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

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED FINANCIAL STATEMENTS AS OF
31 MARCH 2010

(Translated into English from the original Turkish report)

**TABLE OF CONTENTS** **Page**

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

CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2010

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

| | Note | Current Period Unaudited 31 March 2010 | Previous Period Audited 31 December 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | **3.822.158.075** | **3.729.502.669** |
| Cash and Cash Equivalents | 4 | 965.534.788 | 1.065.737.367 |
| Financial Investments | 5 | - | 22.588 |
| Trade Receivables | 8 | 740.187.039 | 692.485.126 |
| *Due from Related Parties* | *31* | *67.487.100* | *64.024.254* |
| *Other Trade Receivables* | *8* | *672.699.939* | *628.460.872* |
| Other Receivables | 9 | 7.137.776 | 124.456 |
| Inventories | 10 | 1.782.025.990 | 1.644.880.477 |
| Other Current Assets | 19 | 285.503.805 | 284.483.978 |
| | | 3.780.389.398 | 3.687.733.992 |
| Non Current Assets Held for Sale | 28 | 41.768.677 | 41.768.677 |
| **Non Current Assets** | | **7.390.672.180** | **7.420.919.878** |
| Trade Receivables | 8 | 2.423.090 | 2.360.741 |
| Other Receivables | 9 | 26.928.976 | 26.722.247 |
| Financial Investments | 5 | 50.395 | 41.666 |
| Investment Properties | 12 | 46.577.264 | 46.577.264 |
| Property, Plant and Equipment | 13 | 6.774.134.931 | 6.795.323.290 |
| Intangible Assets | 14 | 137.024.780 | 140.275.624 |
| Deferred Tax Assets | 29 | 344.817.037 | 353.505.904 |
| Other Non Current Assets | 19 | 58.715.707 | 56.113.142 |
| **TOTAL ASSETS** | | **11.212.830.255** | **11.150.422.547** |

CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2010

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

| | Note | Current Period Unaudited 31 March 2010 | Previous Period Audited 31 December 2009 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current Liabilities** | | **2.461.643.814** | **1.620.897.962** |
| Financial Liabilities | 6 | 1.645.278.194 | 837.296.086 |
| Other Current Financial Liabilities | 7 | 1.571.436 | 96.556.326 |
| Trade Payables | 8 | 407.546.299 | 355.004.343 |
| *Due to Related Parties* | *31* | *12.142.013* | *5.147.811* |
| *Other Trade Payables* | *8* | *395.404.286* | *349.856.532* |
| Other Payables | 9 | 67.959.160 | 53.444.045 |
| *Due to Related Parties* | *31* | *2.792.932* | *1.871.365* |
| *Other Payables* | *9* | *65.166.228* | *51.572.680* |
| Current Tax Liabilities | 29 | 6.156.852 | 2.385.751 |
| Provisions | 16 | 75.500.097 | 73.932.797 |
| Other Current Liabilities | 19 | 257.631.776 | 202.278.614 |
| **Non Current Liabilities** | | **2.664.866.002** | **3.610.830.559** |
| Financial Liabilities | 6 | 2.364.210.546 | 3.328.726.727 |
| Other Non Current Financial Liabilities | 7 | 15.433.358 | 9.414.527 |
| Provisions for Employee Benefits | 18 | 127.813.210 | 121.870.564 |
| Deferred Tax Liabilities | 29 | 166.154.176 | 150.606.462 |
| Other Non Current Liabilities | 19 | 1.254.712 | 212.279 |
| **EQUITY** | **20** | **6.076.320.439** | **5.918.694.026** |
| **Shareholder's Equity Attributable to Equity Holders of the Parent** | | **5.918.950.412** | **5.762.058.750** |
| Share Capital | | 1.600.000.000 | 1.600.000.000 |
| Inflation Adjustment of Share Capital | | 731.967.735 | 731.967.735 |
| Treasury Shares Adjustment (-) | | (57.692.172) | (57.692.172) |
| Share Issue Premium | | 231.020.042 | 231.020.042 |
| Revaluation Reserves | | 25.737.125 | 25.869.903 |
| Cash Flow Hedging Reserves | | (10.719.274) | (7.259.727) |
| Foreign Currency Translation Reserve | | 4.186.837 | 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 | | 160.405.362 | (168.690.422) |
| **Minority Interest** | | **157.370.027** | **156.635.276** |
| **TOTAL LIABILITIES AND EQUITY** | | **11.212.830.255** | **11.150.422.547** |

CONSOLIDATED STATEMENT OF INCOME FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2010

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

| | Note | Current Period Unaudited 1 January- 31 March 2010 | Previous Period Unaudited 1 January- 31 March 2009 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Revenue | 21 | 1.581.871.303 | 1.065.597.410 |
| Cost of Sales (-) | 21 | (1.272.465.799) | (976.321.622) |
| **GROSS PROFIT** | | **309.405.504** | **89.275.788** |
| Marketing, Sales and Distribution Expenses (-) | 22 | (12.698.735) | (20.403.239) |
| General Administrative Expenses (-) | 22 | (27.241.810) | (27.427.358) |
| Research and Development Expenses (-) | 22 | (600.732) | (523.638) |
| Other Operating Income | 24 | 10.878.512 | 19.741.505 |
| Other Operating Expenses (-) | 24 | (61.666.749) | (15.609.929) |
| **OPERATING PROFIT** | | **218.075.990** | **45.053.129** |
| (Losses)/revenues from investments accounted under equity method | 11/24 | - | (642.992) |
| Financial Income | 25 | 127.844.107 | 122.292.973 |
| Financial Expense (-) | 26 | (147.591.327) | (370.449.728) |
| **PROFIT/(LOSS) BEFORE TAXATION** | | **198.328.770** | **(203.746.618)** |
| Tax Income/(Expense) | 29 | (31.344.105) | 39.323.667 |
| - Current tax expense | | (6.171.636) | (7.548.814) |
| - Deferred tax income/(expense) | | (25.172.469) | 46.872.481 |
| **PROFIT/(LOSS) FOR THE PERIOD** | | **166.984.665** | **(164.422.951)** |
| - Minority Interest | | 6.579.303 | (9.580.436) |
| - Owners of the Company | | 160.405.362 | (154.842.515) |
| **EARNINGS/(LOSS) PER SHARE** | 30 | 0,1003 | (0,0968) |

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2010

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

| | Note | Current Period Unaudited 1 January- 31 March 2010 | Previous Period Unaudited 1 January- 31 March 2009 |
|---|---|---|---|
| **PROFIT/(LOSS) FOR THE PERIOD** | | **166.984.665** | **(164.422.951)** |
| **Other Comprehensive Income/(Expense):** | 27 | | |
| Change in Revaluation Reserves | | (132.778) | (229.212) |
| Change in Cash Flow Hedging Reserves | | (4.679.434) | 366.769 |
| Change in Currency Translation Reserves | | 78.625 | 598.442 |
| Income Tax Relating to the Components of Other Comprehensive Income/(Expense) | 29 | 935.888 | (73.356) |
| **OTHER COMPREHENSIVE INCOME/ (EXPENSE) (AFTER TAX) FOR THE PERIOD** | | **(3.797.699)** | **662.643** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD** | | **163.186.966** | **(163.760.308)** |
| **Distribution of Total Comprehensive Profit/(Loss)** | | | |
| - Minority Interest | | 6.295.304 | (9.557.922) |
| - Owners of the Company | | 156.891.662 | (154.202.386) |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2010

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

| | Note | Share Capital | Inflation Adjustment to Share Capital | Treasury Shares Adjustment (-) | Share Issue Premium | Revaluation Reserves | Cash Flow Hedging Reserves | Foreign Currency Translation Reserve | Restricted Reserves Assorted from Profit | Retained Earnings | **Attributable to Equity Holders of the Parent** | Minority Interest | **Total Shareholders' Equity** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **January 1, 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** |
| Dividends paid | | - | - | - | - | - | - | - | - | - | **-** | (5.560.553) | **(5.560.553)** |
| Total comprehensive income/ (loss) for the period | | - | - | - | - | (132.778) | (3.459.547) | 78.625 | - | 160.405.362 | **156.891.662** | 6.295.304 | **163.186.966** |
| Transfers from retained earnings | 20 | - | - | - | - | - | - | - | 7.974.207 | (7.974.207) | **-** | - | **-** |
| **March 31, 2010** | **20** | **1.600.000.000** | **731.967.735** | **(57.692.172)** | **231.020.042** | **25.737.125** | **(10.719.274)** | **4.186.837** | **1.696.170.542** | **1.698.279.577** | **5.918.950.412** | **157.370.027** | **6.076.320.439** |
| (Unaudited) | | | | | | | | | | | | | |
| **January 1, 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** |
| Dividends paid | | - | - | - | - | - | - | - | - | - | **-** | (10.505.729) | **(10.505.729)** |
| Total comprehensive income/ (loss) for the period | | - | - | - | - | (229.212) | 270.899 | 598.442 | - | (154.842.515) | **(154.202.386)** | (9.557.922) | **(163.760.308)** |
| Cumulative translation adjustments | | - | - | - | - | - | - | - | - | 325.939 | **325.939** | - | **325.939** |
| Transfers from retained earnings | 20 | - | - | - | - | - | - | - | 22.274.411 | (22.274.411) | **-** | - | **-** |
| **March 31, 2009** | **20** | **1.148.812.500** | **731.967.735** | **(43.790.843)** | **231.020.042** | **26.147.629** | **(1.345.981)** | **4.063.109** | **1.688.196.335** | **1.997.308.439** | **5.782.378.965** | **147.309.076** | **5.929.688.041** |
| (Unaudited) | | | | | | | | | | | | | |

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

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE THREE MONTH INTERIM PERIOD ENDED 31 MARCH 2010

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

| | Note | Current Period Unaudited 1 January – 31 March 2010 | Previous Period Unaudited 1 January – 31 March 2009 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit/ (Loss) before tax and minority interest | | 198.328.770 | (203.746.618) |
| **Necessary adjustments to reconcile net profit /(loss) before tax with net cash provided by operating activities** | | | |
| Depreciation and amortization expenses | 21/23 | 56.155.886 | 43.012.828 |
| Provision for employment termination benefits | 18 | 8.135.289 | 11.534.692 |
| Provision for seniority incentive bonus | 18 | 914.881 | 4.020.677 |
| (Gain) / Loss from associates accounted for using the equity pick up method | 11 | - | 642.992 |
| (Gain) / Loss arising from sales of property plant and equipment | 24 | 54.960 | (281.126) |
| Increase in the provision for doubtful receivables | 8/9 | 27.503.757 | 1.094.929 |
| Decrease in the allowance for inventories | 10 | (3.159.864) | (711.541.588) |
| (Decrease)/ Increase in the provision for unpaid vacations | 19 | 186.645 | (9.160.795) |
| (Decrease)/ Increase in the provision for pending claims and lawsuits | 16 | 603.255 | 822.893 |
| (Decrease)/ Increase in the penalty provision for obligatory employment shortage of disabled people, ex-convicts and terror victims | 16 | 172.176 | (1.764.619) |
| (Decrease)/ Increase in the provisions for tax related contingencies | 16 | 791.869 | (4.382.402) |
| (Decrease)/ Increase in the provision for loss on purchase commitments | 16 | - | (16.236.246) |
| Finance expense | 26 | 44.421.382 | 48.163.182 |
| Interest income | 25 | (23.565.508) | (31.793.685) |
| Accrued finance expense | | 2.262.012 | 331.164.520 |
| Minority share on the change of derivative financial instruments | | (283.999) | 22.514 |
| **Net cash (used in)/ provided by operating activities before changes in working capital** | | **312.521.511** | **(538.427.852)** |
| Changes in working capital | 35 | (162.723.934) | 870.143.127 |
| Interest paid | | (17.166.670) | (36.819.019) |
| Interest received | | 24.291.951 | 32.243.706 |
| Taxes paid | 29 | (3.830.724) | (2.133.827) |
| Employment termination benefits paid | 18 | (3.107.524) | (19.724.410) |
| **Cash provided by operating activities** | | **149.984.610** | **305.281.725** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Changes in marketable securities | 5 | 22.588 | 9.012 |
| Purchase of financial assets | 5 | (8.729) | (2.907) |
| Cash provided by fixed asset sales | 13/14/24 | 276.491 | 107.723.087 |
| Cash used in the purchases of investment property | 12 | - | (603.713) |
| Cash used in the purchases of tangible fixed assets | 13 | (49.771.237) | (234.656.625) |
| Purchases of intangible assets | 14 | (172.734) | (500.349) |
| Change in the revaluation reserves | | (132.778) | (229.212) |
| **Cash used in investing activities** | | **(49.786.399)** | **(128.260.707)** |
| **CASH FLOW FROM FINANCING ACTIVITES** | | | |
| Proceeds from borrowings | | 42.047.144 | 1.412.228.903 |
| Repayment of borrowings | | (236.558.751) | (2.260.796.552) |
| Translation difference | | 397.815 | 237.357 |
| Dividends paid to minority interest | | (5.560.553) | (10.505.729) |
| **Cash (used in) / provided by financing activities** | | **(199.674.345)** | **(858.836.021)** |
| **NET CHANGES IN CASH AND CASH EQUIVALENTS** | | **(99.476.134)** | **(681.815.003)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | 4 | **1.063.284.367** | **972.980.449** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | 4 | **963.808.233** | **291.165.446** |
| **Accrued Interest** | 4 | **1.726.555** | **39.355** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST** | 4 | **965.534.788** | **291.204.801** |

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

## NOTE 1 – GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

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

The immediate parent and ultimate controlling party of the Group is respectively 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 | Operation | 2010 Share % | 2009 Share % |
|---|---|---|---|
| İskenderun Demir ve Çelik A.Ş. ("ISDEMIR") | Iron and Steel | 92,91 | 92,91 |
| Erdemir Madencilik San. ve Tic. A.Ş. | Iron Ore and Pellet | 90,00 | 90,00 |
| Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. | Iron and Steel | 100,00 | 100,00 |
| Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş. | Management and Consultancy | 100,00 | 100,00 |
| Erdemir Romania S.R.L. | Iron and Steel | 100,00 | 100,00 |
| Erdemir Çelbor Çelik Çekme Boru San.ve Tic. A.Ş. | Iron and Steel | 100,00 | 100,00 |
| Erdemir Lojistik A.Ş. | Logistics Services | 100,00 | 100,00 |

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

Erdemir Gaz San. ve Tic. A.Ş. as described in Note 5 is excluded form group consolidation, as it has not been operating since its establishment and as it does not significantly affect the consolidated financial results of the Group.

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

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Monthly paid personnel (A) | 3.247 | 3.244 |
| Hourly paid personnel (B) | 7.928 | 8.003 |
| Candidate worker (C) | 1.856 | 1.786 |
| Contractual personnel (D) | 17 | 17 |
| Contractual personnel (Contractor) | 109 | 111 |
| Total | 13.157 | 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 accompanying 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 to 1 January 2008 and supersedes the Communiqué Serial XI, No: 25 "Accounting Standards in Capital Markets". According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards ("IAS/IFRS") endorsed by the European Union (EU). However, IAS/IFRS issued by the IASB shall be applied until the differences between IAS/IFRS that are endorsed by the European Union and the standards issued by the International Accounting Standards Board ("IASB") are announced by Turkish Accounting Standards Board ("TASB"). Accordingly, Turkish Accounting Standards/ Turkish Financial Reporting Standards ("TAS/TFRS") issued by the TASB which are in line with the aforementioned standards are essential.

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

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

Functional and Reporting Currency

TL is accepted as the functional and reporting currency of the Companies' 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 have been translated into Turkish Lira at the exchange rate of the balance sheet date. Income and expenses and cash flows have been translated into Turkish Lira using the average exchange rate.

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

### 2.1 Basis of Presentation

*Functional and Reporting Currency for the subsidiary abroad (cont'd)*

As a result, the differences between closing and average 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 differences in equity. The functional and national currency of the subsidiary established in Romania is Romanian Levi.

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

Approval of the consolidated financial statements:

The financial statements have been approved and authorized to be published on 6 May 2010 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 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 2010 to depreciate the fixed assets are as follows:

| | 1 January 2010 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% |

## NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.4 Consolidation Principles (cont'd)

The consolidated financial statements incorporate the financial statements of the Group and its subsidiaries controlled by the Group as explained in Note 1. Adjustments are made to eliminate the intra group sales and purchases, intra group receivables and payables and equity investments.

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.

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.

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 accompanying 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 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.

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.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's share in the relevant associate.

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

### 2.5 Comparative Information and Restatement of 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 35.

### 2.6 Critical Decisions of the Group on the Application of the Accounting Policies

*Deferred taxes*

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements of IFRS and the corresponding tax bases 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 tax statutory and IFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, all of 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. As a result of the assessment made, the Group has recognized the deferred tax assets because it is probable that the taxable profit is sufficiently available.

### 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 interim 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:

New standards, amendments and interpretations that will be valid for the yearend financial statements dated 31 December 2010:

New standards and changes that do not have an effect on the financial position or the performance of the Group are summarized below:

IFRS 2 (Amendment) "Group cash settled share based Payment Transactions" The amendment does not have an impact on group's financial statements,

IFRS 3,'Business Combinations' (Amendment) and IAS 27,'Consolidated and Separate Financial Statements' (Amended).

## 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 and changes that do not have an effect on the financial position or the performance of the Group are summarized below (cont'd)

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

Amendments to IFRSs (issued in 2008),

Amendments to IFRSs (issued in 2009),

New and amended standards and interpretations issued that are effective subsequent to December 2010 year-ends (these amendments have not been agreed by European Union yet):

IFRIC 9, 'Reassessment of Embedded Derivatives' (effective for the periods 1 January 2013 and after): Group is assessing the effects of the amendment.

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

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

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment) (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 statements.

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 statements.

Group managers, are thinking that the above standards and interpretations will not have a significant impact on the Group's financial statements in future.

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

### 2.9 Summary of Valuation Principles Applied / Significant Accounting Policies

Valuation principles and accounting policies used in the preparation of the accompanying 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.

<u>Sale of goods</u>

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

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

<u>Dividend and interest revenue</u>

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

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

<u>Rental income</u>

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

#### 2.9.2 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 estimated in reference to the all estimated costs of completion and costs necessary to make a sale.

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

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

**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 land and buildings 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 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.

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

**2.9.4 Finance Lease Operations**

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

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 lessor is included in the 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. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

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

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

**2.9.5 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 2010 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 % |

**2.9.6 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 is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing the impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered from impairment are reviewed at every reporting date for the possible reversal of the impairment at each reporting date.

**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 statement of income/(loss) the period in which they are incurred.

**2.9.8 Financial Instruments**

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

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

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

**2.9.8 Financial Instruments (cont'd)**

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 concerned.

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

*Effective interest method*

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

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

*Available for sale financial assets*

Some of the shares and borrowing instruments 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 profit and loss 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.

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

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

**2.9.8 Financial Instruments (cont'd)**

Financial assets (cont'd)

*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 financial assets carried at amortized cost, 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.

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 other 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.

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

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

### 2.9.8 Financial Instruments (cont'd)

Financial liabilities (cont'd)

*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).

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

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 statement of income.

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

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

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

#### 2.9.9 Foreign Currency Transactions

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 financial 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 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 accompanying consolidated income statement, are determined by dividing net income by the weighted average number of shares outstanding during the year concerned.

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

#### 2.9.11 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.

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

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

### 2.9.13 Related Parties

In these accompanying consolidated financial statements, the companies having direct or indirect control over the Group, companies controlled by the Group, Group's management personnel, or close family members in charge of the Group or the parent company's management are agreed to be defined as related parties.

### 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 28).

### 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 off-balanced 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 income/ (loss) 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 accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years 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.

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

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

### 2.9.16 Taxation and Deferred Income Taxes (cont'd)

Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the 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.

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

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

#### 2.9.17 Provisions for Employee Benefits

Under Turkish law and union agreements, employee termination payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as a part of defined retirement benefit plan as per IAS 19 (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 statement of income.

#### 2.9.18 Statement of Cash Flows

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

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

Cash flows arising from investment activities the cash flows that are used in or provided from 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.

#### 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 March 2010, the Company holds its own shares with a nominal value of TRY49.296.859 (31 December 2009 : TRY49.296.859). The Company's own shares have been reclassified in the balance sheet as a deduction from the share capital.

## 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 March 2010 and 31 December 2009 is as follows:

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Cash | 16.747 | 24.725 |
| Checks and payment orders given (-) | (6.500) | - |
| Banks – demand deposits | 60.826.051 | 57.474.534 |
| Banks – time deposits | 904.698.490 | 1.008.238.108 |
| | 965.534.788 | 1.065.737.367 |
| Time deposit interest accruals (-) | (1.726.555) | (2.453.000) |
| Cash and cash equivalents excluding interest accruals | 963.808.233 | 1.063.284.367 |

The breakdown of demand deposits is presented below:

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| USD | 38.391.240 | 40.342.507 |
| EUR | 15.110.341 | 7.594.427 |
| TRY | 5.475.794 | 4.538.501 |
| RON | 1.825.768 | 4.949.386 |
| GBP | 22.732 | 27.229 |
| JPY | 176 | 22.484 |
| | 60.826.051 | 57.474.534 |

The breakdown of time deposits is presented below:

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| USD | 688.442.524 | 648.714.606 |
| TRY | 177.126.000 | 294.414.407 |
| EUR | 39.129.966 | 65.109.095 |
| | 904.698.490 | 1.008.238.108 |

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

As of 31 March 2010, the breakdown of the Group's time deposits with respect to their maturities is presented below:

| Currency | Interest Rate (%) | Maturity | 31 March 2010 |
|---|---|---|---|
| TRY | 8.95% | 01.04.2010 | 53.813.190 |
| TRY | 9.50% | 08.04.2010 | 27.168.658 |
| TRY | 9,20% | 01.04.2010 | 25.247.003 |
| TRY | 9,25% | 01.04.2010 | 20.172.329 |
| TRY | 9,35% | 01.04.2010 | 15.133.048 |
| TRY | 9,75% | 22.04.2010 | 15.036.062 |
| TRY | 9,00% | 01.04.2010 | 10.118.342 |
| TRY | 9,75% | 19.04.2010 | 10.037.303 |
| TRY | 6,25% | 01.04.2010 | 400.065 |
| USD | 2,82% | 01.04.2010 | 108.034.846 |
| USD | 3,60% | 21.04.2010 | 53.304.969 |
| USD | 3,70% | 21.04.2010 | 45.761.819 |
| USD | 3,50% | 26.04.2010 | 45.677.057 |
| USD | 3,25% | 29.04.2010 | 45.653.118 |
| USD | 2,50% | 01.04.2010 | 30.517.535 |
| USD | 2,95% | 01.04.2010 | 30.513.617 |
| USD | 2,90% | 01.04.2010 | 30.512.199 |
| USD | 3,35% | 19.04.2010 | 30.471.857 |
| USD | 3,40% | 21.04.2010 | 30.458.318 |
| USD | 3,45% | 26.04.2010 | 30.450.109 |
| USD | 3,00% | 01.04.2010 | 15.253.765 |
| USD | 3,50% | 12.04.2010 | 15.247.079 |
| USD | 3,30% | 12.04.2010 | 15.243.872 |
| USD | 3,30% | 16.04.2010 | 15.236.994 |
| USD | 3,30% | 26.04.2010 | 15.236.984 |
| USD | 3,35% | 26.04.2010 | 15.234.527 |
| USD | 3,30% | 19.04.2010 | 15.234.242 |
| USD | 3,00% | 19.04.2010 | 15.233.744 |
| USD | 3,25% | 21.04.2010 | 15.228.535 |
| USD | 3,00% | 21.04.2010 | 15.227.495 |
| USD | 3,25% | 28.04.2010 | 15.219.059 |
| USD | 3,50% | 30.04.2010 | 15.216.457 |
| USD | 4,00% | 30.04.2010 | 9.044.340 |
| USD | 4,00% | 21.04.2010 | 7.615.827 |
| USD | 4,00% | 26.04.2010 | 7.614.160 |
| EUR | 3,30% | 14.04.2010 | 20.560.086 |
| EUR | 3,25% | 01.04.2010 | 18.569.880 |
| TOTAL | | | 904.698.490 |

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

As of 31 December 2009, the breakdown of the Group's time deposits with respect to their maturities is presented below:

| Currency | Interest Rate (%) | Maturity | 31 December 2009 |
|---|---|---|---|
| TRY | 10.25% | 18.01.2010 | 50.210.299 |
| TRY | 10,75% | 05.02.2010 | 32.093.859 |
| TRY | 9,81% | 08.01.2010 | 30.193.415 |
| TRY | 7,50% | 04.01.2010 | 23.754.878 |
| TRY | 9,40% | 04.01.2010 | 20.149.294 |
| TRY | 9,50% | 04.01.2010 | 20.148.279 |
| TRY | 9,80% | 08.01.2010 | 20.128.876 |
| TRY | 10,60% | 05.02.2010 | 20.052.274 |
| TRY | 10,20% | 11.01.2010 | 15.087.893 |
| TRY | 10,00% | 15.01.2010 | 10.046.480 |
| TRY | 10,25% | 29.01.2010 | 10.044.750 |
| TRY | 10,25% | 19.01.2010 | 10.042.123 |
| TRY | 10,75% | 29.01.2010 | 10.008.798 |
| TRY | 10,75% | 12.02.2010 | 10.008.782 |
| TRY | 10,25% | 22.01.2010 | 7.019.597 |
| TRY | 10,65% | 15.01.2010 | 5.024.746 |
| TRY | 6,25% | 04.01.2010 | 200.032 |
| TRY | 5,75% | 04.01.2010 | 200.032 |
| USD | 3,25% | 19.01.2010 | 105.535.751 |
| USD | 2,40% | 22.01.2010 | 75.542.227 |
| USD | 3,10% | 18.01.2010 | 60.304.692 |
| USD | 2,36% | 04.01.2010 | 37.870.803 |
| USD | 3,25% | 22.01.2010 | 37.673.306 |
| USD | 3,10% | 08.02.2010 | 30.188.050 |
| USD | 3,50% | 19.01.2010 | 30.157.314 |
| USD | 3,25% | 18.01.2010 | 30.154.189 |
| USD | 2,98% | 18.01.2010 | 30.150.852 |
| USD | 3,20% | 08.01.2010 | 22.627.068 |
| USD | 2,90% | 18.01.2010 | 22.612.398 |
| USD | 2,94% | 06.01.2010 | 15.093.376 |
| USD | 2,85% | 04.01.2010 | 15.091.090 |
| USD | 2,70% | 04.01.2010 | 15.089.296 |
| USD | 2,50% | 06.01.2010 | 15.087.933 |
| USD | 3,00% | 08.02.2010 | 15.086.651 |
| USD | 3,00% | 29.01.2010 | 15.076.777 |
| USD | 3,15% | 22.01.2010 | 15.069.982 |
| USD | 3,25% | 29.01.2010 | 15.061.017 |
| USD | 2,35% | 22.01.2010 | 7.553.687 |
| USD | 3,05% | 14.01.2010 | 7.539.817 |
| USD | 3,00% | 14.01.2010 | 7.539.632 |
| USD | 2,76% | 14.01.2010 | 7.538.742 |
| USD | 3,19% | 22.01.2010 | 7.535.068 |
| USD | 3,10% | 22.01.2010 | 7.534.888 |
| EUR | 3,10% | 01.01.2010 | 49.534.315 |
| EUR | 3,25% | 01.01.2010 | 15.574.780 |
| TOTAL | | | 1.008.238.108 |

## NOTE 5 – FINANCIAL INVESTMENTS

Held for Trading Portfolio:

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Investment Funds | - | 22.588 |

Financial Assets Held as Available for Sale:

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

| Company | Rate % | 31 March 2010 | Rate % | 31 December 2009 |
|---|---|---|---|---|
| Erdemir Gaz San. ve Tic. A.Ş. (*) | 100 | 50.395 | 100 | 41.666 |

(*)The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY1.117 and has not been operating since its establishment, are not consolidated as their effects on the accompanying consolidated financial statements are immaterial and disclosed at cost.

## NOTE 6 –FINANCIAL LIABILITIES

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Short term financial liabilities | 40.647.004 | 29.393.986 |
| Current portion of long term financial liabilities | 1.604.631.190 | 807.880.899 |
| Finance lease payables | - | 21.201 |
| Total short term financial liabilities | 1.645.278.194 | 837.296.086 |
| Long term financial liabilities | 2.364.210.546 | 3.328.726.727 |
| Total long term financial liabilities | 2.364.210.546 | 3.328.726.727 |
| | 4.009.488.740 | 4.166.022.813 |

**NOTE 6 – FINANCIAL LIABILITIES (cont'd)**

As of 31 March 2010, the breakdown of the Group's fixed interest loans in their original currency and by their weighted average effective interest rates, is presented as follows:

| Type of original currency | The effective weighted average rate of interest (%) | 2010 Short term portion | 2010 Long term portion | 31 March 2010 |
|---|---|---|---|---|
| TRY | Spot | 19.395.654 | - | 19.395.654 |
| USD | 5,78 | 2.134.804 | - | 2.134.804 |
| | | 21.530.458 | - | 21.530.458 |

As of 31 March 2010, according to their type of original currency and interest rates, the breakdown of the Group's fixed-interest loans that contain financial hedge arrangements in their original currency and by their respective interest rates, is presented as follows:

| Type of original currency | Fixed rate of interest (%) | 2010 Short term portion | 2010 Long term portion | 31 March 2010 |
|---|---|---|---|---|
| EUR (*) | 10,65 | 31.527.932 | 183.404.239 | 214.932.171 |
| USD | 2,72 | 152.700.186 | - | 152.700.186 |
| USD | 1,00 | 62.289.887 | 60.027.107 | 122.316.994 |
| USD | 3,60 | 58.086.834 | 56.609.496 | 114.696.330 |
| USD | 2,03 | 22.548.397 | 42.753.809 | 65.302.206 |
| USD | 3,35 | 31.071.895 | 30.214.165 | 61.286.060 |
| USD | 3,27 | 15.549.312 | 15.090.303 | 30.639.615 |
| | | 373.774.443 | 388.099.119 | 761.873.562 |
| | | 395.304.901 | 388.099.119 | 783.404.020 |

(*) As described in Note 32 (f), it is the interest rate of the TRY valued cross currency swap contracts resulted from the sale of the original currency; Euro and purchase; TRY.

As of 31 March 2010, the breakdown of the Group's variable interest loans in their original currency and by their weighted average effective interest rates, is presented as follows:

| Type of original currency | The effective weighted average interest rate (%) | 2010 Short term portion | 2010 Long term portion | 31 March 2010 |
|---|---|---|---|---|
| USD | Libor + 1,233 | 1.114.233.600 | 660.660.476 | 1.774.894.076 |
| TRY | TR Libor + 1,765 | 58.693.316 | 868.568.682 | 927.261.998 |
| EUR | Euribor + 0,266 | 54.693.359 | 306.725.996 | 361.419.355 |
| JPY | JPY Libor + 0,215 | 22.353.018 | 140.156.273 | 162.509.291 |
| | | 1.249.973.293 | 1.976.111.427 | 3.226.084.720 |

**NOTE 6 – FINANCIAL LIABILITIES (cont'd)**

As of 31 December 2009, according to their type of original currency and weighted average effective interest rates, the breakdown of the fixed interest loans is as follows:

| Type of original currency | The effective weighted average interest rate (%) | 2009 Short term portion | 2009 Long term portion | 31 December 2009 |
|---|---|---|---|---|
| USD | 5,78 | 2.088.306 | - | 2.088.306 |
| TRY | Spot | 8.515.490 | - | 8.515.490 |
| | | 10.063.796 | - | 10.603.796 |

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 original currency | Fixed rate of interest (%) | 2009 Short term portion | 2009 Long term portion | 31 December 2009 |
|---|---|---|---|---|
| USD | 3,19 | 29.851.889 | - | 29.851.889 |
| USD | 2,72 | 153.341.601 | 74.467.306 | 227.808.907 |
| USD | 3,35 | 30.636.967 | 29.799.941 | 60.436.908 |
| USD | 3,27 | 15.328.004 | 14.879.863 | 30.207.867 |
| USD | 3,60 | 57.270.085 | 55.827.519 | 113.097.604 |
| USD | 2,03 | 22.444.722 | 52.909.326 | 75.354.048 |
| USD | 1,00 | 61.348.704 | 59.137.410 | 120.486.114 |
| | | 370.221.972 | 287.021.365 | 657.243.337 |
| | | 380.825.768 | 287.021.365 | 667.847.133 |

As of 31 December 2009, according to their type of original currency and weighted average effective interest rates, the breakdown of the variable interest loans is as follows:

| Type of original currency | The effective weighted average interest rate (%) | 2009 Short term portion | 2009 Long term portion | 31 December 2009 |
|---|---|---|---|---|
| USD | Libor + 1,324 | 290.236.756 | 1.527.129.581 | 1.817.366.337 |
| TRY | TRLibor + 1,766 | 54.203.445 | 855.668.943 | 909.872.388 |
| EUR | Euribor + 0,268 | 89.870.916 | 520.438.669 | 610.309.585 |
| JPY | JPYLibor+0,215 | 22.138.000 | 138.468.169 | 160.606.169 |
| , | | 456.449.117 | 3.041.705.362 | 3.498.154.479 |

**NOTE 6 – FINANCIAL LIABILITIES (cont'd)**

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

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Within one year | 1.645.278.194 | 837.274.885 |
| Between 1-2 years | 1.355.812.152 | 2.264.672.684 |
| Between 2-3 years | 270.245.292 | 286.718.788 |
| Between 3-4 years | 215.977.274 | 238.613.532 |
| Between 4-5 years | 187.895.765 | 189.605.453 |
| Five years or more | 334.280.063 | 349.116.270 |
| | 4.009.488.740 | 4.166.001.612 |

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

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Within one year | - | 21.201 |
| | - | 21.201 |

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

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| EUR | - | 21.201 |
| | - | 21.201 |

## NOTE 6 – FINANCIAL LIABILITIES (cont'd)

The details of existing loans as of 31 March 2010 and 31 December 2009 are as follows:

| Interest Rate (%) | Type of original currency | 2010 Short Term Portion | 2010Long Term Portion | 31 March 2010 | 31 December 2009 |
|---|---|---|---|---|---|
| Libor + 3,50 | USD | 460.947.427 | - | 460.947.427 | 461.739.032 |
| Libor + 3,85 | USD | 384.119.686 | - | 384.119.686 | 385.410.422 |
| Libor + 0,30 | USD | 44.888.541 | 185.104.956 | 229.993.497 | 226.217.767 |
| Libor + 1,50 | USD | 203.507.019 | - | 203.507.019 | 303.084.591 |
| Libor + 2,20 | USD | 44.607.508 | 139.221.540 | 183.829.048 | 180.732.708 |
| Libor + 1,40 | USD | 93.400.504 | 90.019.781 | 183.420.285 | 196.424.270 |
| Libor + 1,05 | USD | 89.137.703 | 86.807.112 | 175.944.815 | 173.487.476 |
| Libor + 0,45 | USD | 10.001.909 | 125.947.273 | 135.949.182 | 133.634.809 |
| Libor + 1,25 | USD | 45.096.795 | 85.507.617 | 130.604.412 | 150.708.096 |
| Libor + 0,90 | USD | 11.840.846 | 56.068.184 | 67.909.030 | 66.645.212 |
| Libor + 0,95 | USD | 31.071.894 | 30.214.166 | 61.286.060 | 60.436.908 |
| Libor + 1,16 | USD | 6.958.030 | 24.897.243 | 31.855.273 | 34.788.325 |
| Libor + 0,50 | USD | - | - | - | 29.851.889 |
| Libor + 0,20 | USD | 5.993.456 | 19.666.509 | 25.659.965 | 25.320.405 |
| Libor + 0,78 | USD | 2.226.351 | 11.709.344 | 13.935.695 | 13.765.544 |
| Libor + 0,15 | USD | 1.431.090 | 10.191.629 | 11.622.719 | 11.483.724 |
| Libor + 2,25 | USD | 10.976.525 | - | 10.976.525 | 10.789.785 |
| Libor + 2,70 | USD | 10.274.829 | - | 10.274.829 | 10.088.711 |
| 5,78 | USD | 2.134.804 | - | 2.134.804 | 2.088.306 |
| Euribor + 0,215 | EUR | 31.527.932 | 183.404.239 | 214.932.171 | 298.258.564 |
| Euribor + 0,22 | EUR | 10.243.558 | 61.064.099 | 71.307.657 | - |
| Euribor + 0,14 | EUR | 8.986.981 | 60.414.009 | 69.400.990 | 72.857.968 |
| Euribor + 0,20 | EUR | 10.736.905 | 54.218.784 | 64.955.689 | 72.570.180 |
| Euribor + 0,15 | EUR | 5.499.555 | 34.517.961 | 40.017.516 | 42.106.040 |
| Euribor + 0,35 | EUR | 5.364.381 | 34.240.433 | 39.604.814 | 44.677.406 |
| Euribor + 0,77 | EUR | 5.556.519 | 28.325.030 | 33.881.549 | 35.554.822 |
| Euribor + 0,50 | EUR | 5.129.360 | 23.240.184 | 28.369.544 | 29.720.189 |
| Euribor + 0,125 | EUR | 1.438.472 | 7.379.432 | 8.817.904 | 9.256.637 |
| Euribor + 0,25 | EUR | 1.737.627 | 3.326.065 | 5.063.692 | 5.307.779 |
| JPYLibor + 0,215 | JPY | 22.353.018 | 140.156.273 | 162.509.291 | 160.606.169 |
| TRLibor + 2,00 | TRY | 16.554.382 | 294.087.760 | 310.642.142 | 303.495.429 |
| TRLibor + 1,50 | TRY | 26.991.107 | 283.132.321 | 310.123.428 | 303.333.866 |
| TRLibor + 1,75 | TRY | 13.850.002 | 141.348.601 | 155.198.604 | 151.710.200 |
| TRLibor + 1,65 | TRY | 854.845 | 100.000.000 | 100.854.845 | 100.877.480 |
| TRLibor + 2,25 | TRY | 442.979 | 50.000.000 | 50.442.979 | 50.455.413 |
| Spot Loans | TRY | 19.395.654 | - | 19.395.654 | 8.515.490 |
| | | 1.645.278.194 | 2.364.210.546 | 4.009.488.740 | 4.166.001.612 |

The fair values of the Group's loans are approximate to their book values.

## NOTE 7 - OTHER FINANCIAL LIABILITIES

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Other current financial liabilites | | |
| Expense accruals of the derivative financial instruments (Note 32) | 1.571.436 | 96.556.326 |
| Other non current financial liabilites | | |
| Expense accruals of the derivative financial instruments (Note 32) | 15.433.358 | 9.414.527 |

## NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Short term trade receivables | | |
| Trade receivables | 701.081.833 | 590.157.406 |
| Due from related parties (Note 31) | 67.487.100 | 64.024.254 |
| Notes receivables | 6.004.769 | 34.649.069 |
| Discount on receivables (-) | (1.788.403) | (1.852.179) |
| Other trade receivables | 12.574.505 | 25.571.526 |
| Provision for doubtful receivables (-) | (45.172.765) | (20.064.950) |
| | 740.187.039 | 692.485.126 |

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | 20.064.950 | 12.815.687 |
| Provision for the period | 25.119.140 | 1.146.132 |
| Provision released (-) | (11.325) | (34.158) |
| Closing balance | 45.172.765 | 13.927.661 |

| Long term trade receivables | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Trade receivables | 4.660.820 | 4.660.859 |
| Discount on receivables (-) | (617.937) | (680.325) |
| Provision for doubtful receivables (-) | (1.619.793) | (1.619.793) |
| | 2.423.090 | 2.360.741 |

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | 1.619.793 | 1.619.793 |
| Closing balance | 1.619.793 | 1.619.793 |

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

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.

The majority of the trade receivables are secured by bank collaterals. In the case of doubtful receivable balance that are not secured with bank collaterals,  the Group applies its own administrative procedures in an effort to collect the outstanding balance; if the collection is not made, the Group relies on its legal counsel to assist in the collection efforts. The Group's policy is to provide a 100% provision for all receivables that are being followed up by its legal counsel.

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 accompanying consolidated financial statements.

As of the balance sheet date, there is no significant amount of overdue receivables within the trade receivables. All of these receivables, except for receivables from related parties, are under bank guarantee and they were collected during the subsequent months. Therefore, there is no need to provide any provision.

Other explanatory notes related to the credit risk of the Group is disclosed in Note 32.

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 March 2010 | 31 December 2009 |
|---|---|---|
| Trade payables | 394.179.617 | 348.736.935 |
| Trade payables due to related parties (Note 31) | 12.142.013 | 5.147.811 |
| Discount on trade payables (-) | (600.842) | (573.055) |
| Other trade payables | 1.825.511 | 1.692.652 |
| | 407.546.299 | 355.004.343 |

## NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other Current Receivables

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Other receivables | 9.073.784 | 6.884.571 |
| Provision for other doubtful receivables (-) | (9.073.784) | (6.884.571) |
| Deposits and guarantees given | 7.137.776 | 124.456 |
| | 7.137.776 | 124.456 |

Other explanatory notes related to the Group's credit risk is disclosed in Note 32.

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | 6.884.571 | 6.800.431 |
| Provision for the period | 2.239.533 | - |
| Provision released (-) | (50.320) | (17.044) |
| Closing balance | 9.073.784 | 6.783.387 |

Other Non Current Receivables

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Other doubtful receivables | 53.570.112 | 53.156.654 |
| Provision for other doubtful receivables (-) | (26.785.056) | (26.578.327) |
| Deposits and guarantees given | 143.920 | 143.920 |
| | 26.928.976 | 26.722.247 |

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

| | 1 January- 31 March 2010 | 1 January- 31 March 2009 |
|---|---|---|
| Opening balance | 26.578.327 | - |
| Provision for the period | 206.729 | - |
| Closing balance | 26.785.056 | - |

Other Current Payables

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Deferred and installed payables to public institutions | 35.514.266 | 23.272.871 |
| Taxes and funds payable | 13.714.479 | 12.365.506 |
| Social security deductions payable | 11.757.800 | 11.772.583 |
| Deposits and guarantees received | 4.179.683 | 4.161.720 |
| Non trade payables to related parties (Note 31) | 2.792.932 | 1.871.365 |
| | 67.959.160 | 53.444.045 |

## NOTE 10 – INVENTORIES

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Raw materials | 501.553.697 | 423.726.902 |
| Work in progress | 378.791.162 | 380.153.868 |
| Goods in transit | 279.897.267 | 231.739.034 |
| Spare parts | 242.398.534 | 251.488.002 |
| Finished goods | 210.228.330 | 223.756.742 |
| Trade goods | 1.198.038 | 975.653 |
| Other inventories | 177.041.911 | 145.283.089 |
| Allowance for impairment of inventories (-) | (9.082.949) | (12.242.813) |
| | 1.782.025.990 | 1.644.880.477 |

The movements of the allowance for impairment of inventories:

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | 12.242.813 | 989.041.083 |
| Provision for the period | 368.003 | 5.763.080 |
| Used portion of the provision (-) | (3.527.867) | (717.304.668) |
| Closing balance | 9.082.949 | 277.499.495 |

As of 1 January - 31 March 2010, the depreciation expense of TRY15.643.562 is recorded as part of cost of sales ( 1 January- 31 March 2009: TRY48.980.319).

## 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 | Steel for Packaging |

The financial information of the Group's associate consolidated by the equity method is summarized below:

| | 1 January – 31 March 2010 | 1 January – 31 March 2009(*) |
|---|---|---|
| Income | - | 40.904.945 |
| Net profit/(loss) for the period | - | (2.571.969) |
| Group's share in net profit/(loss) for the period | - | (642.992) |

(*) The Group's financial asset which was previously consolidated by the equity method, has been reclassified to "Non current assets held for sale" as of 1 April 2009. (Note 28)

## NOTE 12 – INVESTMENT PROPERTIES

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Cost | | |
| As of 1 January | 46.577.264 | 45.973.550 |
| Additions | - | 603.714 |
| As of 31 March | 46.577.264 | 46.577.264 |
| Book Value | 46.577.264 | 46.577.264 |

As of 31 March 2010, according to the valuation report dated December 2009, the fair value of the Group's investment properties with a total carrying value of TRY46.577.264 is, TRY203.749.000. The fair value of the investment properties have been determined in reference to the valuation of an independent valuation firm. Harmoni Gayrimenkul Değerleme ve Danışmanlık A.Ş. is the independent valuation company 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 the three month period, ended 31 March 2010, the Group obtained rent income amounted to TRY20.075 (31 March 2009: TRY22.150) from investment properties leased under operational leases.

## NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

| | Land | Land improvements | Buildings | Machinery and equipment | Vehicles | Furniture and fixtures | Other | 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 gain/loss | (92.727) | - | (114.932) | (263.573) | (9.621) | (23.394) | - | (20.915) | (525.162) |
| Additions | - | 12.249 | - | 1.859.122 | 101.664 | 606.798 | 32.199 | 55.620.014 | 58.232.046 |
| Disposals | - | (141.017) | - | (1.151.265) | - | (195.209) | (175.852) | (142.405) | (1.805.748) |
| Transfers from CIP | - | - | - | 5.609.553 | - | - | - | (5.609.553) | - |
| Closing balance as of 31 March 2010 | 95.072.345 | 1.458.122.731 | 2.358.088.835 | 9.283.190.497 | 656.523.843 | 310.157.852 | 14.503.199 | 673.085.685 | 14.848.744.987 |
| 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 gain/loss | - | - | 31.194 | 169.688 | 6.088 | 13.867 | 723 | - | 221.560 |
| Charge for the period | - | (5.543.561) | (18.761.035) | (46.489.496) | (4.372.199) | (3.499.146) | (119.917) | - | (78.785.354) |
| Disposals | - | 13.990 | - | 1.100.077 | - | 194.270 | 165.962 | - | 1.474.299 |
| Closing balance as of 31 March 2010 | - | (984.103.169) | (1.696.812.468) | (4.915.826.456) | (326.528.105) | (138.611.212) | (12.728.646) | - | (8.074.610.056) |
| 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 March 2010 | 95.072.345 | 474.019.562 | 661.276.367 | 4.367.364.041 | 329.995.738 | 171.546.640 | 1.774.553 | 673.085.685 | 6.774.134.931 |

The amount of capitalized finance expenses is TRY8.460.809 for the current period. (The capitalized finance expenses for three month period ended 31 March 2009 is: TRY37.619.135)

TRY25.519.490 of the charge for the period is on the inventory, TRY50.571.050 is on the cost of sales and the remaining TRY2.694.812 is on the operating expenses.

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

| | Land | Land improvements | Buildings | Machinery and equipment | Vehicles | Furniture and fixtures | Other | 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 gain/loss | (159.858) | - | (171.174) | (442.722) | (16.599) | (27.175) | - | (37.064) | (854.592) |
| Additions | 5.608 | - | 82.790 | 486.444 | - | 114.021 | 405.134 | 271.181.763 | 272.275.760 |
| Disposals | - | (16.648.665) | (258.474) | (47.159.586) | (3.560.227) | (1.326.137) | (315.616) | (106.956.381) | (176.225.086) |
| Transfers from CPI | - | 2.542.268 | 413.821 | 8.701.998 | 1.723.269 | 134.709 | - | (13.516.065) | - |
| Closing balance as of 31 March 2009 | 95.281.202 | 1.406.402.497 | 2.117.971.929 | 8.790.429.416 | 595.913.775 | 266.180.826 | 14.717.915 | 1.628.237.725 | 14.915.135.285 |
| 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 gain/loss | - | - | 15.406 | 270.616 | 8.588 | 23.008 | - | - | 317.618 |
| Charge for the period | - | (4.510.740) | (17.158.782) | (39.939.074) | (4.740.921) | (3.800.541) | (154.282) | - | (70.304.340) |
| Disposals | - | 16.648.665 | 50.277 | 47.093.911 | 3.348.519 | 1.326.137 | 315.616 | - | 68.783.125 |
| Closing balance as of 31 March 2009 | - | (964.577.919) | (1.656.833.815) | (5.003.480.598) | (316.292.645) | (132.215.849) | (12.262.741) | - | (8.085.663.567) |
| 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 |
| Net book value as of 31 March 2009 | 95.281.202 | 441.824.578 | 461.138.114 | 3.786.948.818 | 279.621.130 | 133.964.977 | 2.455.174 | 1.628.237.725 | 6.829.471.718 |

TRY30.014.669 of the charge for the period is on the inventory, TRY39.222.812 is on the cost of sales and the remaining TRY1.066.859 is on the operating expenses.

## 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 | (4.039) | - | (14.643) | (18.682) |
| Additions | 86.525 | - | 86.209 | 172.734 |
| Closing balance as of 31 March 2010 | 150.976.452 | 61.949.696 | 4.144.981 | 217.071.129 |
| Accumulated amortization | | | | |
| Opening balance as of 1 January 2010 | (37.560.044) | (36.049.539) | (3.031.870) | (76.641.453) |
| Translation difference | 1.064 | - | 2.033 | 3.097 |
| Charge for the period | (2.499.371) | (693.273) | (215.349) | (3.407.993) |
| Closing balance as of 31 March 2010 | (40.058.351) | (36.742.812) | (3.245.186) | (80.046.349) |
| 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 March 2010 | 110.918.101 | 25.206.884 | 899.795 | 137.024.780 |

TRY517.969 of the charge for the period is on the stocks, TRY2.638.338 is on the cost of sales and the remaining TRY251.686 is on the general administration expenses.

| | Rights | Exploration costs and other assets with specific useful life | Other intangible fixed assets | Total |
|---|---|---|---|---|
| Cost | | | | |
| Opening balance as of 1 January 2009 | 141.311.026 | 61.966.819 | 3.296.856 | 206.574.701 |
| Additions | 295.924 | - | 204.424 | 500.348 |
| Closing balance as of 31 March 2009 | 141.606.950 | 61.966.819 | 3.501.280 | 207.075.049 |
| Accumulated amortization | | | | |
| Opening balance as of 1 January 2009 | (29.785.963) | (33.312.024) | (2.426.754) | (65.524.741) |
| Charge for the period | (1.893.081) | (1.012.227) | (171.450) | (3.076.758) |
| Closing balance as of 31 March 2009 | (31.679.044) | (34.324.251) | (2.598.204) | (68.601.499) |
| Net book value as of 31 December 2008 | 111.525.063 | 28.654.795 | 870.102 | 141.049.960 |
| Net book value as of 31 March 2009 | 109.927.906 | 27.642.568 | 903.076 | 138.473.550 |

TRY353.601 of the charge for the period is on the stocks, TRY2.545.530 is on the cost of sales and the remaining TRY117.627 is on the general administration expenses.

## NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Social security grants | 127.006 | 131.352 |
| Research and development grants | 85.880 | - |
| Energy grants | - | 1.176.201 |
| Tax grants | - | 13.889 |
| | 212.886 | 1.321.442 |

## NOTE 16 – PROVISIONS

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Provision for the potential tax risks | 43.421.088 | 42.629.219 |
| Provision for the lawsuits | 24.882.264 | 24.279.009 |
| Penalty provision the for obligatory employment shortage of disabled people, ex-convicts and terror victims | 7.196.745 | 7.024.569 |
| | 75.500.097 | 73.932.797 |

The probable repayment periods of the provisions are expected to be within a year.

<u>The movements of the provisions in the current period:</u>

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | 7.024.569 | 57.377.349 |
| Increase during the period | 504.400 | 522.536 |
| Provisions released (-) | (332.224) | (2.287.155) |
| Closing balance | 7.196.745 | 55.612.730 |

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.

**NOTE 16 – PROVISIONS (cont'd)**

The movement of the provisions in the current period (cont'd)

The movements of the provision for potential tax risks are as follows:

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | 42.629.219 | 44.636.012 |
| Increase during the period | 791.869 | 791.869 |
| Provision released (-) | - | (5.174.271) |
| Closing balance | 43.421.088 | 40.253.610 |

The movements of the provision for the continuing lawsuits are as follows:

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | 24.279.009 | 26.068.603 |
| Increase during period | 2.744.989 | 2.060.144 |
| Provision released (-) | (2.141.734) | (1.237.251) |
| Closing balance | 24.882.264 | 26.891.496 |

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | - | 101.637.544 |
| Used portion of the provision (-) | - | (16.236.246) |
| Closing balance | - | 85.401.298 |

## NOTE 16 – PROVISIONS (cont'd)

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

| Lawsuits filed by the Group | 31 March 2010 | 31 December 2009 |
|---|---|---|
| TRY | 58.947.437 | 56.205.828 |
| USD | 83.861.804 | 82.990.942 |
| | 142.809.241 | 139.196.770 |
| **Provision for lawsuits filed by the Group** | | |
| TRY | 15.110.903 | 12.921.691 |
| USD | 7.786.804 | 7.705.942 |
| | 22.897.707 | 20.627.633 |
| **Lawsuits filed against the Group** | | |
| TRY | 80.293.066 | 78.248.219 |
| USD | 109.056.296 | 4.664.410 |
| | 189.349.362 | 82.912.629 |
| **Provision for lawsuits filed against the Group** | | |
| TRY | 19.303.815 | 19.010.920 |
| USD | 5.578.449 | 5.268.089 |
| | 24.882.264 | 24.279.009 |

As of 31 March 2010 and 31 December 2009, USD25.000.000 (31 December 2008: TRY38.037.500) 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 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 USD25.000.000 (TRY38.037.500).

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 TRY10.057.232,49, which is 0,2% of the Company's annual gross revenues generated by the end of the fiscal year of 2008 amounting to TRY5.028.616.243,94 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 thereunder; additionally another fine of TRY10.057.232,49, which is 0,2% of the Company's annual gross revenues generated by the end of the fiscal year of 2008 amounting to TRY5.028.616.243,94 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.

## NOTE 16 – PROVISIONS (cont'd)

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 TRY15.085.848 on 26 October 2009 by benefiting an early payment discount.

As of 31 March 2010 and 31 December 2009, the lawsuit amount to TRY35.673.249 among the lawsuits initiated against Group was filed by the Privatization Administration with a view to get the Company's General Assembly's Decision as to the dividend distribution for the year 2005 cancelled

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 30 September 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 (TRY152.329.914) 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 this decision on 11 October 2007 before the 13th Chamber of the State Council (File number 2007/13762). The Case is still pending.

## NOTE 16 – PROVISIONS (cont'd)

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) and Erdemir, has responded this motion on 26 January 2009 stating that the challenged Judgment should be approved as it is. The case is still pending.

Due to the Erdemir's considerations that there was a permission of CMB about "Application of IFRS on 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 TRY152.329.914, 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.

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 demand of "Suspension of Execution". The judicial process within the framework of the 13th Chamber of the State Council and numbered as 2007/13724 is still pending. However, the Chamber has 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 its related action, by its decision numbered 2007/13724 and dated 4 December 2007.

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 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 income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the period ended 31 December 2009 and 2008 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.

In relation to the other lawsuits that are filed against the Group, as of 31 March 2010 a total of TRY24.882.264 (31 December 2009: TRY24.279.009) provision is allocated.

## NOTE 17 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Letters of guarantee received | 870.797.749 | 952.654.202 |
| Cash | 927.705 | 983.358 |
| | 871.725.454 | 953.637.560 |

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

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| A. Total CPM given for the Company's own legal entity | 99.643.322 | 70.876.259 |
| B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis | 2.704.452.525 | 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 | - | - |
| | 2.804.095.847 | 2.928.916.324 |

The ratio of the other CPM given by the Group to shareholders equity is % 0 (31 December 2009: % 0).

## NOTE 18 – PROVISIONS FOR EMPLOYEEMENT TERMINATION BENEFITS

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Provisions for employee termination benefits | 122.740.048 | 117.712.283 |
| Provisions for incentive premium for severance payment | 5.073.162 | 4.158.281 |
| | 127.813.210 | 121.870.564 |

According to the articles of Turkish Labor Law in force, there is an obligation to pay the legal employment termination benefits to each employee whose employment contracts are ended properly entitling them to receive employment 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 employment termination benefits, who are entitled to terminate.

As of 31 March 2010, the amount payable consists of one month's salary limited to a maximum of TRY2.427,04 (31 December 2009: TRY2.365,16).

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

## NOTE 18 – PROVISIONS FOR EMPLOYEMENT TERMINATION BENEFITS (cont'd)

The employment termination benefit has been calculated by estimating the present value of the future probable obligation of the Company 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 accompanying financial statements as of 31 March 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 4,80% and a discount rate of 11%, (31 December 2009: the annual inflation rate 4,80% and the discount rate 11%). The probability of retirement is assumed as %99,71. (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 TRY2.427,04 effective from 1 January 2010 has been taken into consideration in calculating the provision for employment termination benefits of the Group (31 December 2009: TRY2.427,04 effective as of 1 July 2009).

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Provision at the beginning of the period | 117.712.283 | 117.287.493 |
| Service cost | 6.423.853 | 9.730.382 |
| Interest cost | 1.711.436 | 1.804.310 |
| Termination benefits paid | (3.107.524) | (19.724.410) |
| Provision at the end of the period | 122.740.048 | 109.097.775 |

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

The movements of the provision for seniority incentive bonus premium are as follows:

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Provision at the beginning of the period | 4.158.281 | - |
| Increase with in the period | 914.881 | 4.020.677 |
| Provision at the end of the period | 5.073.162 | 4.020.677 |

## NOTE 19 – OTHER CURRENT – NON CURRENT ASSETS AND LIABILITIES

Other current assets

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| VAT receivable | 84.241.989 | 71.652.508 |
| Order advances given | 61.238.716 | 20.676.146 |
| VAT deductible | 59.578.695 | 78.421.464 |
| Other VAT | 50.710.868 | 49.867.418 |
| Prepaid expenses | 14.000.941 | 19.866.609 |
| VAT carried forward | 6.424.465 | 35.109.931 |
| Prepaid taxes and funds | 2.265.818 | 1.684.548 |
| Deferred income | 1.682.052 | 3.942.238 |
| Advances given to personnel | 493.019 | 245.841 |
| Business advances given | 395.231 | 117.856 |
| Other miscellaneous assets | 4.472.011 | 2.899.419 |
| | 285.503.805 | 284.483.978 |

Other noncurrent assets

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Prepaid expenses | 32.456.071 | 34.260.652 |
| Advances given | 25.496.733 | 21.852.490 |
| Other miscellaneous assets | 762.903 | - |
| | 58.715.707 | 56.113.142 |

Other current liabilities

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Advances received | 89.148.152 | 55.895.729 |
| VAT payable | 80.685.821 | 69.064.860 |
| Unused vacation accruals | 39.991.663 | 39.805.018 |
| Due to personnel | 17.958.814 | 12.928.323 |
| Other VAT | 11.742.022 | 8.812.583 |
| Expense accruals | 1.689.950 | 1.524.371 |
| Deferred income | 251.224 | 279.781 |
| Other miscellaneous liabilities | 16.164.130 | 13.967.949 |
| | 257.631.776 | 202.278.614 |

Other noncurrent liabilities

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Deferred income | 212.279 | 212.279 |
| Other miscellaneous liabilities | 1.042.433 | - |
| | 1.254.712 | 212.279 |

## NOTE 20 – EQUITY

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

| Shareholders | (%) | 31 March 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 share adjustment | | (57.692.172) | | (57.692.172) |
| | | 2.274.275.563 | | 2.274.275.563 |

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 TRY159.999.999.999 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 March 2010 | 31 December 2009 |
|---|---|---|
| Share Issue Premium | 231.020.042 | 231.020.042 |
| Revaluation reserves | 25.737.125 | 25.869.903 |
| *-Revaluation reserves of fixed assets* | *25.737.125* | *25.869.903* |
| Cash flow hedge reserves | (10.719.274) | (7.259.727) |
| Foreign Currency Translation Reserve | 4.186.837 | 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* |
| | 3.484.269.487 | 3.656.473.609 |

**NOTE 20 – EQUITY (cont'd)**

In accordance with the CMB's requirements which were effective until 1 January 2008, the amount generated from the first-time application of inflation adjustments on financial statements, and followed in the "accumulated loss" account was taken into consideration as a reduction in the calculation of the profit distribution based on the financial statements adjusted with the inflation within the framework of the CMB's regulation issued on profit distribution. Nonetheless, it was possible that the related amount which was followed in "accumulated loss" could also be offset by the profit for the current period, if any and undistributed retained earnings and the remaining loss amount could be offset against equity reserves arising from the restatement of extraordinary reserves, legal reserves and equity items, respectively.

In addition, in accordance with the CMB's requirements which were effective until 1 January 2008, within the first-time application of inflation adjustments on financial statements, equity items, namely "capital premium in excess of par", "legal reserves", "statutory reserves", "special reserves" and "extraordinary reserves" were carried at nominal value in the balance sheet and restatement differences of such items were presented in equity under the "equity inflation restatement differences" line. "Equity inflation restatement differences" related to all equity items could only be used either in the capital increase to issue bonus shares or in the eliminations of accumulated losses. The carrying value of extraordinary reserves could also be used in the capital increase to issue bonus shares; in cash profit distribution or in the offsetting of losses.

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 "Premium in excess of par" 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 "premium in excess of par" 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.

CMB regulations on dividend distributions public companies is detailed below:

Regarding the Principles of the dividend distribution of the profits from 2009 operations, as of 27 January 2010, the Capital Market Board (CMB) decided not to oblige a minimum dividend distribution for the incorporated partnerships who have shares on the stock exchange. In this context, it is decided that dividend distribution will be performed within the framework of the principles of the Board's Communiqué Serial: IV, No: 27 on "Principles regarding distribution of dividends and interim dividends to be followed by the publicly held joint stock corporations subject to capital market law", of the decisions in the articles of association of corporations and of the dividend distribution politics announced to public by corporations.

**NOTE 20 – EQUITY (cont'd)**

In addition, according to the Board's decision, the companies that are obligated to disclose in their consolidated financial statements, have to calculate the amount of the net distributable profit, as long as it is sufficient to be paid out of the companies legal resources, by taking into consideration the net profit for the period on the consolidated financial statements that will be prepared and announced to public within the framework of Communiqué Serial: XI, No: 29.

As of the balance sheet date, the amount of the Group's distributable resources in its statutory records (Erdemir solo), of which TRY2.037.274.605 (31 December 2009: TRY2.330.467.486) is the inflation adjustment differences is (Erdemir solo) TRY3.143.963.948 in total (31December 2009: TRY3.436.256.830).

The legal reserves and the share issue 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.

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 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 hedge fund 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 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.

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.

## NOTE 21 – SALES AND COST OF SALES

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Sales Revenues | | |
| Domestic iron and steel sales | 1.391.112.046 | 607.110.926 |
| Export iron and steel sales | 158.987.916 | 421.977.962 |
| Other revenues (*) | 32.349.959 | 36.897.460 |
| Sales returns (-) | (397.698) | (135.781) |
| Sales discounts (-) | - | (199.585) |
| Other discounts (-) | (180.920) | (53.572) |
| | 1.581.871.303 | 1.065.597.410 |
| Cost of Sales (-) | (1.272.465.799) | (976.321.622) |
| Gross profit | 309.405.504 | 89.275.788 |

(*) The total of the by product exports in other revenues is TRY3.197.626 (31 March 2009: TRY1.762.973).

In terms of the Group's sales tonnages to export customers, 39% of total sales amount is to Middle East countries, followed by 26% sales amount to West Europe countries, 16% sales amount to Middle and East Europe countries, 9% sales amount to South America countries with the remaining 10% export sales amount to other countries.

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Material usage | (838.294.107) | (1.249.787.168) |
| Personnel expenses | (126.227.617) | (208.423.258) |
| Energy expenses | (90.550.509) | (102.529.786) |
| Depreciation and amortization expenses | (53.209.388) | (41.768.342) |
| Change of finished goods and semi finished goods inventories | (14.891.118) | (27.708.268) |
| Inventory write downs within the period | (368.003) | (5.763.080) |
| Reversal of inventory write downs | 3.527.867 | 717.304.668 |
| Reversal of allowance/allowance for purchase commitments | - | 16.236.246 |
| Other service and material expenses | (152.452.924) | (73.882.634) |
| | (1.272.465.799) | (976.321.622) |

## NOTE 22 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Marketing, sales and distribution expenses (-) | (12.698.735) | (20.403.239) |
| General administrative expenses (-) | (27.241.810) | (27.427.358) |
| Research and development expenses (-) | (600.732) | (523.638) |
| | (40.541.277) | (48.354.235) |

## 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 March 2010 and 1 January – 31 March 2009 is as follows:

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Personnel expense (-) | (1.579.323) | (2.079.058) |
| Depreciation and amortization (-) | (20.212) | (26.864) |
| Other (-) | (11.099.200) | (18.297.317) |
| | (12.698.735) | (20.403.239) |

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Personnel expense (-) | (13.031.690) | (15.220.941) |
| Depreciation and amortization (-) | (2.925.416) | (1.217.421) |
| Other (-) | (11.284.704) | (10.988.996) |
| | (27.241.810) | (27.427.358) |

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Personnel expense (-) | (261.659) | (338.657) |
| Depreciation and amortization (-) | (870) | (201) |
| Other (-) | (338.203) | (184.780) |
| | (600.732) | (523.638) |

## NOTE 24 – OTHER OPERATING INCOME/EXPENSES

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| *Other operating income* | | |
| Provisions released | 2.339.183 | 12.541.840 |
| Insurance indemnity income | 1.815.290 | 15.078 |
| Rent income | 1.071.649 | 757.440 |
| Client deposits income | 735.132 | 739.103 |
| Service income | 689.934 | 595.680 |
| Maintenance and repair income | 563.223 | 935.879 |
| Idemnity and penalty detention income | 480.463 | 2.434.167 |
| Other income and gains | 3.183.638 | 1.722.318 |
| | 10.878.512 | 19.741.505 |

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| *Other operating expenses (-)* | | |
| Provisions expenses | (29.220.398) | (6.890.295) |
| Compensations paid | (8.387.717) | (2.568.091) |
| Penalties paid | (5.611.513) | (7.221) |
| Real estate and property levies expenses | (4.833.908) | - |
| Construction licence and utilization expenses | (3.613.436) | - |
| Service expenses | (1.583.974) | (1.403.744) |
| Other expenses | (8.415.803) | (4.740.578) |
| | (61.666.749) | (15.609.929) |

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Profit/(loss) from associates accounted for using the equity pick up method (*) | - | (642.992) |

(*) The financial statements of ArcelorMittal Ambalaj Çeliği San. Ve Tic. A.Ş. were consolidated using the equity pick up method until 31 March 2009. As of 1 April 2009, it was reclassified as noncurrent assets held for sale (Note 28).

## NOTE 25 – FINANCIAL INCOME

| | 1 January – 31 March 2010 | 1 January – 31 March 2010 |
|---|---|---|
| Fair value gain differences of derivative instruments | 92.852.009 | 9.077.694 |
| Interest income | 13.664.779 | 13.381.672 |
| Foreign exchange gains from financial liabilities | 10.608.398 | - |
| Interest income from sales with maturity | 9.900.729 | 18.412.013 |
| Discount income | 138.242 | 602.629 |
| Foreign exchange gains from trade receivables and payables | 576.149 | 46.994.969 |
| Foreign exchange gains from bank deposits | - | 33.823.996 |
| Other finance income | 103.801 | - |
| | 127.844.107 | 122.292.973 |

## NOTE 26 – FINANCIAL EXPENSE

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Foreign exchange losses from deposits (-) | (101.845.741) | - |
| Bank loans interest expenses (-) | (44.421.382) | (48.163.182) |
| Foreign exchange loss from financial liabilities (-) | - | (300.458.274) |
| Other finance expenses (-) | (1.324.204) | (21.828.272) |
| | (147.591.327) | (370.449.728) |

During the year, TRY6.493.172 of finance expenses related to foreign currency translation losses and TRY1.967.637 of interest expenses in total TRY8.460.809, have been capitalized as part of the Group's property, plant and equipment (1 January – 31 March 2009: the foreign currency translation losses of TRY38.939.314, the interest expenses of TRY1.320.179, in total TRY37.619.135 has been capitalized).

## NOTE 27 – OTHER COMPREHENSIVE INCOME/ (EXPENSES)

| | 1 January – 31 March 2010 | 1 January – 31March 2009 |
|---|---|---|
| Other comprehensive income/(expenses): | | |
| Change in revaluation reserves | (132.778) | (229.212) |
| Change in cash flow hedging reserves | (4.679.434) | 366.769 |
| Change in currency translation reserves | 78.625 | 598.442 |
| Tax income/(expense) relating to the other comprehensive income | 935.888 | (73.356) |
| | (3.797.699) | 662.643 |

## NOTE 28 –NON CURRENT ASSETS HELD FOR SALE

| Company | Ratio % | 31 March 2010 | Ratio % | 31 December 2009 |
|---|---|---|---|---|
| ArcelorMittal Ambalaj Çeliği Tic. A.Ş. | 25,00 | 11.498.657 | 25,00 | 11.498.657 |
| Borçelik Çelik San. Tic. A.Ş. | 9,34 | 48.415.165 | 9,34 | 48.415.165 |
| Impairment (Borçelik Çelik San. Tic. A.Ş.) | | (18.145.145) | | (18.145.145) |
| | | 41.768.677 | | 41.768.677 |

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 and Borçelik Çelik San. Tic. A.Ş. which was accounted as the available for sale financial assets were both reclassified as noncurrent assets held for sale as of 1 April 2009 as their sales are highly probable within the next twelve months.

## NOTE 29 –TAX ASSETS AND LIABILITIES

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Corporate Tax Payable: | | |
| Corporate tax for 2009 | 1.430.189 | - |
| Current corporate tax provision | 6.171.636 | 16.464.319 |
| Prepaid taxes and funds | (1.444.973) | (14.078.568) |
| | 6.156.852 | 2.385.751 |

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Taxation: | | |
| Current corporate tax expense | 6.171.636 | 7.548.814 |
| Deferred tax expense/(income) | 25.172.469 | (46.872.481) |
| | 31.344.105 | (39.323.667) |

## NOTE 29 – TAX ASSETS AND LIABILITIES (cont'd)

Corporate Tax

The Group is subject to Turkish corporate taxes in force. The necessary provisions are allocated in the accompanying 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 accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporation 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 as of 31 March 2010 is 20% (31 December 2009: 20%). The total amount of the corporate tax paid by the Group in 2010 is TRY3.830.724 (31 December 2009: TRY2.133.827).

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.

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

Income Withholding Tax

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

Investment allowance application is abolished effective from 1 January 2006. However, if companies fail to make a profit or incur losses, any allowance outstanding as of 31 December 2005 may be carried forward to the following years so as to be deducted from taxable income of subsequent profitable years. Nonetheless, companies can deduct the carried forward outstanding allowance only from 2006, 2007 and 2008 taxable income. It is not possible to carry forward the investment incentive amount to the following years which cannot be deducted from 2008 taxable income.

## NOTE 29 –TAX ASSETS AND LIABILITIES (cont'd)

Investment allowance application (cont'd)

However, 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.

The effective tax rate to be used in the case of deducting the tax investment incentive amounts in 2008 is 30%. If the Company does not use the investment incentive carried forward, the effective tax rate will be 20% and the right to use investment incentive will be forfeited. The Group utilized 20% as the effective corporate tax rate in 2008 as there is no investment incentive left. The corporate tax rate is 20% for the year 2010.

The Company has calculated its statutory financial statements as of 31 December 2004 at the amounts adjusted by inflation in accordance with the Law No. 5024 published in the Official Gazette No. 25332 on 30 December 2003 which requires the application of inflation accounting in Turkey. Effective in and after from 2004, in case of the actual inflation rate reaches the certain thresholds determined by the Law, has to be applied. Inflation accounting principles of the tax legislation do not differ substantially from the decrees of the IAS 29 standard.

According to the Law No. 5024, as the inflation of 2004 is above the certain thresholds, the Group made inflation adjustments And these balances as of 1 January 2005 were accepted as the opening balances for statutory bookings.

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%. (December 2009: 20%). Differed tax of 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 tax declaration, subsidiaries that have deferred tax assets are not netted off with subsidiaries that have deferred tax liabilities and disclosed separately.

## NOTE 29 –TAX ASSETS AND LIABILITIES (cont'd)

Deferred Tax (cont'd)

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Deferred tax assets: | | |
| Carry forward tax losses (*) | (228.756.026) | (248.555.949) |
| Fair values of the derivative financial instruments | (3.400.959) | (21.194.170) |
| Provision for employee benefits | (25.485.732) | (24.358.517) |
| Amortized cost adjustment on loans | (6.884.214) | (10.315.636) |
| Inventories | (8.041.570) | (6.153.079) |
| Fixed assets | (13.512.762) | (12.638.949) |
| Provision for unused vacations | (7.998.333) | (7.961.004) |
| Provision for lawsuits | (5.037.979) | (4.855.800) |
| Income accruals | (2.027.131) | (2.115.284) |
| Provision for purchase commitments | (24.098.941) | - |
| Investment incentive | (7.459.235) | (7.459.235) |
| Other | (12.114.155) | (7.898.281) |
| | (344.817.037) | (353.505.904) |
| Deferred tax liabilities: | | |
| Property, plant and equipment and intangible assets | 139.834.524 | 121.141.420 |
| Amortized cost adjustment on loans | 18.528.639 | 23.671.943 |
| Land and parcels | 776.937 | 776.937 |
| Inventories | 31.348 | 37.835 |
| Other | 6.982.728 | 4.978.327 |
| | 166.154.176 | 150.606.462 |
| | (178.662.861) | (202.899.442) |

| Presentation of deferred tax (asset)/ liabilities | 31 March 2010 | 31 December 2009 |
|---|---|---|
| Deferred tax (assets) | (344.817.037) | (353.505.904) |
| Deferred tax liabilities | 166.154.176 | 150.606.462 |
| | (178.662.861) | (202.899.442) |

| Deferred Tax (asset)/ liability movements | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Opening balance | (202.899.442) | (129.845.457) |
| Deferred tax expense/(income) | 25.172.469 | (46.872.481) |
| The amount netted under equity | (935.888) | 73.356 |
| Closing balance | (178.662.861) | (176.644.582) |

(*) As almost all of the carry forward financial 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 will create a financial profit and will be able to use the unused tax losses, therefore the Group's Management recorded deferred tax income for the carry forward tax losses.

**NOTE 29 –TAX ASSETS AND LIABILITIES (cont’d)**

Deferred Tax (cont’d)

| Tax Provision Reconciliation | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Profit/ (loss) before tax | 198.328.770 | (203.746.618) |
| Effective tax rate | %20 | %20 |
| Calculated tax | 39.665.754 | (40.749.324) |
| Reconciliation between the tax provision and calculated tax: | | |
| - Non-deductible expenses | 17.579.740 | 2.979.074 |
| - Non-taxable income | (832.244) | (6.294.193) |
| - Effect of adjustments | (17.506.319) | 3.213.118 |
| - Investment incentive | (7.459.235) | - |
| - Other | (103.591) | 1.527.658 |
| Taxation in (income)/expense statement | 31.344.105 | (39.323.667) |

## NOTE 29 – TAX ASSETS AND LIABILITIES (cont'd)

| Comprehensive income in the current peri | 1 January – 31 March 2010 | | | 1 January – 31 March 2009 | | |
|---|---|---|---|---|---|---|
| | Amount before tax | Tax income/(expense) | Amount after tax | Amount before tax | Tax income/(expense) | Amount after tax |
| Change in revaluation reserves | (132.778) | - | (132.778) | (229.212) | - | (229.212) |
| Change in cash flow hedging reserves | (4.679.434) | 935.888 | (3.743.546) | 366.769 | (73.356) | 293.413 |
| Change in currency translation reserves | 78.625 | - | 78.625 | 598.442 | - | 598.442 |
| | (4.733.587) | 935.888 | (3.797.699) | 735.999 | (73.356) | 662.643 |

## NOTE 30 – EARNINGS/ (LOSS) PER SHARE

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Number of shares outstanding (*) | 160.000.000.000 | 160.000.000.000 |
| Net profit/(loss) – TRY | 160.405.362 | (154.842.515) |
| Profit/(loss) per share with 1 TRY nominal value TRY % | 0,1003/%10,03 | (0,0968)/ (%9,68) |

## NOTE 31 – RELATED PARTY TRANSACTIONS

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 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 March 2010 | 31 December 2009 |
|---|---|---|
| Due from related parties (short term) | | |
| ArcelorMittal Amb.Çel. San. ve Tic. A.Ş. | 63.723.882 | 61.746.999 |
| Oyak Renault Otomobil Fab. A.Ş | 3.368.376 | 1.241.900 |
| Adana Çimento Sanayi T.A.Ş. | - | 783.325 |
| Oyak Beton A.Ş. | 226.044 | 250.680 |
| Oytaş İç ve Dış Ticaret A.Ş.. | 157.999 | - |
| Other | 10.799 | 1.350 |
| | 67.487.100 | 64.024.254 |
| Due to related parties (short term) | | |
| Adana Çimento Sanayi T.A.Ş. | 8.703.834 | - |
| Borçelik Çelik Sanayii Ticaret A.Ş. | 1.109.632 | 80.588 |
| Omsan Logistica SRL | 416.957 | 493.637 |
| Omsan Lojistik A.Ş. | 353.970 | 1.750.319 |
| Oyak Pazarlama Hizmet ve Turizm A.Ş. | 242.468 | 1.069.752 |
| Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. | 221.951 | 85.297 |
| Oyak Savunma ve Güvenlik Sistemleri A.Ş | 185.105 | 434.747 |
| Other | 908.096 | 1.233.471 |
| | 12.142.013 | 5.147.811 |
| Non trade payables from related parties (shot term) | | |
| Payables to shareholders (*) | 1.777.533 | 1.789.615 |
| Oyak Genel Müdürlüğü | 14.400 | 14.400 |
| Other | 1.000.999 | 67.350 |
| | 2.792.932 | 1.871.365 |

(*) Payables to shareholders are the liabilities related to dividend distribution not yet paid.

**NOTE 31 – RELATED PARTY TRANSACTIONS (cont'd)**

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Major sales to related parties | | |
| ArcelorMittal Amb.Çel. San. ve Tic. A.Ş. | 32.040.893 | 19.320.710 |
| Borçelik Çelik San. Tic. A.Ş. | 5.206.504 | 22.517.248 |
| Oyak Renault Otomobil Fab. A.Ş | 3.851.087 | - |
| Ünye Çimento Sanayi ve Ticaret A.Ş. | 543.748 | - |
| Lafarge Ereğli Çimento A.Ş. | 349.755 | - |
| Bolu Çimento Sanayi A.Ş. | 265.987 | - |
| Adana Çimento Sanayi T.A.Ş. | - | 2.967.575 |
| Oyak Beton A.Ş. | - | 183.717 |
| | 42.257.974 | 44.989.250 |

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

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Major purchases from related parties | | |
| Oyak Pazarlama Hizmet ve Turizm A.Ş. | 1.643.244 | 1.238.325 |
| Omsan Lojistik A.Ş. | 1.609.469 | 1.926.785 |
| Oyak Savunma ve Güvenlik Sistemleri A.Ş. | 654.423 | 674.834 |
| Oyak Genel Müdürlüğü | 506.345 | - |
| Omsan Logistica SRL | 241.312 | 1.317.060 |
| Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. | - | 989.162 |
| Other | 71.005 | 169.747 |
| | 4.725.798 | 6.315.913 |

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

For the period ended 31 March 2010, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY1.649.028 (31 March 2009: TRY1.858.609).

## NOTE 32 – 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 the monthly meetings. During these analysis, the Board of Directors also evaluates the risks associated with each class of capital together with the cost of capital. The Group, by considering the decisions of the board of directors, aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

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

| | Not | 31 March 2010 | 31 December 2009 |
|---|---|---|---|
| Total financial debt | 6 | 4.009.488.740 | 4.166.022.813 |
| Less: Cash and cash equivalents | 4 | 965.534.788 | 1.065.737.367 |
| Net debt | | 3.043.953.952 | 3.100.285.446 |
| Total adjusted equity (*) | | 6.087.039.713 | 5.925.953.753 |
| Total resources | | 9.130.993.665 | 9.026.239.199 |
| Net debt/Total adjusted equity ratio | 20 | %50 | %52 |
| Distribution of net debt/ total adjusted equity | | 33/67 | 34/66 |

(*) Total adjusted equity is calculated by subtracting cash flow hedging reserves and adding minority 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 32 – 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 quarterly 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 take action in pricing instantaneously.

The Group prefers variable 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 has been no 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.

## NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

**Additional information about financial instruments (cont'd)**

(e) Credit Risk

| **Credit risk of financial instruments** | **Receivables** | | | | | |
|---|---|---|---|---|---|---|
| | **Trade receivables** | | **Other receivables** | | | |
| **31 March 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) | 67.487.100 | 675.123.029 | - | 34.066.752 | 965.524.541 | - |
| - Secured part of the maximum credit risk exposure via collateral etc. | 63.832.083 | 670.544.359 | - | - | - | - |
| A. Net book value of the financial assets that are neither overdue nor doubtful | 67.487.100 | 675.123.029 | - | - | 965.524.541 | - |
| B. Net book value of financial assets that are renegotiated, otherwise classified as overdue or doubtful | - | - | - | - | - | - |
| C. Carrying value of financial assets that are overdue but not doubtful | | - | - | 34.066.752 | - | - |
| - Secured part with collateral etc. | - | - | - | - | - | - |
| D. Net book value of doubtful financial assets | - | - | - | - | - | - |
| - Overdue (gross carrying amount) | - | 46.792.558 | - | 35.858.840 | - | - |
| - Provision (-) | - | (46.792.558) | - | (35.858.840) | - | - |
| - Secured part via collateral etc. | - | - | - | - | - | - |
| - Not overdue (gross carrying amount) | - | - | - | - | - | - |
| -Provision (-) | - | - | - | - | - | - |
| - 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.

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**NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)**

**Additional information about financial instruments (cont'd)**

(e) Credit Risk (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 | 301.585 |
| - 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 doubtful | 64.024.254 | 591.479.696 | - | - | 1.065.712.642 | 301.585 |
| B. Net book value of financial assets that are renegotiated, otherwise classified as overdue or doubtful | - | 39.341.917 | - | - | - | - |
| C. Carrying value of financial assets that are overdue but not doubtful | - | - | - | 26.846.703 | - | - |
| - Secured part with collateral etc. | - | - | - | - | - | - |
| D. Net book value of doubtful financial assets | - | - | - | - | - | - |
| - Overdue (gross carrying amount) | - | 21.684.743 | - | 33.462.898 | - | - |
| - Provision (-) | - | (21.684.743) | - | (33.462.898) | - | - |
| - Secured part via collateral etc. | - | - | - | - | - | - |
| - Not overdue (gross carrying amount) | - | - | - | - | - | - |
| -Provision (-) | - | - | - | - | - | - |
| - Secured part via collateral etc. | - | - | - | - | - | - |
| E. Off-balance sheet financial assets exposed to credit risk | - | - | - | - | - | - |

(*) The factors that increase in credit reliability such as guarantees received are not considered in the balance.
(**) The balances are presented net under other liabilities in the balance sheet.

## NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

**Additional information about financial instruments (cont’d)**

(e) Credit Risk (cont’d)

The aging of the overdue receivables is as follows:

| | Receivables | | | | | |
|---|---|---|---|---|---|---|
| **31 March 2010** | **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 | 46.792.558 | 62.643.896 | - | - | - | 109.436.454 |
| Overdue 5 years or more | - | - | - | - | - | - |
| Total overdue receivables | 46.792.558 | 62.643.896 | - | - | - | 109.436.454 |
| The portion under guarantee with collateral | - | - | - | - | - | - |

**NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)**

**Additional information about financial instruments (cont'd)**

(e) Credit Risk (cont'd)

The aging of the overdue receivables 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 | 21.684.743 | 69.925.592 | - | - | - | 116.718.150 |
| Overdue 5 years or more | - | - | - | - | - | - |
| Total overdue receivables | 21.684.743 | 69.925.592 | - | - | - | 116.718.150 |
| The portion under guarantee with collateral | - | - | - | - | - | - |

## NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

### Additional information about financial instruments (cont'd)

(f) Foreign currency risk management

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

| | 31 March 2010 | | | | |
|---|---|---|---|---|---|
| | TRY (Functional Currency) | USD (Original Currency) | EUR (Original Currency) | JPY (Original Currency) | GBP (Original Currency) |
| 1. Trade Receivables | 589.495.461 | 377.376.536 | 7.463.363 | - | - |
| 2a. Monetary financial assets | 780.760.104 | 477.491.559 | 26.429.534 | 11.541 | 6.619 |
| 2b. Non- monetary financial assets | - | - | - | - | - |
| 3. Other | 42.407.315 | 27.690.077 | 625 | 16.795.500 | - |
| **4. Current assets (1+2+3)** | **1.412.662.880** | **882.558.172** | **33.893.522** | **16.807.041** | **6.619** |
| 5. Trade receivables | - | - | - | - | - |
| 6a. Monetary trade receivables | - | - | - | - | - |
| 6b. Non-monetary trade receivables | - | - | - | - | - |
| 7. Other | 19.379.874 | 12.186.660 | 408.259 | - | - |
| **8. Long term assets (5+6+7)** | **19.379.874** | **12.186.660** | **408.259** | **-** | **-** |
| **9. Total assets (4+8)** | **1.432.042.754** | **894.744.832** | **34.301.781** | **16.807.041** | **6.619** |
| 10. Trade payables | 268.310.739 | 139.069.096 | 18.941.859 | 1.085.946.983 | 10.693 |
| 11. Financial liabilities | 1.567.189.226 | 958.669.022 | 42.012.031 | 1.362.324.357 | - |
| 12a. Other monetary financial liabilities | 22.364.590 | 14.654.907 | 32.718 | - | - |
| 12b. Other non-monetary financial liabilities | - | - | - | - | - |
| **13. Current liabilities (10+11+12)** | **1.857.864.555** | **1.112.393.025** | **60.986.608** | **2.448.271.340** | **10.693** |
| 14. Trade payables | - | - | - | - | - |
| 15. Financial liabilities | 1.495.641.863 | 568.751.465 | 238.819.975 | 8.541.947.416 | - |
| 16a. Other monetary financial liabilities | 1.042.438 | 685.139 | - | - | - |
| 16b. Other non-monetary financial liabilities | - | - | - | - | - |
| **17. Non-current liabilities (14+15+16)** | **1.496.684.301** | **569.436.604** | **238.819.975** | **8.541.947.416** | **-** |
| **18. Total liabilities (13+17)** | **3.354.548.856** | **1.681.829.629** | **299.806.583** | **10.990.218.756** | **10.693** |
| **19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)** | **228.431.252** | **-** | **111.305.000** | **-** | **-** |
| 19.a Off-balance sheet foreign currency derivative financial assets | 228.431.252 | - | 111.305.000 | - | - |
| 19b. Off-balance sheet foreign currency derivative financial liabilities | - | - | - | - | - |
| **20. Net foreign currency asset/liability (9-18+19)** | **(1.694.074.850)** | **(787.084.797)** | **(154.199.802)** | **(10.973.411.715)** | **(4.074)** |
| **21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)** | **(1.984.293.291)** | **(826.961.534)** | **(265.913.686)** | **(10.990.207.215)** | **(4.074)** |
| 22. Fair value of derivative financial instruments used in foreign currency hedge | (7.280.010) | - | (3.547.245) | - | - |
| 23. Hedged foreign currency assets | - | - | - | - | - |
| 24. Hedged foreign currency liabilities | 228.431.252 | - | 111.305.000 | - | - |
| 25. Exports | 162.185.542 | 63.988.644 | 31.842.952 | - | - |
| 26. Imports | 951.360.524 | 633.715.053 | 359.404 | - | - |

## NOTE 32 – 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) | USD (Original Currency) | EUR (Original Currency) | JPY (Original Currency) | GBP (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. Long term 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** | **-** | **-** | **-** |
| 19.a 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 (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 32 – 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 Erdemir 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 instruments. With this method, the effects of changes in currency values 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.

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

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 March 2010 | 31 December 2009 |
|---|---|---|
| Foreign Currency Position Parametric VaR | 29.239.734 | 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.

**NOTE 32 – 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 USD, EUR and JPY. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates.

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

As of 31 March 2010 Asset and liability balances are translated by using the following exchange rates: TRY1,5215 = US $ 1,TRY2,0523 = EUR 1 and TRY0,0164 = JPY 1 (31 December 2009: TRY1,5057 = US $ 1,TRY2,1603 = EUR 1 and TRY0,0163 = JPY 1)

| 31 March 2010 | Profit/(loss) after capitalization on fixed assets and before tax and minority interest | |
|---|---|---|
| | Appreciation of foreign currency against TRY | Depreciation of foreign currency against TRY |
| 1- USD net asset / liability | (119.754.952) | 119.754.952 |
| 2- Hedged portion (-) | - | - |
| 3- Effect of capitalization (-) | 30.326.487 | (30.326.487) |
| 4- USD net effect (1+2+3) | (89.428.465) | 89.428.465 |
| 5- EUR net asset / liability | (54.489.552) | 54.489.552 |
| 6- Hedged portion (-) | 22.843.125 | (22.843.125) |
| 7- Effect of capitalization (-) | - | - |
| 8- EUR net effect (5+6+7) | (31.646.427) | 31.646.427 |
| 9- JPY net asset / liability | (18.005.174) | 18.005.174 |
| 10- Hedged portion (-) | - | - |
| 11- Effect of capitalization (-) | 1.475.847 | (1.475.847) |
| 12- JPY net effect (9+10+11) | (16.529.327) | 16.529.327 |
| 13- Other currencies net asset / liability | (197) | 197 |
| 14- Hedged portion (-) | - | - |
| 15- Effect of capitalization (-) | - | - |
| 16- Other Currencies net effect (13+14+15) | (197) | 197 |
| TOTAL (4+8+12+16) | (137.604.416) | 137.604.416 |

## NOTE 32 – 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)

| 31 December 2009 | Profit/(loss) after capitalization on fixed assets and before tax and minority interests | |
|---|---|---|
| | Appreciation of foreign currency against TRY | Depreciation of foreign currency against TRY |
| 1- USD net asset / liability | (147.114.568) | 147.114.568 |
| 2- Hedged portion (-) | 40.202.190 | (40.202.190) |
| 3- Effect of capitalization (-) | 32.740.492 | (32.740.492) |
| 4- USD net effect (1+2+3) | (74.171.886) | 74.171.886 |
| 5- EUR net asset / liability | (58.601.621) | 58.601.621 |
| 6- Hedged portion (-) | - | - |
| 7- Effect of capitalization (-) | - | - |
| 8- EUR net effect (5+6+7) | (58.601.621) | 58.601.621 |
| 9- JPY net asset / liability | (16.504.940) | 16.504.940 |
| 10- Hedged portion (-) | - | - |
| 11- Effect of capitalization (-) | (1.458.955) | 1.458.955 |
| 12- JPY net effect (9+10+11) | (17.963.895) | 17.963.895 |
| 13- Other currencies net asset / liability | (2.873) | 2.873 |
| 14- Hedged portion (-) | - | - |
| 15- Effect of capitalization (-) | - | - |
| 16- Other Currencies net effect (13+14+15) | (2.873) | 2.873 |
| TOTAL (4+8+12+16) | (150.740.275) | 150.740.275 |

## NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

### Additional information about financial instruments (cont'd)

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

*Cross Currency and Interest Rate Swap agreements:*

As of 31 March 2010 the details of the cross currency and interest rate swap agreements are provided in the table below:

| 31 March 2010 | Average 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:** | | | | | | |
| **EUR Sale/ TL Purchase** | | | | | | |
| More than 5 years | 2,08203 | 111.305.000 | 231.790.880 | 228.431.252 | 235.711.262 | (7.280.010) |
| | | | | | | **(7.280.010)** |

## NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

**Additional information about financial instruments (cont'd)**

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

*Forward agreements (cont'd):*

As of 31 March 2010, there is no forward transactions.

The change in the fair value of derivative financial instruments impact retained earnings amounting to TRY(96.228.704) and income statement for the period amounting to TRY96.228.704. The income/expense accruals arising from the change in the fair value of the derivative financial instruments are as follows:

| | 31 March 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Income/expense accruals from forward exchange transactions (*) | | | - | (96.228.704) |

(*) This balance is presented net under other financial liabilities and financial investments.

(g) Interest Rate Risk Management

The majority of the Group's borrowings is based on variable 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 variable rate denominated assets in its consolidated the balance sheet.

Furthermore, for borrowings denominated in foreign currencies, except for USD, 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 USD and EUR, 0,25% for JPY and 1,00% for TRY denominated interest rates.

**Interest Position Table**

| | 31 March 2010 | 31 December 2009 |
|---|---|---|
| **Floating interest rate financial instruments** | | |
| Financial liabilities | 3.226.084.720 | 3.498.154.479 |

In addition to these, as of 31 March 2010, the amount of the Group's financial loans is TRY761.873.562 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2009: TRY657.243.337) (Note 6).

For the year round, if the USD, EUR and JPY denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in USD and EUR and 25 base points in JPY respectively ceteris paribus, the profit before taxation and minority interest after considering the effect of capitalization and hedging would be lower/higher TRY4.718.310 (31 March 2009: TRY2.603.762).

**NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)**

**Additional information about financial instruments (cont'd)**

(g) Interest Rate Risk Management (cont'd)

*Interest rate swap agreements*

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

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

31 March 2010

| Unrealized agreements with fixed payments and floating interest receipts | Average fixed interest rate of the agreements | Nominal Amount (*) | Fair Value Amount |
|---|---|---|---|
| Less than a year | %2.720 | 152.150.000 | (1.571.436) |
| Between 1-3 years | %2,648 | 403.197.500 | (8.153.348) |
| | | 555.347.500 | (9.724.784) |

(*) 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 notional amount of TRY555.347.500 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 minority interest deducted as (TRY7.228.238).

31 December 2009

| Unrealized agreements with fixed payments and floating interest receipts | Average fixed interest rate of the agreements | Nominal Amount (*) | Fair Value Amount |
|---|---|---|---|
| Between 3-6 months | % 3,190 | 29.720.653 | (327.622) |
| Between 1-4 years | % 2,551 | 624.865.500 | (9.414.527) |
| | | 654.586.153 | (9.742.149) |

*Cross Currency and Interest Rate swap agreements*

31 March 2010

| Unrealized agreements with fixed payments and floating interest receipts | Average fixed interest rate of the agreements | Nominal Amount (*) | Fair Value Amount |
|---|---|---|---|
| More than 5 years | %10,650 | 228.431.252 | (7.280.010) |

(h) Credit Risk Management

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. There is no risk concentration on few customers. For the majority of trade receivables, there are sufficient collaterals and/or credit limits. Credit evaluation is performed on the financial condition of the accounts receivable regularly. The Group does not have any significant credit risk exposure to any single counterparty.

## NOTE 32 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

### Additional information about financial instruments (cont'd)

(ı) Liquidity Risk Management

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

*Liquidity risk tables*

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

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

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

**31 March 2010**

| Contractual maturity analysis | Book value | Total cash outflow due to 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 | 4.009.488.740 | 4.148.041.359 | 270.276.413 | 1.374.687.846 | 2.157.969.714 | 345.107.386 |
| Trade payables | 407.546.299 | 408.147.141 | 248.412.116 | 159.735.025 | - | - |
| Other financial liabilities (*) | 35.352.764 | 35.352.764 | 29.474.438 | 5.878.326 | - | - |
| **Total liabilities** | **4.452.387.803** | **4.591.541.264** | **548.162.967** | **1.540.301.197** | **2.157.969.714** | **345.107.386** |

**31 March 2010**

| Contractual maturity analysis | Book value | Total cash outflow due to agreement (I+II+III+IV) | Less than 3 months (I) | 3-12 months (II) | 1-5 years (III) | More than 5 years (IV) |
|---|---|---|---|---|---|---|
| **Derivative financial liabilities** | **(17.004.794)** | **296.938.422** | **(21.245.396)** | **(20.425.653)** | **(110.343.643)** | **448.953.114** |
| Derivative cash inflows | - | 251.772.343 | 3.864.119 | 6.277.276 | 9.189.212 | 232.441.736 |
| Derivative cash outflows | (17.004.794) | 45.166.079 | (25.109.515) | (26.702.929) | (119.532.855) | 216.511.378 |

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

(**)This balance is presented net under other financial liabilities.

## NOTE 32 – NATURE AND LEVEL OF RISKS DRIVED FROM FINANCIAL INSTRUMENTS (cont'd)

### Additional information about financial instruments (cont'd)

(ı) Liquidity Risk Management (cont'd)

*Liquidity risk tables (cont'd)*

**31 December 2009**

| Contractual maturity analysis | Book value | Total cash outflow due to 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 (*) | 27.408.638 | 27.408.638 | 25.912.244 | 1.496.394 | - | - |
| **Total liabilities** | **4.548.435.794** | **4.776.235.984** | **365.840.603** | **865.362.330** | **3.139.056.417** | **405.976.634** |

**31 December 2009**

| Contractual maturity analysis | Book value | Total cash outflow due to agreement (I+II+III+IV) | Less than 3 months (I) | 3-12 months (II) | 1-5 years (III) | More than 5 years (IV) |
|---|---|---|---|---|---|---|
| **Derivative financial liabilities** | **(105.970.853)** | **(106.811.528)** | **(97.314.299)** | **(6.104.016)** | **(3.393.213)** | **-** |
| Derivative cash inflows | 301.585 (**) | 418.203.347 | 405.920.107 | 7.475.418 | 4.807.822 | - |
| Derivative cash outflows | (106.272.438) (**) | (525.014.875) | (503.234.406) | (13.579.434) | (8.201.035) | - |

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

(**)This balance is presented net under other financial liabilities.

## NOTE 33 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

**Additional information about financial instruments (cont'd)**

(j) Categories of the financial instruments and their fair values

| **31 March 2010** | Cash and cash equivalent | Loans and receivables | Available for sale financial assets | Held for trading financial instruments | Financial liabilities at amortized cost | Hedging instruments (Equity) | Hedging instruments (Income Statement) | Carrying value | Note |
|---|---|---|---|---|---|---|---|---|---|
| Financial Assets | | | | | | | | | |
| Cash and cash equivalents | 965.534.788 | - | - | - | - | - | - | 965.534.788 | 4 |
| Trade receivables | - | 742.610.129 | - | - | - | - | - | 742.610.129 | 8 |
| Other financial assets | - | 34.066.752 | 30.320.419 | - | - | - | - | 64.387.167 | 5/9/28 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 7 |
| | | | | | | | | | |
| Financial Liabilities | | | | | | | | | |
| Financial payables | - | - | - | - | 4.009.488.740 | - | - | 4.009.488.740 | 6 |
| Trade payables | - | - | - | - | 407.546.299 | - | - | 407.546.299 | 8 |
| Other liabilities | - | - | - | - | 35. 352.764 | - | - | 35.352.764 | 9 |
| Derivative financial instruments | - | - | - | - | - | 17.004.794 | - | 17.004.794 | 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 |
| Other financial assets | - | 26.846.703 | 30.311.686 | 22.588 | - | - | - | 57.180.977 | 5/9/28 |
| Derivative financial instruments | - | - | - | - | - | 301.585 | - | 301.585 | 7 |
| | | | | | | | | | |
| Financial Liabilities | | | | | | | | | |
| Financial payables | - | - | - | - | 4.166.022.813 | - | - | 4.166.022.813 | 6 |
| Trade payables | - | - | - | - | 355.004.343 | - | - | 355.004.343 | 8 |
| Other liabilities | - | - | - | - | 27.408.638 | - | - | 27.408.638 | 9 |
| Derivative financial instruments | - | - | - | - | - | 10.043.734 | 96.228.704 | 106.272.438 | 7 |

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

## NOTE 33 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

**Additional information about financial instruments (cont'd)**

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

| **Financial asset and liabilities at fair value** | 31 March 2010 | Fair value level as of reporting date Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Fair value differences of financial assets reflected on profit/loss** | | | | |
| Financial Assets held for trading | - | - | - | - |
| Derivative Financial Assets (*) | - | - | - | - |
| Derivative Financial Liabilities (*) | - | - | - | - |
| Derivative Financial Assets (*) | - | - | - | - |
| Derivative Financial Liabilities (*) | (17.004.794) | - | (17.004.794) | - |
| Total | (17.004.794) | - | (17.004.794) | - |

(*)This balance is presented net under other financial liabilities.

First Level: Quoted prices in active markets for identical assets or liabilities.

Second Level: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Third Level: Inputs for the asset or liability that are not based on observable market data.

## NOTE 34 – SUBSEQUENT EVENTS

It was publicly announced on 27 March 2010 that, Ankara 31st Execution Office served an ordinary payment order for USD68.411.344,82 on Our Company pertaining to bankruptcy proceeding initiated against our Company upon the request of a Company named Enerjia Metal Maden Sanayi ve Ticaret A.Ş., and on 2 April 2010 that Our Company objected to the aforementioned order and proceeding timely and duly according to the respective laws. Aforesaid Company filed a bankruptcy lawsuit against our Company before Ankara 7th Commercial Court of First Instance to get that suspended bankruptcy proceeding be advanced; however this time, requested USD68.312.520,00. The Complaint served on Our Company on 21 April 2010. Necessary arguments against that Complaint including answers, motions and/or demurrers will be submitted to protect Our Company's rights and interests. Furthermore, other legal and commercial precautions that have already been taken against that Company will be maintained and expanded.

## NOTE 35 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

**Changes in working capital are as follows:**

| | 1 January – 31 March 2010 | 1 January – 31 March 2009 |
|---|---|---|
| Current trade receivables | (72.809.728) | (90.415.526) |
| Inventories | (107.948.190) | 918.107.712 |
| Other receivables / current assets | (9.728.059) | (157.433.294) |
| Noncurrent trade receivables | (62.349) | (120.766) |
| Other long term receivables / noncurrent assets | (3.016.023) | (1.349.240) |
| Current trade payables | 52.541.956 | (91.669.076) |
| Other short term payables / liabilities | (28.762.805) | 293.058.340 |
| Other noncurrent trade payables/ liabilities | (7.061.264) | (35.023) |
| | (162.723.934) | 870.143.127 |

**The details and the amounts of the reclassifications made of the income statement are as follows:**

| Account Name | (Previously restated in June 2009 report) 1 January – 31 March 2009 | (Restated) 1 January - 31 March 2009 | Difference |
|---|---|---|---|
| Sales[3] | 1.064.585.102 | 1.065.597.410 | 1.012.308 |
| Cost of sales (-) [1] [2] [3] [4] [5] [6] [7] | (974.839.813) | (976.321.622) | (1.481.809) |
| Marketing, Sales and Distribution Expenses (-)[6] | (20.436.376) | (20.403.239) | 33.137 |
| General administrative expenses (-)[4] [6] | (27.758.603) | (27.427.358) | 331.245 |
| Other operating income [5] [6] | 22.833.544 | 19.471.505 | (3.092.039) |
| Other operating expenses (-) [1] [2] [5] [7] | (18.807.087) | (15.609.929) | 3.197.158 |
| Total | | | - |

(1) Train ferry expense of TRY510.220 which were previously reported in "Other operating expenses (-)" are reclassified to "Cost of sales (-)"

(2) Cost of electricity sales of TRY94.792 which was previously reported in "Other operating expenses (-)" is reclassified to "Cost of sales (-)".

(3) Income from electricity sales of TRY1.012.308 which was previously netted in "Cost of sales (-)" is reclassified to "Sales".

(4) Laboratory service expense of TRY200.908 which was previously reported in "General administrative expenses (-)" is reclassified to "Cost of sales (-)".

(5) Dispatch income of TRY43.644 which was previously reported in "Cost of sales (-)" is reclassified to "Other Operating Income" and demurrage expense of TRY1.004.087 which was previously reported in "Cost of sales (-)" is reclassified to "Other operating expenses (-)".

(6) Cancellation of the provision for salary raise of TRY3.135.683 which was previously reported in "Other Operating Income" is reclassified respectively to "Cost of Sales (-)" for TRY2.972.209, "General Administrative Expenses (-)" for TRY130.337 and Marketing, Sales and Distribution Expenses (-) for TRY33.137.

(7) Company housing expenses of TRY3.596.233 which was previously reported in "Other operating expenses (-)" is reclassified to "Cost of sales (-)".