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 cease 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 minority interest shares is obtained by the calculation of the fair values of assets and liabilities with respect to the proportion of the minority interest. The operational results of subsidiaries are included or excluded from consolidation according to their effective dates of acquisition and disposal, respectively.

Minority interests in the net assets of the subsidiaries included in consolidation appears as a separate item in Group's equity. Minority interest consists of minority'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 minority interest after the first acquisition date. Losses exceeding the shares belonging to minority interest are distributed to the shares of the Group, unless there is a mandatory obligation to compensate the recognized losses and an opportunity to make additional investments to cover the stated losses of the minority interest. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

**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, in cases 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

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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 recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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.

**24. Information for Shareholders**

In line with the aforementioned decision, Board of Directors of Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş (ERBOR) and Erdemir Steel Service Center Inc. (ERSEM) have both decided in their resolutions dated 14 July 2010, no. 334 and 22 respectively to merge ERBOR with ERSEM by transferring all residual assets and liabilities, after the completion of all necessary preparatory works. Additionally, Board of Directors of ERBOR has decided in its Resolution of 14 July 2010, no. 333 to conduct a "Voluntary Resignation Encouragement Programme" within the context of merger operations.

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