

**(CONVENIENCE TRANSLATION OF CONSOLIDATED
INTERIM FINANCIAL STATEMENTS ORIGINALLY
ISSUED IN TURKISH- SEE NOTE 33)**

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

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2011**

(Convenience translation of a review report originally issued in Turkish – see additional paragraph below for convenience translation - see Note 33)

**Independent auditor's review report on the interim consolidated financial statements
for the period January 1 – June 30, 2011**

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

We have reviewed the accompanying financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as of June 30, 2011, the related consolidated interim income statement, the comprehensive income statement, statement of changes in shareholder's equity and cash flow statements for the six-months period then ended, and a summary of significant accounting policies and other explanatory notes. The Company management is responsible for the preparation and presentation of those interim consolidated financial statements in accordance with financial reporting standards issued by Capital Markets Board ("CMB"). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with standards on auditing issued by Turkish Capital Markets Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with standards on auditing issued by Capital Markets Board and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements do not present fairly, in all material respects, the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as of June 30, 2011, and its financial performance and cash flows for the six-months period then ended in accordance with financial reporting standards issued by Capital Markets Board.

Without modifying our conclusion, as explained in detail in note 15 to the accompanying consolidated financial statements, the lawsuits, which were commenced by the Privatization Administration ("PA") of the Turkish Republic for the cancellation of the resolution of the Company's General Assembly dated March 30, 2006 regarding the dividend distribution and by the CMB's claim that the Company had prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB, are pending as of the date of this report.

Additional paragraph for convenience translation to English:

As of June 30, 2011, the accounting principles described in Note 2 (defined as CMB Financial Reporting Standards) to the accompanying interim consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting and the presentation of the basic financial statements and the notes to them. Accordingly, the accompanying interim consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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

A handwritten signature in black ink, appearing to read 'Ethem Kutucular', written over a vertical line that extends downwards.

Ethem Kutucular, SMMM
Engagement Partner

August 3, 2011
Istanbul, Turkey

TABLE OF CONTENTS	Page
CONSOLIDATED BALANCE SHEET.....	1-2
CONSOLIDATED STATEMENT OF INCOME.....	3
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	4
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	5
CONSOLIDATED STATEMENT OF CASH FLOW.....	6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	7-86
NOTE 1 GROUP'S ORGANIZATION AND NATURE OF OPERATIONS.....	7-8
NOTE 2 BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.....	8-24
NOTE 3 OPERATING SEGMENTS.....	24
NOTE 4 CASH AND CASH EQUIVALENTS.....	25
NOTE 5 FINANCIAL INVESTMENTS.....	26
NOTE 6 FINANCIAL LIABILITIES.....	27-29
NOTE 7 OTHER FINANCIAL LIABILITIES.....	29
NOTE 8 TRADE RECEIVABLES AND PAYABLES.....	30-31
NOTE 9 OTHER RECEIVABLES AND PAYABLES.....	31-32
NOTE 10 INVENTORIES.....	32
NOTE 11 INVESTMENT PROPERTIES.....	33
NOTE 12 PROPERTY, PLANT AND EQUIPMENT.....	34-36
NOTE 13 INTANGIBLE ASSETS.....	36-37
NOTE 14 GOVERNMENT GRANTS AND INCENTIVES.....	38
NOTE 15 PROVISIONS.....	38-43
NOTE 16 COMMITMENTS AND CONTINGENCIES.....	43-44
NOTE 17 PROVISIONS FOR EMPLOYMENT BENEFITS.....	45-46
NOTE 18 OTHER ASSETS AND LIABILITIES.....	46-47
NOTE 19 EQUITY.....	48-51
NOTE 20 SALES AND COST OF SALES.....	52-53
NOTE 21 RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES.....	54
NOTE 22 OPERATING EXPENSES ACCORDING TO THEIR NATURE.....	54-55
NOTE 23 OTHER OPERATING INCOME/EXPENSES.....	55-56
NOTE 24 FINANCIAL INCOME.....	57
NOTE 25 FINANCIAL EXPENSE.....	58
NOTE 26 NON CURRENT ASSETS HELD FOR SALE.....	58
NOTE 27 TAX ASSETS AND LIABILITIES.....	59-64
NOTE 28 EARNINGS / (LOSS) PER SHARE.....	65
NOTE 29 RELATED PARTY TRANSACTIONS.....	66-68
NOTE 30 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS.....	69-87
NOTE 31 FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES).....	88-89
NOTE 32 SUBSEQUENT EVENTS.....	90
NOTE 33 OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR UNDERSTANDABLE AND INTERPRETABLE PRESENTATION.....	90-91

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2011

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

		(Reviewed)	(Audited)
		Current Period	Previous Period
		30 June	31 December
	Note	2011	2010
ASSETS			
Current Assets		5.397.433.278	6.324.667.258
Cash and Cash Equivalents	4	1.424.530.592	2.877.790.271
Financial Investments	5	480.057	5.010.226
Trade Receivables	8	989.949.967	715.838.070
<i>Due From Related Parties</i>	29	12.287.470	78.337.709
<i>Other Trade Receivables</i>	8	977.662.497	637.500.361
Other Receivables	9	325.711	34.197.110
Inventories	10	2.844.129.297	2.502.954.372
Other Current Assets	18	138.017.654	177.378.552
		5.397.433.278	6.313.168.601
Non Current Assets Held for Sale	26	-	11.498.657
Non Current Assets		7.249.257.583	7.216.305.378
Trade Receivables	8	-	2.621.888
<i>Due From Related Parties</i>	29	-	1.141.524
<i>Other Trade Receivables</i>	8	-	1.480.364
Other Receivables	9	220.711	26.105.907
Financial Investments	5	24.828.813	1.427.186
Investment Properties	11	46.577.264	46.577.264
Property, Plant and Equipment	12	6.804.035.861	6.779.994.776
Intangible Assets	13	164.653.915	143.656.814
Deferred Tax Assets	27	119.036.107	150.892.360
Other Non Current Assets	18	89.904.912	65.029.183
TOTAL ASSETS		12.646.690.861	13.540.972.636

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

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

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2011

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

		(Reviewed)	(Audited)
		Current Period	Previous Period
		30 June	31 December
	Note	2011	2010
LIABILITIES			
Current Liabilities		2.225.457.971	3.763.668.823
Financial Liabilities	6	1.292.705.082	3.053.838.952
Other Current Financial Liabilities	7	1.018.095	4.793.603
Trade Payables	8	536.815.009	359.941.902
<i>Due to Related Parties</i>	29	8.216.454	9.911.442
<i>Other Trade Payables</i>	8	528.598.555	350.030.460
Other Payables	9	60.580.793	40.320.600
<i>Due to Related Parties</i>	29	7.171.848	1.715.000
<i>Other Payables</i>	9	53.408.945	38.605.600
Current Tax Liabilities	27	43.169.106	7.115.721
Provisions	15	66.978.971	70.677.783
Other Current Liabilities	18	224.190.915	226.980.262
Non Current Liabilities		3.596.539.264	3.086.059.488
Financial Liabilities	6	3.298.505.801	2.797.402.328
Other Non Current Financial Liabilities	7	4.796.561	26.468.954
Provisions for Employment Benefits	17	180.884.106	168.289.071
Deferred Tax Liabilities	27	111.723.641	93.065.154
Other Non Current Liabilities	18	629.155	833.981
EQUITY	19	6.824.693.626	6.691.244.325
Equity attributable to equity holders of the parent		6.637.284.230	6.511.030.270
Share Capital		2.150.000.000	1.600.000.000
Inflation Adjustment to Capital		731.967.735	731.967.735
Treasury Share Adjustment (-)		(74.637.969)	(57.692.172)
Share Issue Premium		231.020.042	231.020.042
Revaluation Reserves of Fixed Assets		26.680.181	25.241.672
Cash Flow Hedging Reserves		(12.628.388)	(24.396.817)
Foreign Currency Translation Reserves		(466.485)	4.845.393
Restricted Reserves Assorted from Profit		1.757.470.693	1.696.170.542
Retained Earnings		1.273.384.263	1.537.874.215
Net Profit for the Period		554.494.158	765.999.660
Non-controlling Interests		187.409.396	180.214.055
TOTAL LIABILITIES AND EQUITY		12.646.690.861	13.540.972.636

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

	Note	(Reviewed) Current Period 1 January- 30 June 2011	1 April- 30 June 2011	(Reviewed) Previous Period 1 January- 30 June 2010	1 April- 30 June 2010
OPERATING INCOME					
Revenue	20	4.216.821.406	2.188.940.911	3.204.380.003	1.621.252.379
Cost of Sales (-)	20	(3.235.199.935)	(1.628.966.496)	(2.479.043.606)	(1.204.324.584)
GROSS PROFIT		981.621.471	559.974.415	725.336.397	416.927.795
Marketing, Sales and Distribution Expenses (-)	21	(48.088.036)	(27.172.556)	(26.995.841)	(13.850.299)
General Administrative Expenses (-)	21	(78.642.625)	(39.436.928)	(55.204.325)	(28.883.358)
Research and Development Expenses (-)	21	(342.870)	(264.835)	(212.670)	(134.804)
Other Operating Income	23	56.969.551	37.309.092	22.311.706	13.371.506
Other Operating Expenses (-)	23	(63.743.439)	(44.893.517)	(61.006.572)	(1.278.135)
OPERATING PROFIT		847.774.052	485.515.671	604.228.695	386.152.705
Finance Income	24	217.793.517	130.361.987	70.326.729	35.166.827
Finance Expense (-)	25	(353.675.440)	(242.452.054)	(142.409.957)	(87.502.835)
PROFIT BEFORE TAX		711.892.129	373.425.604	532.145.467	333.816.697
Tax Expense	27	(137.404.218)	(70.226.068)	(113.962.399)	(82.618.294)
- Current Corporate Tax Expense		(90.400.572)	(48.333.647)	(13.758.123)	(7.586.487)
- Deferred Tax Expense		(47.003.646)	(21.892.421)	(100.204.276)	(75.031.807)
PROFIT FOR THE PERIOD		574.487.911	303.199.536	418.183.068	251.198.403
- Non-Controlling Interests		19.993.753	9.128.206	14.047.485	7.468.182
- Equity Holders of the Parent		554.494.158	294.071.330	404.135.583	243.730.221
EARNINGS PER SHARE	28				
(TRY 1 Nominal value per share)		0,2579	0,1368	0,1880	0,1134

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

	(Reviewed) Current Period		(Reviewed) Previous Period	
	1 January- 30 June 2011	1 April- 30 June 2011	1 January- 30 June 2010	1 April- 30 June 2010
	Note			
PROFIT FOR THE PERIOD		574.487.911	303.199.536	418.183.068
Other Comprehensive Income/(Expense):				
Change in Revaluation Reserves of Fixed Assets		1.438.509	462.443	(1.309.135)
Change in Cash Flow Hedging Reserves		12.684.067	8.860.734	(6.653.660)
Change in Foreign Currency Translation Reserves		(5.311.878)	(22.666)	777.960
Change in Revaluation Reserves of Financial Assets		-	-	14.674.497
OTHER COMPREHENSIVE INCOME FOR THE PERIOD (AFTER TAX)	27	8.810.698	9.300.511	7.489.662
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		583.298.609	312.500.047	425.672.730
Distribution of Total Comprehensive Income				262.485.764
- Non-controlling Interests		20.909.391	9.766.682	13.586.689
- Equity Holders of the Parent		562.389.218	302.733.365	412.086.041
				7.291.385
				255.194.379

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

Note	Share Capital	Inflation Adjustment to Capital	Treasury Share	Share Issue Premium	Revaluation Reserves of Fixed Assets	Revaluation Reserves of Financial Assets	Cash Flow Hedging Reserves	Foreign Currency Translation Reserves	Restricted Reserves Assorted from Profit	Retained Earnings	Equity Attributable to the Parent	Non-controlling Interests	Total Shareholders' Equity
1 January 2011	1.600.000.000	731.967.735	(57.692.172)	231.020.042	25.241.672	-	(24.396.817)	4.845.393	1.696.170.542	2.303.873.875	6.511.030.270	180.214.055	6.691.244.325
Net profit for the period	-	-	-	-	-	-	-	-	554.494.158	-	554.494.158	19.993.753	574.487.911
Other comprehensive income/ (loss)	-	-	-	-	1.438.509	-	11.768.429	(5.311.878)	-	-	7.895.060	915.638	8.810.698
Total comprehensive income/ (loss)	-	-	-	-	1.438.509	-	11.768.429	(5.311.878)	-	554.494.158	562.389.218	20.909.391	583.298.609
Dividends paid (*)	-	-	-	-	-	-	-	-	-	(436.135.258)	(436.135.258)	(13.714.050)	(449.849.308)
Capital increase	19	550.000.000	-	(16.945.797)	-	-	-	-	-	(533.054.203)	-	-	-
Transfers from retained earnings	19	-	-	-	-	-	-	-	61.300.151	(61.300.151)	-	-	-
30 June 2011	2.150.000.000	731.967.735	(74.637.969)	231.020.042	26.680.181	-	(12.628.388)	(466.485)	1.757.470.693	1.827.878.421	6.637.284.230	187.409.396	6.824.693.626
(Reviewed)													
1 January 2010	1.600.000.000	731.967.735	(57.692.172)	231.020.042	25.869.903	-	(7.259.727)	4.108.212	1.688.196.335	1.545.848.422	5.762.058.750	156.635.276	5.918.694.026
Net profit for the period	-	-	-	-	-	-	-	-	-	404.135.583	404.135.583	14.047.485	418.183.068
Other comprehensive income/ (loss)	-	-	-	-	(1.309.135)	14.674.497	(6.192.864)	777.960	-	-	7.950.458	(460.796)	7.489.662
Total comprehensive income/ (loss)	-	-	-	-	(1.309.135)	14.674.497	(6.192.864)	777.960	-	404.135.583	412.086.041	13.586.689	425.672.730
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(5.560.553)	(5.560.553)
Transfers from retained earnings	19	-	-	-	-	-	-	-	7.974.207	(7.974.207)	-	-	-
30 June 2010	1.600.000.000	731.967.735	(57.692.172)	231.020.042	24.560.768	14.674.497	(13.452.591)	4.886.172	1.696.170.542	1.942.009.798	6.174.144.791	164.661.412	6.338.806.203

(*) On the Regular General Assembly dated 31 March 2011, dividend distribution amounting to TRY 450.000.000 from 2010 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 66.242.638 as of 31 March 2011, dividends per its own shares are netted off under dividends paid. TRY 826.354 of dividends are not yet paid as of 30 June 2011. TRY 4.651.076 of dividends due to non-controlling interests are not yet paid as of 30 June 2011.

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

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

		(Reviewed) Current Period	(Reviewed) Previous Period
	Note	1 January- 30 June 2011	1 January- 30 June 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and non-controlling interests		711.892.129	532.145.467
Adjustments to reconcile net profit before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	20/22	153.254.224	147.044.722
Provision for employee termination benefits	17	22.065.895	18.442.976
Provision for seniority incentive premium	17	2.848.175	2.089.981
(Gain)/loss on sale of property plant and equipment	23	(840.349)	43.230
Income from sale of financial assets	23	(7.962.073)	-
Loss on write off of property plant and equipment	23	4.068.247	384.257
Increase in provision for raw material price difference		-	109.090.539
Increase in accrual for aid premium to employees		-	5.885.000
Increase in provision for doubtful receivables	8/9	27.712.921	23.841.739
Increase in the allowance for inventories	10	1.570.873	1.681.928
Increase in provision for unpaid vacations	18	9.899.735	9.007.468
Increase in provision for pending claims and lawsuits	15	1.637.884	4.860.064
Increase/(decrease) in penalty provision for obligatory employment shortage of disabled people	15	481.780	(161.842)
Increase in personel provisions	15	29.849.598	-
Decrease in provisions for tax related contingencies	15	(21.556.149)	-
Increase in provision for state right on mining activities	15	905.184	-
Interest expenses	25	129.450.939	83.431.117
Interest income	24	(91.475.324)	(45.486.837)
Unrealized foreign currency loss of financial liabilities		216.056.275	98.611.311
(Gain)/loss on fair value changes of derivative financial instruments	24	(36.248.812)	26.653.371
Net cash provided by operating activities before changes in working capital		1.153.611.152	1.017.564.491
Changes in working capital	33	(383.574.133)	(723.574.051)
Interest paid		(141.438.313)	(85.084.605)
Interest received		97.357.055	44.885.121
Lawsuits paid	15	(3.052.877)	(3.165.063)
Penalty paid for the employment shortage of disabled people	15	(1.329.439)	(1.327.013)
Taxes paid	27	(54.347.187)	(8.655.107)
Employee termination benefits paid	17	(12.248.033)	(5.132.570)
State rights paid for mining activities	15	(1.578.340)	-
Personel provision paid	15	(9.056.453)	-
Seniority incentive premium paid	17	(71.002)	(321.382)
Net cash provided by operating activities		644.272.430	235.189.821
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in marketable securities held for trading	5	-	22.588
Changes in financial assets held as available for sale	5	(6.109)	(10.445)
Proceeds from sale of financial assets	26	16.700.250	-
Cash used in the purchase of tangible assets	12	(182.652.447)	(115.905.196)
Cash used in the purchase of intangible assets	13	(2.207.677)	(243.602)
Cash provided by fixed asset sales	12/13/23	1.011.900	717.530
Net cash used in investing activities		(167.154.083)	(115.419.125)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		1.533.564.028	1.466.953.069
Repayment of borrowings		(3.012.862.050)	(539.485.411)
Dividends paid		(435.308.904)	-
Dividends paid to non-controlling interest		(9.062.974)	(5.560.553)
Net cash (used in)/provided by financing activities		(1.923.669.900)	921.907.105
NET CHANGES IN CASH AND CASH EQUIVALENTS		(1.446.551.553)	1.041.677.801
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	2.866.694.086	1.063.284.367
Currency translation difference, net		(826.395)	2.525.184
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	1.419.316.138	2.107.487.352
Accrued interest income	4	5.214.454	3.054.717
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	4	1.424.530.592	2.110.542.069

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

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

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

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

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

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

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

Name of the Company	Country of Operation	Operation	2011 Share %	2010 Share %
İskenderun Demir ve Çelik A.Ş. (“İSDEMİR”)	Turkey	Iron and Steel	92,91	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00	100,00
Ereco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00	100,00
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100,00	100,00
Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. (*)	Turkey	Iron and Steel	-	100,00

(*) According to the decisions taken by the Board of Directors of Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. dated 14 July 2010 and numbered 334 and Board of Directors of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. dated 14 July 2010 and numbered 22, it is decided to merge two entities. The merger activities have been concluded at 31 March 2011. The merger does not have an impact on the consolidated financial statements.

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

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

The number of the personnel employed by the Group as at 30 June 2011 and 30 June 2010 are as follows:

	30 June 2011	31 December 2010
	Personnel	Personnel
Monthly paid personnel (A)	3.321	3.378
Hourly paid personnel (B)	7.862	7.859
Candidate worker (C)	2.101	2.173
Contractual personnel (D)	21	18
Contractual personnel (SZ)	108	125
Total	13.413	13.553

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

The Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements (“Statutory Financial Statements”) in accordance with accounting principles issued by the Turkish Commercial Code (“TCC”) and tax legislation. The subsidiary which operates abroad maintain its books of account and prepare its statutory financial statements denominated in the currency of the foreign country and in compliance with the legislation of the foreign country. The consolidated financial statements include the adjustments and reclassifications applied on the Group’s legal books in accordance with the Generally Accepted Accounting Principles issued by Capital Market Board (“CMB”). The financial statements are prepared on cost basis, except the derivative financial instruments carried on fair value (Note 5 and Note 7).

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 required 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”.

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

2.1 Basis of Presentation (cont’d)

Functional and Reporting Currency

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

Functional and reporting currency for the subsidiary abroad

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

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

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

Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 3 August 2011 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 The Adjustment of the Financial Statements in Hyperinflationary Periods

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

2.3 Changes in Accounting Estimates and Errors

The changes in accounting estimates affecting the current period are recognized in the current period, the changes in accounting estimates affecting both in the current and future periods, prospectively.

2.4 Basis of Consolidation

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

Subsidiaries

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

2.4 Basis of Consolidation (cont’d)

Subsidiaries (cont’d)

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

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

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

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

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

The Group’s consolidated financial statements are presented in comparison with the previous period in order to allow for the determination of the financial position and performance trends. The comparative information is reclassified when necessary in order to be aligned with the current period consolidated financial statements. The detailed information about these restatements are presented in Note 33.

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

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

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

The Group calculates depreciation for the fixed assets by taking into account their useful lives that are stated in Note 2.9.3 and 2.9.4 (Note 12, Note 13).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

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

2.6.2 Deferred tax

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

2.6.3 Fair values of derivative financial instruments

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note5, Note 7, Note 30).

2.6.4 Provision for doubtful receivables

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

2.6.5 Provision for inventories

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

2.6.6 Provisions for employee benefits

Discount rates are determined using actuarial valuations which involve making assumptions about future salary increases and employee turnover rates. The details related with the defined benefit plans are stated in Note 17.

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.7 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 consolidated financial statements as at 30 June 2011 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards and IFRIC interpretations summarized below. These standards and interpretations have no effect on the Group’s financial position and performance.

The new standards, amendments and interpretations which are effective as at 1 January 2011 are as follows:

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)

IAS 32 Classification on Rights Issues (Amended)

IAS 24 Related Party Disclosures (Revised)

IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for the first time adopters (Amended)

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. These changes have no impact on the financial performance of the Group. The revised standards are as below. This improvement project has not been endorsed by the EU yet.

IFRS 1: First-time adoption

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

IFRS 3: Measurement of non-controlling interests

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

IFRS 7: Clarification of disclosures

IAS 1: Clarification of statement of changes in equity

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

IAS 34: Significant events and transactions

IFRIC 13: Fair value of award credits

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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)

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective for the current reporting period and which the Group has not early adopted, as follows.

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

UFRS 7 (Amended) ‘Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities’ (Effective for annual periods beginning or after 1 July 2011). This amendment has not yet been endorsed by the EU. The Group is considering the impact on the financial position or performance of the Group.

IAS 12 (Amended) ‘Deferred Taxes: Recovery of Underlying Assets’ (Effective for annual periods beginning on or after 1 January 2012, but earlier application is permitted). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 10 ‘Consolidated Financial Statements’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 11 ‘Joint Arrangements’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 12 ‘Disclosure of Interests in Other Entities’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IFRS 13 ‘Fair Value Measurement’ (Effective for annual periods beginning on or after 1 January 2013 and will be adopted prospectively). This amendment has not yet been endorsed by the EU. The Group is considering the impact on the financial position or performance of the Group.

IAS 27 (Amended) ‘Separate Financial Statements’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 28 (Amended) ‘Investments in Associates and Joint Ventures’ (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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)

IAS 19 (Amended) ‘Employee Benefits’ (Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 1 (Amended) ‘Presentation of Financial Statements’ (effective for annual periods beginning on or after 1 July 2012, with earlier application permitted). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

2.9 Valuation Principles Applied / Significant Accounting Policies

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

2.9.1 Revenue recognition

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

Sale of goods

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

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

Dividend and interest revenue

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

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

Rental income

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

2.9.2 Inventories

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.3 Property, plant and equipment

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

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

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

The rates that are used to depreciate the fixed assets are as follows:

	Rates
Buildings	2-16%
Land improvements	2-33% and units of production level
Machinery and equipment	3-50% and units of production level
Vehicles	5-25% and units of production level
Furniture and fixtures	5-33%
Other tangible fixed assets	5-25%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.4 Intangible assets

Purchased intangible assets

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

The amortization rates of the intangible assets are stated below:

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

2.9.5 Impairment of assets

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

2.9.6 Borrowing costs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.7 Financial instruments

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

Financial assets

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

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

Effective interest method

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

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

Available for sale financial assets

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

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

2.9.7 Financial instruments (cont’d)

Financial assets (cont’d)

Receivables

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.7 Financial instruments (cont’d)

Financial liabilities

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

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

Other financial liabilities

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.7. Financial instruments (cont’d)

Financial liabilities (cont’d)

Derivative financial instruments and hedge accounting (cont’d)

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

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

2.9.8 The effects of foreign exchange rate changes

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

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

2.9.9 Earnings per share

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

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

2.9.10 Subsequent events

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.11 Provisions, contingent liabilities and contingent assets

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

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

2.9.12 Related parties

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

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

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

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

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

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.13 Investment properties

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

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

2.9.14 Taxation and deferred income taxes

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

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

Current tax

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

Deferred tax

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

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.14 Taxation and deferred income taxes (cont’d)

Deferred tax (cont’d)

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

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

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

Current and deferred tax for the period

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

2.9.15 Provisions for employment benefits

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

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

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

2.9.16 Statement of cash flows

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

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

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

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

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

2.9.17 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.

2.9.18 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 30 June 2011, the Company holds its own shares with a nominal value of TRY 66.242.638 (31 December 2010: TRY 49.296.859). The Company’s own shares have been reclassified with its indexed value in the consolidated balance sheet as a deduction under equity.

NOTE 3 – OPERATING SEGMENTS

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 30 June 2011 and 31 December 2010 is as follows:

	30 June 2011	31 December 2010
Cash	44.163	31.355
Banks – demand deposits	50.874.969	24.553.743
Banks – time deposits	1.373.611.460	2.853.205.173
	<u>1.424.530.592</u>	<u>2.877.790.271</u>
Time deposit interest accruals (-)	(5.214.454)	(11.096.185)
Cash and cash equivalents excluding interest accruals	<u>1.419.316.138</u>	<u>2.866.694.086</u>

The breakdown of demand deposits is presented below:

	30 June 2011	31 December 2010
EURO	22.348.355	9.669.081
US Dollars	18.649.630	6.936.301
TRY	9.438.723	7.020.913
Romanian Lei	396.561	907.542
GB Pound	29.311	19.624
Japanese Yen	12.389	282
	<u>50.874.969</u>	<u>24.553.743</u>

The breakdown of time deposits is presented below:

	30 June 2011	31 December 2010
US Dollars	856.876.053	1.130.764.952
TRY	476.985.883	1.703.861.484
EURO	38.957.583	18.023.995
Romanian Lei	791.941	554.742
	<u>1.373.611.460</u>	<u>2.853.205.173</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 5 – FINANCIAL INVESTMENTS

Current financial investments:

	30 June 2011	31 December 2010
Derivative financial assets at fair value through profit/loss (*)	480.057	5.010.226
Total	480.057	5.010.226

Non-current financial investments:

	30 June 2011	31 December 2010
Available for sale financial assets:	62.790	56.681
Derivative financial assets at fair value through other comprehensive income/loss (*)	24.766.023	1.370.505
Total	24.828.813	1.427.186

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

As of 30 June 2011 and 31 December 2010 the Group’s subsidiaries, their percentage shares and amounts of the ownership interest are as follows:

Company	30 June		31 December	
	Rate %	2011	Rate %	2010
Erdemir Gaz San. ve Tic. A.Ş. (*)	100	62.790	100	56.681

(*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 2.379 and has been dormant since its establishment, are not consolidated as their effects on the consolidated financial statements are immaterial and disclosed at cost. There are no off balance sheet liabilities and contingencies given between the Group companies and Erdemir Gaz in favor of each other.

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 6 – FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	30 June 2011	31 December 2010
Short term financial liabilities	345.287.760	939.424.278
Current portion of long term financial liabilities	947.417.322	2.114.414.674
Total short term financial liabilities	<u>1.292.705.082</u>	<u>3.053.838.952</u>
Long term financial liabilities	3.298.505.801	2.797.402.328
Total long term financial liabilities	<u>3.298.505.801</u>	<u>2.797.402.328</u>
	<u>4.591.210.883</u>	<u>5.851.241.280</u>

As of 30 June 2011, the breakdown of the Group's loans with their original currency and their weighted average interest rates, is presented as follows:

Interest Type	Type of Currency	Weighted Average Rate of Interest (%)	Short Term Portion	Long Term Portion	30 June 2011
No interest	TRY	-	60.118.739	-	60.118.739
Fixed	TRY	10,60	72.244.546	950.000.000	1.022.244.546
Fixed	US Dollars	1,85	632.219.642	24.453.000	656.672.642
Floating	US Dollars	Libor+2,35	413.599.905	1.732.431.547	2.146.031.452
Floating	EURO	Euribor+0,33	90.112.500	457.535.147	547.647.647
Floating	Jap. Yen	JPY Libor+0,22	24.409.750	134.086.107	158.495.857
			<u>1.292.705.082</u>	<u>3.298.505.801</u>	<u>4.591.210.883</u>

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 6 – FINANCIAL LIABILITIES (cont’d)

As of 30 June 2011, according to their type of original currency and interest rates, the breakdown of floating-interest loans fixed by using financial hedge agreements, is as follows:

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	30 June 2011
US Dollars	2,38	21.745.142	65.137.016	86.882.158
US Dollars	3,29	10.957.532	43.816.454	54.773.986
US Dollars (*)	7,22	16.031.181	94.884.877	110.916.058
US Dollars	4,30	16.360.018	-	16.360.018
US Dollars	4,32	8.175.883	-	8.175.883
US Dollars	4,65	30.651.515	-	30.651.515
US Dollars	2,40	32.621.806	-	32.621.806
US Dollars	3,28	23.435.012	23.184.320	46.619.332
US Dollars	4,46	53.707	61.947.600	62.001.307
EURO (**)	10,65	30.382.212	166.177.149	196.559.361
		<u>190.414.008</u>	<u>455.147.416</u>	<u>645.561.424</u>

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

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

(*) As described in Note 30 (f) and Note 30 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of USD. The maturity of the cross currency swap contract is 3 October 2016. The amount represents TRY equivalent of the portion of the loan amount of USD 86.362.340, with maturity of 3 April 2018, that is hedged till 2016.

(**) As described in Note 30 (f) and Note 30 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of Euro.

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 6 – FINANCIAL LIABILITIES (cont'd)

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

	30 June 2011	31 December 2010
Within 1 year	1.292.705.082	3.053.838.952
Between 1-2 years	693.131.458	521.002.564
Between 2-3 years	728.848.850	568.846.604
Between 3-4 years	693.163.897	522.902.322
Between 4-5 years	625.453.311	475.092.682
Five years or more	557.908.285	709.558.156
	<u>4.591.210.883</u>	<u>5.851.241.280</u>

NOTE 7 - OTHER FINANCIAL LIABILITIES

	30 June 2011	31 December 2010
<u>Other current financial liabilities</u>		
Derivative financial liabilities at fair value through other comprehensive income/loss(*)	949.277	2.955.109
Derivative financial liabilities at fair value through profit/loss (*)	68.818	1.838.494
	<u>1.018.095</u>	<u>4.793.603</u>
<u>Other non-current financial liabilities</u>		
Derivative financial liabilities at fair value through other comprehensive income/loss(*)	4.796.561	26.468.954
	<u>4.796.561</u>	<u>26.468.954</u>

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 8 – TRADE RECEIVABLES AND PAYABLES

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

	30 June 2011	31 December 2010
<u>Short term trade receivables</u>		
Trade receivables	1.019.116.070	677.682.925
Due from related parties (Not 29)	12.287.470	78.337.709
Notes receivables	3.225.318	1.871.477
Discount on receivables (-)	(1.363.586)	(959.830)
Provision for doubtful trade receivables (-)	(43.315.305)	(41.094.211)
	<u>989.949.967</u>	<u>715.838.070</u>

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

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	41.094.211	26.949.521
Provision for the period	1.001.997	23.497.853
Doubtful receivables collected (-)	(1.708.670)	(854.825)
Provision released (-)	(381.563)	(728.725)
Translation loss/(gain)	3.309.330	(78.111)
Closing balance	<u>43.315.305</u>	<u>48.785.713</u>

	30 June 2011	31 December 2010
<u>Long term trade receivables</u>		
Trade receivables	1.619.793	3.402.087
Due from related parties (Note 29)	-	1.141.524
Discount on receivables (-)	-	(301.930)
Provision for doubtful trade receivables (-)	(1.619.793)	(1.619.793)
	<u>-</u>	<u>2.621.888</u>

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

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	1.619.793	1.619.793
Closing balance	<u>1.619.793</u>	<u>1.619.793</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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.

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

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

Other explanatory notes related to the credit risk of the Group are disclosed in Note 30.

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:

	30 June 2011	31 December 2010
<u>Short term trade payables</u>		
Trade payables	529.817.236	350.708.057
Due to related parties (Note 29)	8.216.454	9.911.442
Discount on trade payables (-)	(1.218.681)	(677.597)
	<u>536.815.009</u>	<u>359.941.902</u>

NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	30 June 2011	31 December 2010
Deposits and guarantees given	325.711	185.110
Receivable from sale of financial assets	-	34.012.000
	<u>325.711</u>	<u>34.197.110</u>

Other non-current receivables

	30 June 2011	31 December 2010
Receivables from Privatization Authority	52.468.501	51.708.110
Deposits and guarantees given	220.711	251.852
Provision for other doubtful receivables (-)	(52.468.501)	(25.854.055)
	<u>220.711</u>	<u>26.105.907</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

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

	1 January- 30 June 2011	1 January- 30 June 2010
Opening balance	25.854.055	26.578.327
Provision for the period	27.092.487	1.072.611
Other doubtful receivables collected (-)	(478.041)	(1.177.958)
Closing balance	52.468.501	26.472.980

Other current payables

	30 June 2011	31 December 2010
Taxes and funds payable	25.552.588	16.191.374
Social security deductions payable	18.216.239	16.851.054
Non trade payables to related parties (Note 29)	7.171.848	1.715.000
Deposits and guarantees received	5.570.695	5.049.640
Deferred and installed payables to public institutions	4.069.423	513.532
	60.580.793	40.320.600

NOTE 10 – INVENTORIES

	30 June 2011	31 December 2010
Raw materials	716.352.052	673.659.216
Work in progress	522.879.649	431.177.699
Finished goods	552.954.179	472.339.939
Spare parts	353.119.982	314.505.754
Goods in transit	572.888.544	507.020.136
Other inventories	166.286.810	143.032.674
Allowance for impairment on inventories (-)	(40.351.919)	(38.781.046)
	2.844.129.297	2.502.954.372

The movement of the allowance for impairment on inventories:

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	38.781.046	12.242.813
Provision for the period (Note 20)	4.733.235	5.251.890
Provision released (-) (Note 20)	(3.162.362)	(3.569.962)
Closing balance	40.351.919	13.924.741

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials in the cases when their net realizable values are lower than their costs or when they are classified as slow moving inventories. The provision released has been recognized under cost of sales (Note 20).

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 11 – INVESTMENT PROPERTIES

	1 January – 30 June 2011	1 January – 30 June 2010
<u>Cost</u>		
As of 1 January	46.577.264	46.577.264
As of 30 June	46.577.264	46.577.264
<u>Book value</u>	46.577.264	46.577.264

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 195.586.000. The fair value of the investment properties has been determined in reference to the valuation of an independent valuation firm 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 six months period ended 30 June 2011, the Group recognized rent income amounting to TRY 41.474 (30 June 2010: TRY 40.442) under other operating income.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements	Land	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Cost										
Opening balance as of 1 January 2011	94.744.073	1.453.704.231	2.110.488.192	2.110.488.192	9.333.046.763	657.405.179	310.281.131	14.806.588	842.035.068	14.816.511.225
Translation difference	1.009.701	-	1.251.464	1.251.464	2.978.917	115.910	-	254.778	279.834	5.890.604
Additions (*)	4.066.045	1.177.240	3.905.962	3.905.962	28.130.785	5.324.834	1.192.487	1.806.184	152.247.634	197.851.171
Disposals	-	(729.995)	-	-	(16.191.466)	(2.236.541)	(729.437)	(36.389)	-	(19.923.828)
Transfers from CIP (**)	-	1.390.923	69.483	69.483	26.482.870	1.111.195	225.590	25.225	(56.768.694)	(27.463.408)
Closing balance as of 30 June 2011	99.819.819	1.455.542.399	2.115.715.101	2.115.715.101	9.374.447.869	661.720.577	310.969.771	16.856.386	937.793.842	14.972.865.764
Accumulated Depreciation										
Opening balance as of 1 January 2011	-	(992.566.781)	(1.501.610.257)	(1.501.610.257)	(5.048.615.511)	(337.081.439)	(143.268.011)	(13.374.450)	-	(8.036.516.449)
Translation difference	-	-	(391.529)	(391.529)	(2.016.711)	(62.968)	-	(161.815)	-	(2.633.023)
Charge for the period	-	(11.720.102)	(20.618.507)	(20.618.507)	(94.476.931)	(9.804.058)	(6.958.127)	(1.786.736)	-	(145.364.461)
Disposals	-	728.453	-	-	12.148.419	2.119.908	652.608	34.642	-	15,684,030
Closing balance as of 30 June 2011	-	(1.003.558.430)	(1,522,620,293)	(1,522,620,293)	(5,132,960,734)	(344,828,557)	(149,573,530)	(15,288,359)	-	(8,168,829,903)
Net book value as of 31 December 2010	94,744,073	461,137,450	608,877,935	608,877,935	4,284,431,252	320,323,740	167,013,120	1,432,138	842,035,068	6,779,994,776
Net book value as of 30 June 2011	99,819,819	451,983,969	593,094,808	593,094,808	4,241,487,135	316,892,020	161,396,241	1,568,027	937,793,842	6,804,035,861

(*) The amount of capitalized financial expense is TRY 15,198,724 for the current period (The capitalized financial expenses for the six months period ended 30 June 2010 is: TRY 28,201,851).
(**) TRY 27,463,408 is transferred to intangible assets (Note 13).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
<u>Cost</u>									
Opening balance as of 1 January 2010	95.165.072	1.458.251.499	2.358.203.767	9.277.136.660	656.431.800	309.769.657	14.646.852	623.238.544	14.792.843.851
Translation difference	(914.622)	(141.017)	(1.133.620)	(2.523.761)	(94.907)	(184.948)	19.265	(206.316)	(5.179.926)
Additions	10.029	77.011	-	5.032.824	285.163	1.717.165	122.611	136.862.244	144.107.047
Disposals	-	(7.790.530)	-	(7.667.271)	(392.989)	(418.989)	(569.732)	-	(16.839.511)
Transfer from CIP (*)	-	21.519	-	17.132.219	47.446	321.665	896	(17.635.042)	(111.297)
Closing balance as of 30 June 2010	94.260.479	1.450.418.482	2.357.070.147	9.289.110.671	656.276.513	311.204.550	14.219.892	742.259.430	14.914.820.164
<u>Accumulated Depreciation</u>									
Opening balance as of 1 January 2010	-	(978.573.598)	(1.678.082.627)	(4.870.606.725)	(322.161.994)	(135.320.203)	(12.775.414)	-	(7.997.520.561)
Translation difference	-	13.866	307.681	1.673.706	60.040	10.104	133.776	-	2.199.173
Charge for the period	-	(10.955.720)	(37.500.405)	(93.272.808)	(8.644.357)	(6.879.998)	(237.801)	-	(157.491.089)
Disposals	-	7.785.414	-	7.206.129	384.875	384.223	197.745	-	15.958.386
Closing balance as of 30 June 2010	-	(981.730.038)	(1.715.275.351)	(4.954.999.698)	(330.361.436)	(141.805.874)	(12.681.694)	-	(8.136.854.091)
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 30 June 2010	94.260.479	468.688.444	641.794.796	4.334.110.973	325.915.077	169.398.676	1.538.198	742.259.430	6.777.966.073

(**) TRY 111.297 is transferred to intangible assets (Note 13).

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

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

	30 June 2011	30 June 2010
Cost of sales	102.270.083	119.564.581
Capitalized on inventories	35.082.222	32.263.130
General administrative expenses	4.486.710	2.699.552
Marketing, sales and distribution expenses	3.525.446	2.963.826
	<u>145.364.461</u>	<u>157.491.089</u>

(*) As of 31 December 2010 depreciation capitalized on inventories is amount of TRY 34.278.145 (31 Aralık 2009: TRY 15.459.746).

NOTE 13 – INTANGIBLE ASSETS

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2011	167.280.421	61.593.885	5.123.670	233.997.976
Translation difference	43.984	-	159.815	203.799
Additions	1.825.805	-	381.872	2.207.677
Transfers from CIP	732.342	26.731.066	-	27.463.408
Closing balance as of 30 June 2011	<u>169.882.552</u>	<u>88.324.951</u>	<u>5.665.357</u>	<u>263.872.860</u>
<u>Accumulated amortization</u>				
Opening balance as of 1 January 2011	(47.821.557)	(38.665.482)	(3.854.123)	(90.341.162)
Translation difference	(23.158)	-	(75.309)	(98.467)
Charge for the period	(6.764.854)	(1.499.395)	(515.067)	(8.779.316)
Closing balance as of 30 June 2011	<u>(54.609.569)</u>	<u>(40.164.877)</u>	<u>(4.444.499)</u>	<u>(99.218.945)</u>
Net book value as of 31 December 2010	<u>119.458.864</u>	<u>22.928.403</u>	<u>1.269.547</u>	<u>143.656.814</u>
Closing balance as of 30 June 2011	<u>115.272.983</u>	<u>48.160.074</u>	<u>1.220.858</u>	<u>164.653.915</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 13 – INTANGIBLE ASSETS (cont'd)

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2010	150.893.966	61.949.696	4.073.415	216.917.077
Translation difference	(39.843)	-	(144.420)	(184.263)
Additions	151.728	-	91.874	243.602
Disposals	-	(355.811)	-	(355.811)
Transfers from CIP	111.297	-	-	111.297
Closing balance as of 30 June 2010	151.117.148	61.593.885	4.020.869	216.731.902
<u>Accumulated amortization</u>				
Opening balance as of 1 January 2010	(37.560.044)	(36.049.539)	(3.031.870)	(76.641.453)
Translation difference	8.531	-	22.015	30.546
Charge for the period	(4.957.131)	(1.350.967)	(373.594)	(6.681.692)
Disposal	-	91.919	-	91.919
Closing balance as of 30 June 2010	(42.508.644)	(37.308.587)	(3.383.449)	(83.200.680)
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 30 June 2010	108.608.504	24.285.298	637.420	133.531.222

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

	30 June 2011	30 June 2010
Cost of sales	7.670.044	5.703.305
Capitalized on inventories	623.031	508.491
General administrative expenses	468.223	468.308
Marketing, sales and distribution expenses	18.018	1.588
	8.779.316	6.681.692

(*) As of 31 December 2010 depreciation capitalized on inventories is amount of TRY 537.555 (31 Aralık 2009: TRY 183.816).

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 14 – GOVERNMENT GRANTS AND INCENTIVES

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

	1 January- 30 June 2011	1 January- 30 June 2010
Social security grants	219.651	254.924
Research and development grants	70.747	250.877
	<u>290.398</u>	<u>505.801</u>

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

There is an investment incentive right of the Group amounting to TRY 43.125.871, deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (30 June 2010: TRY 39.134.870).

NOTE 15 – PROVISIONS

	30 June 2011	31 December 2010
Provision for salary increase	32.793.145	12.000.000
Provision for lawsuits	27.983.282	29.398.275
Penalty provision for employment shortage of disabled personnel	5.120.652	5.968.311
Provision for state right on mining activities	1.081.892	1.755.048
Provision for tax exposures	-	21.556.149
	<u>66.978.971</u>	<u>70.677.783</u>

The movement of the provision for tax exposures is follows:

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	21.556.149	42.629.219
Provision released (-)	(21.556.149)	-
Closing balance	<u>-</u>	<u>42.629.219</u>

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

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	29.398.275	24.279.009
Provision for the period	9.468.374	5.398.392
Payments for lawsuits (-)	(3.052.877)	(3.165.063)
Provision released (-)	(7.830.490)	(538.328)
Closing balance	<u>27.983.282</u>	<u>25.974.010</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 15 – PROVISIONS (cont’d)

The movement of the penalty provisions for the shortage related with obligatory employment of disabled is as follows:

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	5.968.311	7.024.569
Provision for the period	1.126.928	1.019.664
Paid penalty for the employment shortage of disabled personnel (-)	(1.329.439)	(1.327.013)
Provisions released (-)	(645.148)	(1.181.506)
Closing balance	<u>5.120.652</u>	<u>5.535.714</u>

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

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	1.755.048	-
Provision for the period	1.081.892	-
State rights paid	(1.578.340)	-
Provision released (-)	(176.708)	-
Closing balance	<u>1.081.892</u>	<u>-</u>

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

The movement of the provision for salary increase is as follows:

	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	12.000.000	-
Provision for the period	38.621.555	-
Salary increases paid	(9.056.453)	-
Provision for the period	(8.771.957)	-
Closing balance	<u>32.793.145</u>	<u>-</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 15 – PROVISIONS (cont’d)

As of 30 June 2011 and 31 December 2010, lawsuits filed by and against the Group are as follows:

	30 June 2011	31 December 2010
<u>Lawsuits filed by the Group</u>		
TRY	54.635.481	51.747.049
US Dollars	86.250.302	81.795.465
	<u>140.885.783</u>	<u>133.542.514</u>
<u>Provision for lawsuits filed by the Group</u>		
TRY	6.411.667	6.264.631
US Dollars	3.925.202	4.495.465
	<u>10.336.869</u>	<u>10.760.096</u>

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

	30 June 2011	31 December 2010
<u>Lawsuits filed against the Group</u>		
TRY	72.451.896	78.871.445
US Dollars	122.301.518	108.640.318
	<u>194.753.414</u>	<u>187.511.763</u>
<u>Provision for lawsuits filed against the Group</u>		
TRY	17.044.834	18.948.314
US Dollars	10.938.448	10.449.961
	<u>27.983.282</u>	<u>29.398.275</u>

As of 30 June 2011 and 31 December 2010, USD 25.000.000 (TRY 40.755.000) of the lawsuits filed by the Group is against the insurance company for the compensation of the losses of a crane destructed due to a shipping accident in 2005, for which the value of the crane was recognized over scrap value in the consolidated financial statements. Again for the same accident, ship owner, captain and indemnity insurance company of the ship is sued by the Group and the amount of this lawsuit is USD 25.000.000 (TRY 40.755.000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 15 – PROVISIONS (cont’d)

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

Reasoned decision of the Competition Board dated 16 June 2009 no. 09-28/600-141 was communicated to the Company on 29 September 2009 and the Company filed an annulment lawsuit before the Council of State against that decision with an additional claim to get the execution of this decision be suspended by an interim decision until the end of the adjudication process. This lawsuit is still pending before the 13th Chamber of the Council of State (File No. 2009/7029E). However, the Company paid those fines as TRY 15.085.848 on 26 October 2009 by benefiting an early payment discount. Company’s partnership with Borçelik Çelik San. ve Tic. A.Ş. and ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. resolved on 4 November 2010 and 28 February 2011, respectively.

As of 30 June 2011 and 31 December 2010, the lawsuit which amounts to TRY 35.673.249 among the lawsuits initiated against the Group was filed by the Privatization Administration (PA). In this lawsuit PA asked the court to declare the Company’s General Assembly Decision as to the dividend distribution for the year 2005 void. However, 3rd Commercial Court of Ankara rejected the case by its decision dated 23 September 2008 no. 2006/218 E., 2008/480 K. However, 11th Chamber of the Supreme Court of Appeals reversed the first instance court’s decision upon PA’s appeal by its judgment no. 2009/1319 E.; 2010/12257 K. of 30 November 2010.

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 was 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 15 – PROVISIONS (cont'd)

However, considering that the Company 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) and net profit for the year 2005 has been affected by TRY 152.329.914, CMB, through a letter sent to the Company numbered B.02.1.SPK.0.13-855-7484 of 5 May 2006 notifying its decision No: 21/526 of 5 May 2006, decided that, the Company'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.

The Company 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. The Company appealed to this decision on 11 October 2007 before the 13th Chamber of the State Council (File number 2007/13762). The Chamber, ratified the first instance court's decision by its judgement dated 12 May 2010 no. 2007/13762 E.; 2010/3984 K. However the Company appealed the Chamber's decision on 2 September 2010. The case is still pending before State Council.

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

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

Therefore the Company has also filed a new annulment lawsuit in 10th Administrative Court of Ankara on 10 October 2006 against CMB's restatement of consolidated financial statements as of 31 December 2005 on 15 August 2006. Later, the lawsuit has been forwarded to the 11th Administrative Court of Ankara. The 11th Administrative Court of Ankara has rejected this lawsuit with the decision numbered E.2006/2548; K.2007/1071 dated 25 June 2007. This decision has been declared to the Company on 18 September 2007 and the Company appealed this decision on 11 October 2007 with a motion to suspend the execution of this decision. Accordingly, the Chamber decided to suspend the execution of the decision of 11th Administrative Court of Ankara numbered E.2006/2548; K.2007/1071 dated 25 June 2007 and CMB's related action no. B.02.1.SPK.0.13-855-7484 taken on the meeting dated 5 May 2006 and numbered 21/526, by its decision numbered 2007/13724 and dated 4 December 2007 and consequently abolished the first instance court's decision by its judgment dated 12 May 2010, no. 2007/13724; K. 2010/3985. CMB has appealed the Chamber's decision on 6 September 2010, so the case is still pending before the state Council.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 15 – PROVISIONS (cont'd)

If the Company had started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended 30 June 2011 and 31 December 2010 will not be affected from the above mentioned disputes.

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

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. ("Enerjia") has filed a lawsuit in the 7th Commercial Court of First Instance against the Company on 27 March 2010 asking for the Company's bankruptcy and indemnity amounting to US Dollars 68.312.520. Final agreement was not settled on the technical qualifications of the product, such as dimensions and main features that must be assessed to fulfill the Export Protocol numbered 69187 dated 2 July 2009 and "Additional Requirements to Erdemir-Enerjia Export Protocol numbered 69187". Enerjia asked for indemnity claiming that the Company did not deliver the goods as committed and applied to Ankara Bankruptcy Directorate and started execution with a bankruptcy request against the Company. In response to the Company's opposition, Enerjia filed bankruptcy lawsuit numbered 2010/259 E. in the 7th Commercial Court of First Instance against the Company. At the last trial on 23 June 2011, the court gave its decision and rejected the case.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 June 2011	31 December 2010
Letters of guarantees received	952.616.425	865.668.485
	<u>952.616.425</u>	<u>865.668.485</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 16 – COMMITMENTS AND CONTINGENCIES (cont’d)

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

	30 June 2011	31 December 2010
A. Total CPM given for the Company's own legal entity	122.874.743	99.285.751
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	3.016.580.761	3.105.933.822
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>3.139.455.504</u>	<u>3.205.219.573</u>

As of 30 June 2011, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2010: 0%). Total CPM given in favour of subsidiaries consolidated on line-by-line basis amounting to TRY 3.016.580.761 has been given as collateral for financial liabilities explained in Note 6.

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

	30 June 2011	31 December 2010
US Dollars	1.533.524.357	1.958.447.651
EURO	1.017.028.004	704.068.880
TRY	502.461.975	454.938.549
Japanese Yen	85.292.829	86.645.822
Romanian Lei	1.148.339	1.118.671
	<u>3.139.455.504</u>	<u>3.205.219.573</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 17 – PROVISIONS FOR EMPLOYMENT BENEFITS

	30 June 2011	31 December 2010
Provisions for employee termination benefits	170.851.250	161.033.388
Provisions for seniority incentive premium	10.032.856	7.255.683
	<u>180.884.106</u>	<u>168.289.071</u>

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

As of 30 June 2011, the amount payable consists of one month’s salary limited to a maximum of TRY 2.623,23 (31 December 2010: TRY 2.517,00).

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

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

The principal assumption is that, the maximum liability for each employment year will increase parallel with the inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. In the consolidated financial statements as of 30 June 2011, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5,10% and a discount rate of 10% (31 December 2010: the annual inflation rate 5,10% and the discount rate 10%). The probability of retirement is assumed as 99,77%. (31 December 2010 : 99,43%).

The anticipated rate of resignations which do not result in the payment of employee benefits is also considered in the calculation. As the maximum liability is revised semi-annually, the maximum amount of TRY 2.731,85 effective from 1 July 2011 has been taken into consideration in calculating the provision for employee termination benefits of the Group (31 December 2010: TRY 2.623,23 effective as of 1 January 2011).

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 17 – PROVISIONS FOR EMPLOYMENT BENEFITS (cont'd)

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

	1 January- 30 June 2011	1 January- 30 June 2010
Opening balance	161.033.388	117.712.283
Service cost	17.936.623	14.427.428
Interest cost	3.702.448	3.422.874
Actuarial loss	426.824	592.674
Termination benefits paid	(12.248.033)	(5.132.570)
Closing balance	<u>170.851.250</u>	<u>131.022.689</u>

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

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

	1 January- 30 June 2011	1 January- 30 June 2010
Opening balance	7.255.683	4.158.281
Provision for the period	2.848.175	2.089.981
Incentive premium paid	(71.002)	(321.382)
Closing balance	<u>10.032.856</u>	<u>5.926.880</u>

NOTE 18 – OTHER ASSETS AND LIABILITIES

Other current assets

	30 June 2011	31 December 2010
Other VAT Receivable	87.337.715	104.236.142
Prepaid expenses	21.990.549	16.673.349
Advances given	14.708.963	42.025.211
VAT carried forward	4.526.713	4.163.009
Prepaid taxes and funds	2.243.310	2.945.856
Due from personnel	696.699	902.704
Job advances given	194.143	129.693
Income accruals	-	1.184.826
Other current assets	6.319.562	5.117.762
	<u>138.017.654</u>	<u>177.378.552</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

Other non-current assets

	30 June 2011	31 December 2010
Prepaid expenses	45.512.858	51.418.209
Advances given	44.009.852	13.248.585
Other non-current assets	382.202	362.389
	<u>89.904.912</u>	<u>65.029.183</u>

Other current liabilities

	30 June 2011	31 December 2010
Advances received	90.475.022	137.846.609
Provision for unpaid vacations	57.590.082	47.690.347
Due to personnel	42.916.072	23.338.388
VAT payable	28.349.077	13.776.894
Expense accruals	1.808.991	618.788
Deferred income	171.399	317.518
Other VAT payable	-	301.866
Other current liabilities	2.880.272	3.089.852
	<u>224.190.915</u>	<u>226.980.262</u>

Other non-current liabilities

	30 June 2011	31 December 2010
Deferred income	-	85.019
Other non-current liabilities	629.155	748.962
	<u>629.155</u>	<u>833.981</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 19 – EQUITY

As of 30 June 2011 and 31 December 2010, the capital structure is as follows:

<u>Shareholders</u>	<u>(%)</u>	<u>30 June</u> <u>2011</u>	<u>(%)</u>	<u>31 December</u> <u>2010</u>
Ataer Holding A.Ş.	49,29	1.059.632.159	49,29	788.563.515
Quoted in Stock Exchange	47,63	1.024.125.203	47,63	762.139.626
Erdemir’s own shares	3,08	66.242.638	3,08	49.296.859
Historical capital	100,00	2.150.000.000	100,00	1.600.000.000
Effect of inflation		731.967.735		731.967.735
Restated capital		2.881.967.735		2.331.967.735
Treasury shares		(74.637.969)		(57.692.172)
		<u>2.807.329.766</u>		<u>2.274.275.563</u>

According to the decision taken by the Ereğli Demir ve Çelik Fabrikaları T.A.Ş. Board of Directors dated 25 January 2011 and with the Approval No: 16/178 received from CMB on 28 February 2011, the Company’s paid capital was increased from TRY 1.600.000.000 to TRY 2.150.000.000, by means of bonus shares distribution from retained earnings. The issued capital of the Company in 2011 consists of 215.000.000.000 lots of shares (2010: 160.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2010: 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 2.149.999.999,99 shares representing TRY 214.999.999.999 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.

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 19 – EQUITY (cont’d)

	30 June 2011	31 December 2010
Other equity items		
Share premium	231.020.042	231.020.042
Revaluation reserves	26.680.181	25.241.672
<i>-Revaluation reserves of property, plant & equipment</i>	<i>26.680.181</i>	<i>25.241.672</i>
Cash flow hedging reserves	(12.628.388)	(24.396.817)
Foreign currency translation reserves	(466.485)	4.845.393
Restricted reserves assorted from profit	1.757.470.693	1.696.170.542
<i>-Legal reserves</i>	<i>550.543.376</i>	<i>489.243.225</i>
<i>-Statutory reserves</i>	<i>1.206.927.317</i>	<i>1.206.927.317</i>
Retained earnings	1.273.384.263	1.537.874.215
<i>-Extraordinary reserves</i>	<i>646.873.464</i>	<i>537.873.352</i>
<i>-Accumulated profit</i>	<i>626.510.799</i>	<i>1.000.000.863</i>
	<u>3.275.460.306</u>	<u>3.470.755.047</u>

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

- “Capital restatement differences” account, following the “paid-in capital” line item in the financial statements, if the differences are caused by “paid-in capital” and have not been added to capital yet;
- “Retained earnings”, if the differences are arising from “restricted profit reserves” and “share premium” and have not been associated with either profit distribution or capital increase yet.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 19 – EQUITY (cont’d)

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

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

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

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

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

Remaining portion of the current year profit after deduction of prior periods’ losses and other sources which might be used in dividend distribution in statutory books of the Company are equal to TL 2.448.860.832 as of 30 June 2011.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 19 – EQUITY (cont’d)

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 20 – SALES AND COST OF SALES

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
<u>Sales Revenue</u>				
Domestic sales	3.375.439.685	1.783.869.629	2.811.144.154	1.420.032.108
Export sales	785.536.532	383.527.723	329.126.192	170.138.276
Other revenues (*)	73.483.555	31.219.989	66.014.088	32.407.808
Sales returns (-)	(3.389.531)	(3.137.788)	(890.978)	(493.280)
Sales discounts (-)	(14.248.835)	(6.538.642)	(1.013.453)	(832.533)
	<u>4.216.821.406</u>	<u>2.188.940.911</u>	<u>3.204.380.003</u>	<u>1.621.252.379</u>
<u>Cost of Sales (-)</u>	<u>(3.235.199.935)</u>	<u>(1.628.966.496)</u>	<u>(2.479.043.606)</u>	<u>(1.204.324.584)</u>
Gross profit	<u>981.621.471</u>	<u>559.974.415</u>	<u>725.336.397</u>	<u>416.927.795</u>

(*) The total amount of by product exports in other revenues is TRY 23.258.835 (30 June 2010; TRY 8.501.538).

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 20 – SALES AND COST OF SALES (cont'd)

The breakdown of cost of sales for the periods 1 January – 30 June 2011 and 1 January – 30 June 2010 is as follows:

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
Raw material usage	(2.196.755.976)	(1.125.204.053)	(1.764.140.980)	(961.161.682)
Personnel expenses	(457.452.456)	(254.440.336)	(265.867.334)	(139.639.717)
Auxiliary material expenses	(214.330.364)	(113.986.833)	(191.163.963)	(99.801.307)
Energy expenses	(202.760.431)	(104.431.642)	(173.101.730)	(82.551.221)
Depreciation and amortization expenses	(144.755.827)	(70.480.117)	(140.911.448)	(72.346.203)
Inventory write-downs within the period (Note 10)	(4.733.235)	(3.767.867)	(5.251.890)	(4.883.887)
Change of finished goods and work in progress inventories	171.426.637	145.773.524	199.686.311	251.817.567
Reversal of inventory write-downs (Note 10)	3.162.362	106.831	3.569.962	42.095
Other	(189.000.645)	(102.536.003)	(141.862.534)	(95.800.229)
	<u>(3.235.199.935)</u>	<u>(1.628.966.496)</u>	<u>(2.479.043.606)</u>	<u>(1.204.324.584)</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 21 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES

The breakdown of operating expenses for the periods 1 January – 30 June 2011 and 1 January – 30 June 2010 is as follows:

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
Marketing, sales and distribution expenses (-)	(48.088.036)	(27.172.556)	(26.995.841)	(13.850.299)
General administrative expenses (-)	(78.642.625)	(39.436.928)	(55.204.325)	(28.883.358)
Research and development expenses (-)	(342.870)	(264.835)	(212.670)	(134.804)
	<u>(127.073.531)</u>	<u>(66.874.319)</u>	<u>(82.412.836)</u>	<u>(42.868.461)</u>

NOTE 22 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 30 June 2011 and 1 January – 30 June 2010 is as follows:

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
Personnel expense (-)	(24.999.099)	(13.060.954)	(10.300.523)	(4.569.522)
Depreciation and amortization(-)	(3.543.464)	(1.838.966)	(2.965.414)	(1.248.044)
Other (-)	(19.545.473)	(12.272.636)	(13.729.904)	(8.032.733)
	<u>(48.088.036)</u>	<u>(27.172.556)</u>	<u>(26.995.841)</u>	<u>(13.850.299)</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 22 – OPERATING EXPENSES ACCORDING TO THEIR NATURE (cont'd)

The breakdown of general administrative expenses for the periods 1 January – 30 June 2011 and 1 January – 30 June 2010 is as follows:

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
Personnel expense (-)	(49.006.621)	(25.506.609)	(31.714.107)	(16.977.288)
Depreciation and amortization (-)	(4.954.933)	(2.591.520)	(3.167.860)	(1.651.027)
Other (-)	(24.681.071)	(11.338.799)	(20.322.358)	(10.255.043)
	<u>(78.642.625)</u>	<u>(39.436.928)</u>	<u>(55.204.325)</u>	<u>(28.883.358)</u>

NOTE 23 – OTHER OPERATING INCOME/(EXPENSE)

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
<u>Other operating income</u>				
Provisions released	31.755.824	28.163.438	3.670.374	3.163.163
Revenue from sale of financial assets (Note 26)	7.962.073	-	-	-
Service income	3.198.280	1.306.591	1.947.875	1.257.941
Maintenance and repair income	3.189.827	1.626.737	2.968.521	1.480.187
Indemnity and penalty detention income	1.528.165	846.842	1.227.906	747.443
Gain on sale of fixed assets	878.423	447.861	27.717	27.717
Client deposits income	860.690	198.028	822.893	87.761
Insurance indemnity income	740.037	670.742	3.171.916	1.356.626
Rent income	405.383	241.630	287.849	141.311
Other income and gains	6.450.849	3.807.223	8.186.655	5.109.357
	<u>56.969.551</u>	<u>37.309.092</u>	<u>22.311.706</u>	<u>13.371.506</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 23 – OTHER OPERATING INCOME/(EXPENSE) (cont'd)

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
<u>Other operating expenses (-)</u>				
Provisions expenses	(37.200.150)	(33.596.623)	(29.562.789)	(276.528)
Loss on disposal of fixed assets	(4.068.247)	(29.568)	(384.257)	(384.257)
Penalty expenses	(3.827.221)	(10.329)	(9.758.494)	(533.545)
Lawsuit compensation expenses	(3.587.358)	(2.859.648)	(7.352.646)	(903.241)
Service expenses	(2.234.804)	(753.582)	(2.868.935)	(1.284.961)
Rent expenses	(1.287.461)	(948.482)	(724.193)	(405.655)
Loss on sale of fixed assets	(38.074)	(38.074)	(70.947)	(15.987)
Real estate and property levies expenses	-	-	-	4.833.908
Other expenses and losses	(11.500.124)	(6.657.211)	(10.284.311)	(2.307.869)
	<u>(63.743.439)</u>	<u>(44.893.517)</u>	<u>(61.006.572)</u>	<u>(1.278.135)</u>

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 24 – FINANCE INCOME

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
Interest income on bank deposits	68.065.564	32.692.788	21.478.778	7.813.999
Foreign exchange gains from trade receivables and payables (net)	50.329.650	25.839.625	22.222.812	21.646.663
Fair value differences of derivative financial instruments	36.248.812	20.105.008	-	-
Foreign exchange gains from bank deposits (net)	35.764.141	35.764.141	931.182	931.182
Interest income from sales with maturity	23.409.760	12.734.753	24.008.059	14.107.330
Foreign exchange gains from forward contracts	1.179.228	1.179.228	-	(167.804)
Discount income	508.301	(234.664)	1.594.942	1.456.700
Foreign exchange gains from financial liabilities (net)	-	-	-	(10.608.398)
Other financial income	2.288.061	2.281.108	90.956	(12.845)
	<u>217.793.517</u>	<u>130.361.987</u>	<u>70.326.729</u>	<u>35.166.827</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 25 – FINANCE EXPENSES

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
Foreign exchange loss from financial liabilities (net)	(211.081.670)	(176.256.722)	(24.981.994)	(24.981.994)
Interest expenses on financial liabilities	(129.450.939)	(60.033.125)	(83.431.117)	(38.216.252)
Fair value differences of derivative financial instruments	-	-	(26.653.371)	(24.070.159)
Foreign exchange loss from bank deposits (net)	-	4.630.809	-	5.784.841
Foreign exchange loss from forward contracts	-	210.004	-	-
Other financial expenses	(13.142.831)	(11.003.020)	(7.343.475)	(6.019.271)
	<u>(353.675.440)</u>	<u>(242.452.054)</u>	<u>(142.409.957)</u>	<u>(87.502.835)</u>

During the period, TRY 13.475.638 of financial expenses related to foreign currency translation losses and TRY 1.723.086 of interest expenses in total TRY 15.198.724, have been capitalized as part of the Group's property, plant and equipment (1 January – 30 June 2010: the foreign currency translation losses of TRY 25.202.726, the interest expenses of TRY 2.999.125, in total TRY 28.201.851 has been capitalized).

NOTE 26 –NON CURRENT ASSETS HELD FOR SALE

Company	Ratio	30 June	Ratio	31 December
	%	2011	%	2010
ArcelorMittal Ambalaj Çeliği Tic. A.Ş.	25	-	25	11.498.657
		-		<u>11.498.657</u>

(*) The sale of ArcelorMittal Ambalaj Çeliği Tic. A.Ş. shares was completed on 28 February 2011 with the sale price of TRY 16.700.250 (TRY equivalent of US Dollars 10.500.000). The gain from the sale of the shares is TRY 7.962.073 and recognised under other operating income (Note 23).

The sale of Borçelik Çelik San. Tic. A.Ş. shares was completed on 4 November 2010 with the sale price of TRY 46.262.700 (TRY equivalent of US Dollars 33.000.000).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 27 – TAX ASSETS AND LIABILITIES

	30 June 2011	31 December 2010		1 January – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
<u>Corporate tax payable:</u>						
Current corporate tax provision	90.400.572	27.784.836				
Prepaid taxes and funds (-)	(47.231.466)	(20.669.115)				
	<u>43.169.106</u>	<u>7.115.721</u>				
	1 January –	1 April –				
	30 June 2011	30 June 2011				
<u>Taxation:</u>						
Current corporate tax expense	90.400.572	48.333.647			13.758.123	7.586.487
Deferred tax expense	47.003.646	21.892.421			100.204.276	75.031.807
	<u>137.404.218</u>	<u>70.226.068</u>			<u>113.962.399</u>	<u>82.618.294</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 27 – 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 consolidated financial statements for the estimated liabilities based on the Group's results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

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

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 30 June 2011 (31 December 2010: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2011 is TRY 54.347.187 (30 June 2010: TRY 8.655.107).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2011 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (2010: 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

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

Investment allowance application

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

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made (2011: 20%).

Deferred tax

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

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) is 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2010: in Turkey 20%, in Romania 16%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (December 2010: 5%).

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

	30 June 2011	31 December 2010
Deferred tax assets:		
Carry forward tax losses(*)	(130.634.250)	(152.001.407)
Provision for employee benefits	(36.176.821)	(33.657.814)
Tangible and intangible assets	(26.372.640)	(15.529.249)
Inventories	(8.096.330)	(14.136.332)
Provision for unpaid vacations	(11.518.016)	(9.538.069)
Investment incentive	(8.625.174)	(8.120.868)
Provision for lawsuits	(5.596.656)	(5.879.655)
Fair values of the derivative financial instruments	-	(4.976.365)
Provision for other doubtful receivables	(10.493.700)	(5.170.811)
Prepaid expenses	(1.586.365)	(1.686.290)
Other	(10.265.294)	(6.324.608)
	<u>(249.365.246)</u>	<u>(257.021.468)</u>
Deferred tax liabilities:		
Tangible and intangible assets	220.033.744	178.603.233
Amortized cost adjustment on loans	14.673.684	15.452.593
Insurance expenses	-	1.965.207
Fair values of the derivative financial instruments	3.886.285	-
Other	3.459.067	3.173.229
	<u>242.052.780</u>	<u>199.194.262</u>
	<u>(7.312.466)</u>	<u>(57.827.206)</u>

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

	30 June 2011	31 December 2010
<u>Presentation of deferred tax (assets)/liabilities:</u>		
Deferred tax (assets)	(119.036.107)	(150.892.360)
Deferred tax liabilities	111.723.641	93.065.154
	<u>(7.312.466)</u>	<u>(57.827.206)</u>
<u>Deferred tax asset movements:</u>	1 January – 30 June 2011	1 January – 30 June 2010
Opening balance	(57.827.206)	(202.899.442)
Deferred tax expense	47.003.646	100.204.276
The amount netted under equity	3.171.017	(1.663.416)
Translation difference	340.077	(173.958)
Closing balance	<u>(7.312.466)</u>	<u>(104.532.540)</u>
<u>Reconciliation of tax provision:</u>	1 January – 30 June 2011	1 January – 30 June 2010
Profit before tax	711.892.129	532.145.467
Effective tax rate	20%	20%
Calculated tax	142.378.426	106.429.093
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	2.245.322	2.830.535
- Non-taxable income	(2.005.220)	(2.135.644)
- Effect of non-taxable adjustments	(3.776.176)	3.375.354
- Effect of unused deferred tax assets	(1.058.661)	4.706.631
- Effect of the different tax rates due to foreign subsidiaries	(225.466)	(861.723)
- Other	(154.007)	(381.847)
Tax expense in income statement	<u>137.404.218</u>	<u>113.962.399</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

As of 1 January – 30 June 2011 and 2010, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

	1 January – 30 June 2011			1 April – 30 June 2011		
	Amount before tax	Tax income/ (expense)	Amount after tax	Amount before tax	Tax income/ (expense)	Amount after tax
<u>Other comprehensive income/(loss) in the current period</u>						
Change in revaluation reserves of fixed assets	1.438.509	-	1.438.509	462.443	-	462.443
Change in cash flow hedging reserves	15.855.084	(3.171.017)	12.684.067	11.075.918	(2.215.184)	8.860.734
Change in foreign currency translation reserves	(5.311.878)	-	(5.311.878)	(22.666)	-	(22.666)
	<u>11.981.715</u>	<u>(3.171.017)</u>	<u>8.810.698</u>	<u>11.515.695</u>	<u>(2.215.184)</u>	<u>9.300.511</u>
	1 January – 30 June 2010			1 April – 30 June 2010		
	Amount before tax	Tax income/ (expense)	Amount after tax	Amount before tax	Tax income/ (expense)	Amount after tax
<u>Other comprehensive income/(loss) in the current period</u>						
Change in revaluation reserves of fixed assets	(1.309.135)	-	(1.309.135)	(1.176.357)	-	(1.176.357)
Change in cash flow hedging reserves	(8.317.076)	1.663.416	(6.653.660)	(3.637.642)	727.528	(2.910.114)
Change in foreign currency translation reserves	777.960	-	777.960	699.335	-	699.335
Change in revaluation reserves of financial assets	14.674.497	-	14.674.497	14.674.497	-	14.674.497
	<u>5.826.246</u>	<u>1.663.416</u>	<u>7.489.662</u>	<u>10.559.833</u>	<u>727.528</u>	<u>11.287.361</u>

NOTE 28 – EARNINGS/ (LOSS) PER SHARE

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish -- See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

	1 January – 30 June 2011	1 April – 30 June 2011	1 January – 30 June 2010	1 April – 30 June 2010
<u>Number of shares outstanding(*)</u>	215.000.000.000	215.000.000.000	215.000.000.000	215.000.000.000
Net profit attributable to equity holders – TRY	554.494.158	294.071.330	404.135.583	243.730.221

Profit per share with 1 TRY nominal value TRY %

(*) According to the decision taken by the Ereğli Demir ve Çelik Fabrikaları T.A.Ş. Board of Directors dated 25 January 2011 and with the Approval No: 16/178 received from CMB on 28 February 2011, the Company's paid capital was increased from TRY 1.600.000.000 to TRY 2.150.000.000, by means of bonus shares distribution from retained earnings.

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 29 –RELATED PARTY DISCLOSURES

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

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

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

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

	30 June 2011	31 December 2010
<u>Due from related parties (short term)</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽³⁾	8.742.313	6.017.296
Bolu Çimento Sanayi A.Ş. ⁽²⁾	1.703.150	-
Adana Çimento Sanayi T.A.Ş. ⁽²⁾	1.652.393	-
ArcelorMittal Amb. Çel. San. ve Tic. A.Ş. ^{(1) (*)}	-	72.010.724
Other	189.614	309.689
	<u>12.287.470</u>	<u>78.337.709</u>

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

	30 June 2011	31 December 2010
<u>Due from related parties (long term)</u>		
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽²⁾	-	1.141.524
	-	1.141.524

(1) Investment in associate

(2) Subsidiaries of the parent company

(3) Investment in associates of the parent company

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 29 –RELATED PARTY DISCLOSURES (cont’d)

	30 June 2011	31 December 2010
<u>Due to related parties (short term)</u>		
Omsan Denizcilik A.Ş. ⁽²⁾	1.887.874	581.339
Omsan Lojistik A.Ş. ⁽²⁾	1.716.107	1.748.199
Omsan Logistica SRL ⁽²⁾	842.608	590.783
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽²⁾	421.390	-
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽²⁾	226.733	1.763.229
Adana Çimento Sanayi T.A.Ş. ⁽²⁾	-	1.222.847
Oyak Beton A.Ş. ⁽²⁾	-	182.930
Oyak Telekomünikasyon A.Ş. ⁽²⁾	-	144.886
Other	3.121.742	3.677.229
	<u>8.216.454</u>	<u>9.911.442</u>
	30 June 2011	31 December 2010
<u>Non trade payables due to related parties (short term)</u>		
Dividend payables to shareholders	7.171.507	1.709.879
Other	341	5.121
	<u>7.171.848</u>	<u>1.715.000</u>
	1 January – 30 June 2011	1 January – 30 June 2010
<u>Major sales to related parties</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽³⁾	24.116.517	11.361.181
ArcelorMittal Amb.Çel. San. ve Tic. A.Ş. ^{(1)(*)}	7.087.445	80.169.015
Adana Çimento Sanayi T.A.Ş. ⁽²⁾	4.988.310	7.243.664
Bolu Çimento Sanayi A.Ş. ⁽²⁾	3.955.360	803.783
Ünye Çimento Sanayi ve Ticaret A.Ş. ⁽²⁾	544.015	1.166.806
Aslan Çimento A.Ş. ⁽²⁾	47.040	574.664
Borçelik Çelik San. Tic. A.Ş. ^{(4)(*)}	-	60.164.695
Oytaş İç ve Dış Ticaret A.Ş. ⁽²⁾	-	938.780
Other	179.938	173.349
	<u>40.918.625</u>	<u>162.595.937</u>

⁽¹⁾ Investment in associate

⁽²⁾ Subsidiaries of the parent company

⁽³⁾ Investment in associates of the parent company

⁽⁴⁾ Financial asset

^(*) The Group sold its shares in Borçelik Çelik San. ve Tic. A.Ş. on 4 November 2010. The Group sold its shares in ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. on 28 February 2011. Sales amounts refer to the revenue from sales realized till the date of share transfer.

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 29 –RELATED PARTY DISCLOSURES (cont'd)

	1 January – 30 June 2011	1 January – 30 June 2010
<u>Major purchases from related parties</u>		
Omsan Lojistik A.Ş. ⁽²⁾	11.097.903	2.635.072
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽²⁾	8.011.582	6.347.557
Omsan Logistica SRL ⁽²⁾	6.236.805	2.672.279
Omsan Denizcilik A.Ş. ⁽²⁾	6.187.789	13.522
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽²⁾	5.449.547	1.595.517
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. ⁽²⁾	2.199.788	506.404
Oyak Genel Müdürlüğü	326.100	385.800
Oyak Telekomünikasyon A.Ş. ⁽²⁾	283.587	1.098.277
Other	518.254	130.451
	<u>40.311.355</u>	<u>15.384.879</u>

⁽²⁾ Subsidiaries of the parent company

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

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

The period end balances are non-secured, interest free and their collections will be done in cash. As of 30 June 2011, the Group provides no provision for the receivables from related parties (30 June 2010: none).

Salaries, bonuses and other benefits of the key management

For the period ended 30 June 2011, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 4.935.456 (30 June 2010: TRY 3.470.402).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 30 – 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 19.

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

As of 30 June 2011 and 31 December 2010 the net debt/equity ratio is as follows:

	Note	30 June 2011	31 December 2010
Total financial liabilities	6	4.591.210.883	5.851.241.280
Less: Cash and cash equivalents	4	1.424.530.592	2.877.790.271
Net debt		3.166.680.291	2.973.451.009
Total adjusted equity (*)		6.837.322.014	6.715.641.142
Total resources		10.004.002.305	9.689.092.151
Net debt/Total adjusted equity ratio	19	46%	44%

Distribution of net debt/ total adjusted equity 32/68 31/69
(* Total adjusted equity is calculated by subtracting cash flow hedging reserves and adding non-controlling interests.

(b) Significant accounting policies

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont’d)**

Additional information about financial instruments (cont’d)

(c) Financial risk management objectives

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

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

(d) Market risk

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management

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

Credit risk of financial instruments

	Receivables					
	Trade receivables		Other receivables		Bank	Derivative financial instruments
	Related Party	Third Party	Related Party	Third Party		
30 June 2011						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	12.287.470	977.662.497	-	546.422	1.424.486.429	25.246.080
- Secured part of the maximum credit risk exposure via collateral etc.	-	681.727.719	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	12.287.470	976.629.839	-	546.422	1.424.486.429	25.246.080
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	1.032.658	-	-	-	-
- secured part via collateral etc.	-	598.763	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	44.935.098	-	52.468.501	-	-
- Impairment (-)	-	(44.935.098)	-	(52.468.501)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-
(*) The factors that increase credibility such as guarantees received are not taken into account in determination of amount.	-	-	-	-	-	-

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments

	Receivables						
	Trade receivables			Other receivables			Derivative financial instruments
	Related Party	Third Party	Related Party	Third Party	Bank Deposits		
31 December 2010							
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	79.479.233	638.980.725	-	60.303.017	2.877.758.916	6.380.731	
- Secured part of the maximum credit risk exposure via collateral etc.	73.374.880	510.674.641	-	-	-	-	
A. Net book value of the financial assets that are neither overdue nor impaired	79.479.233	634.946.885	-	34.448.962	2.877.758.916	6.380.731	
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	-	-	-	-	-	
C. Net book value of financial assets that are overdue but not impaired	-	4.033.840	-	25.854.055	-	-	
- secured part via collateral etc.	-	3.806.398	-	-	-	-	
D. Net book value of impaired financial assets	-	-	-	-	-	-	
- Overdue (gross carrying amount)	-	42.714.004	-	25.854.055	-	-	
- Impairment (-)	-	(42.714.004)	-	(25.854.055)	-	-	
- Secured part via collateral etc.	-	-	-	-	-	-	
- Not overdue (gross carrying amount)	-	-	-	-	-	-	
- Impairment (-)	-	-	-	-	-	-	
- Secured part via collateral etc.	-	-	-	-	-	-	
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-	
(*) The factors that increase credibility such as guarantees received are not taken into account in determination of amount.	-	-	-	-	-	-	

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

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

	<u>Receivables</u>		
	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>
		<u>Derivative financial instruments</u>	<u>Other</u>
			<u>Total</u>
30 June 2011			
Overdue 1-30 days	1.032.658	-	-
Overdue 1-3 months	-	-	-
Overdue 3-12 months	-	-	-
Overdue 1-5 years	-	-	-
Overdue 5 years or more	-	-	-
Total overdue receivables	1.032.658	-	-
Secured part via collateral etc.	598.763	-	-

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

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

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 30 – 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 30 June 2011, the foreign currency position of the Group in terms of original currency is as follows:

	30 June 2011				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	776.877.505	467.626.081	6.195.074	-	-
2a. Monetary financial assets	936.873.321	537.066.423	26.096.517	617.259	11.226
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	10.820.171	4.403.689	1.550.008	-	-
4. Current assets (1+2+3)	1.724.570.997	1.009.096.193	33.841.599	617.259	11.226
5. Trade receivables	-	-	-	-	-
6a. Monetary trade receivables	-	-	-	-	-
6b. Non-monetary trade receivables	-	-	-	-	-
7. Other	16.906.904	4.159.038	3.825.351	56.750.150	495
8. Non-current assets (5+6+7)	16.906.904	4.159.038	3.825.351	56.750.150	495
9. Total assets (4+8)	1.741.477.901	1.013.255.231	37.666.950	57.367.409	11.721
10. Trade payables	354.232.021	209.368.820	5.064.728	49.358.050	11.584
11. Financial liabilities	1.160.341.797	641.934.911	38.076.688	1.216.170.110	-
12a. Other monetary financial liabilities	39.151.084	21.342.422	1.855.384	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	1.553.724.902	872.646.153	44.996.800	1.265.528.160	11.584
14. Trade payables	-	-	-	-	-
15. Financial liabilities	2.348.505.801	1.077.711.046	194.762.109	6.680.589.258	-
16a. Other monetary financial liabilities	629.155	385.937	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	2.349.134.956	1.078.096.983	194.762.109	6.680.589.258	-
18. Total liabilities (13+17)	3.902.859.858	1.950.743.136	239.758.909	7.946.117.418	11.584
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	323.069.689	67.856.124	90.435.313	-	-
19a. OffBalance sheet foreign currency derivative financial assets	323.069.689	67.856.124	90.435.313	-	-
19b. OffBalance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(1.838.312.268)	(869.631.781)	(111.656.646)	(7.888.750.009)	137
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(2.189.109.032)	(946.050.632)	(207.467.318)	(7.945.500.159)	(358)
22. Fair value of derivative financial instruments used in foreign currency hedge	24.558.079	5.722.078	6.483.036	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	323.069.689	67.856.124	90.435.313	-	-
25. Exports	808.795.367	465.327.812	36.886.529	-	-
26. Imports	2.265.109.512	1.418.811.367	20.885.181	-	-

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 30 – 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 2010, the foreign currency position of the Group in terms of original currency is as follows:

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

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

Foreign currency sensitivity

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

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

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

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

	30 June 2011	31 December 2010
Foreign Currency Position Parametric VaR	25.943.659	27.931.843

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont’d)**

Additional information about financial instruments (cont’d)

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

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

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

As of 30 June 2011 asset and liability balances are translated by using the following exchange rates: TRY 1,6302 = US \$ 1, TRY 2,3492 = EUR 1 and TRY 0,0186 = JPY 1 (31 December 2010: TRY 1,5460 = US \$ 1, TRY 2,0491 = EUR 1 and TRY 0,0189 = JPY 1)

30 June 2011	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
1- US Dollars net asset/liability	(152.829.278)	152.829.278
2- Hedged portion from US Dollars risk (-)	11.061.905	(11.061.905)
3- Effect of capitalization (-)	10.566.775	(10.566.775)
4- US Dollars net effect (1+2+3)	(131.200.598)	131.200.598
5- EURO net asset/liability	(47.475.443)	47.475.443
6- Hedged portion from EURO risk (-)	21.245.064	(21.245.064)
7- Effect of capitalization (-)	-	-
8- EURO net effect (5+6+7)	(26.230.379)	26.230.379
9- Jap. Yen net asset/liability	(15.833.510)	15.833.510
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	1.441.608	(1.441.608)
12- Jap. Yen net effect (9+10+11)	(14.391.902)	14.391.902
13- Other currencies net asset/liability	-	-
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	-	-
TOTAL (4+8+12+16)	(171.822.879)	171.822.879

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 30– 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 2010	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
	Appreciation of foreign currency against	Depreciation of foreign currency against
1- US Dollars net asset/liability	(143.097.417)	143.097.417
2- Hedged portion from US Dollars risk (-)	11.444.244	(11.444.244)
3- Effect of capitalization (-)	13.506.594	(13.506.594)
4- US Dollars net effect (1+2+3)	(118.146.579)	118.146.579
5- EURO net asset/liability	(46.891.753)	46.891.753
6- Hedged portion from EURO risk (-)	19.956.569	(19.956.569)
7- Effect of capitalization (-)	-	-
8- EURO net effect (5+6+7)	(26.935.184)	26.935.184
9- Jap. Yen net asset/liability	(17.482.764)	17.482.764
10- Hedged portion from Jap. Yen risk (-)	-	-
11- Effect of capitalization (-)	1.458.324	(1.458.324)
12- Jap. Yen net effect (9+10+11)	(16.024.440)	16.024.440
13- Other currencies net asset/liability	(1.757)	1.757
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	(1.757)	1.757
TOTAL (4+8+12+16)	(161.107.960)	161.107.960

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 30 – 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 30 June 2011 and 31 December 2010 the details of the cross currency and interest rate swap agreements are provided in the table below:

	<u>Average agreement exchange rate</u>	<u>Sales with original currency</u>	<u>Purchases with original currency</u>	<u>Original currency (TRY equivalent)</u>	<u>Agreement value (TRY equivalent)</u>	<u>Fair value</u>
30 June 2011						
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	98.849.409	67.856.124	98.849.409	89.521.278	9.328.131
TRY sale/ EURO purchase	2,0825	188.330.090	90.435.312	188.330.090	173.100.142	15.229.948
More than 5 years						
						<u><u>24.558.079</u></u>
31 December 2010						
Cross currency and interest rate swap agreements:						
TRY sale/ US Dollars purchase	1,4568	107.835.718	74.024.862	107.835.718	106.486.712	1.349.006
TRY sale/ EURO purchase	2,0825	202.817.020	97.391.875	202.817.020	225.001.406	(22.184.386)
More than 5 years						
						<u><u>(20.835.380)</u></u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

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

Additional information about financial instruments (cont'd)

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

Forward agreements

As of 30 June 2011 and 31 December 2010 the details of the forward agreements of the Group are provided in the table below:

30 June 2011	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
EURO sale/ US Dollars purchase	1,4590	7.506.325	10.951.583	17.633.859	17.474.679	159.180
US Dollars sale/ EURO purchase	1,4355	389.631	271.425	635.176	630.042	5.134
Less than 3 months						
EURO sale/ US Dollars purchase	1,4797	4.104.000	6.072.594	9.641.117	9.394.192	246.925
3-6 months						
						411.239
31 December 2010						
Forward agreements:						
TRY sale/ US Dollars purchase	1,4827	111.202.500	75.000.000	111.202.500	106.255.344	4.947.156
US Dollars sale/ TRY purchase	1,5310	75.000.000	114.354.500	115.950.000	117.752.445	(1.802.445)
EURO sale/ US Dollars purchase	1,3380	2.410.000	3.224.580	4.938.331	4.911.310	27.021
Less than 3 months						
						3.171.732

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(g) Interest rate risk management

The majority of the Group's borrowings are based on floating interest rate terms. In order to manage the exposure to interest rate movements on certain portion of the bank borrowings, the Group uses interest rate swaps and changes floating rates to fixed rates.

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

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Group minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

Interest rate sensitivity

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Group's sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Jap.Yen and 1,00% for TRY denominated interest rates.

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

Interest position table

	<u>30 June 2011</u>	<u>31 December 2010</u>
Floating interest rate financial instruments		
Financial liabilities	2.206.613.532	3.544.835.301

In addition to these, as of 30 June 2011, the amount of the Group's financial loans is TRY 645.561.424 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2010: TRY 739.372.766) (Note 6).

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 7.969.121 (30 June 2010: TRY 12.121.750).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

**NOTE 30 – 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:

30 June 2011

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Less than 1 year	2,80%	87.623.250	(949.277)
Between 1-5 years	2,06%	139.731.429	(3.145.805)
More than 5 years	2,05%	121.389.385	(1.442.812)
		<u>348.744.064</u>	<u>(5.537.894)</u>

31 December 2010

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
Less than 3 months	1,84%	77.300.000	(450.865)
Between 1-5 years	2,55%	331.837.857	(5.536.430)
More than 5 years	2,39%	62.008.772	(1.230.883)
		<u>471.146.629</u>	<u>(7.218.178)</u>

(*) In order to hedge against the interest rate risk of the borrowings with floating rates, the Group trades floating interest rates with fixed rates by making swap agreements. The fair value of the interest rate swap agreements with a nominal amount of TRY 348.744.064 (31 December 2010: TRY 471.146.629) is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity with its deferred tax effect and non-controlling interest deducted as TRY (4.244.566) (31 December 2010: TRY (5.476.236)).

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS
(cont'd)**

Additional information about financial instruments (cont'd)

(g) Interest rate risk management (cont'd)

Cross currency and interest rate swap agreements

30 June 2011

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
TRY sale / US Dollars purchase	7,22%	98.849.409	9.328.131
Over 5 years			
TRY sale / EURO purchase	10,65%	188.330.090	15.229.948
Over 5 years			
		<u>287.179.499</u>	<u>24.558.079</u>

31 December 2010

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount(*)	Fair Value
TRY sale / US Dollars purchase	7,22%	107.835.718	1.349.006
Over 5 years			
TRY sale / EURO purchase	10,65%	202.817.020	(22.184.386)
Over 5 years			
		<u>310.652.738</u>	<u>(20.835.380)</u>

(*) In order to hedge against the interest and foreign exchange rate risk of the Euro and US Dollars borrowings, the Group trades floating interest rates with fixed rates and Euro and US Dollars amounts with TRY amounts by making cross currency swap agreements. The fair value of such agreements which are categorized as cash flow hedges and found to be effective, with nominal amount of TRY 287.179.499 (31 December 2010: TRY 310.652.738) is recognized under equity net off its deferred tax effect, unrealized foreign exchange gain/losses and non-controlling interests as TRY (8.383.822) (31 December 2010: TRY (18.920.581)).

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(h) Liquidity risk management

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

Liquidity risk tables

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

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

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

30 June 2011

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow per agreement (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non derivative financial liabilities						
Borrowings from banks	4.591.210.883	5.049.462.244	327.082.277	1.048.109.305	3.155.286.904	518.983.758
Trade payables	536.815.009	538.033.690	362.906.319	175.127.371	-	-
Other financial liabilities (*)	148.688.094	148.688.094	144.449.182	4.238.912	-	-
Total liabilities	5.276.713.986	5.736.184.028	834.437.778	1.227.475.588	3.155.286.904	518.983.758
Derivative financial liabilities						
Derivative cash inflows	25.246.080	387.792.205	18.891.641	73.019.336	279.286.520	16.594.708
Derivative cash outflows	(5.814.656)	(441.844.719)	(19.037.143)	(93.769.385)	(313.639.440)	(15.398.751)
	19.431.424	(54.052.514)	(145.502)	(20.750.049)	(34.352.920)	1.195.957

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

NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont'd)

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

Additional information about financial instruments (cont'd)

(h) Liquidity risk management (cont'd)

31 December 2010

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow per agreement (I+II+III+IV)</u>	<u>Less than 3 months</u>				<u>More than 5 years (IV)</u>
			<u>(I)</u>	<u>(II)</u>	<u>(III)</u>	<u>(IV)</u>	
Non derivative financial liabilities							
Borrowings from banks	5.851.241.280	6.415.179.491	1.474.980.774	1.724.757.494	2.468.055.946	747.385.277	
Trade payables	359.941.902	360.619.499	208.373.082	152.246.417	-	-	
Other financial liabilities (*)	170.533.176	170.533.176	168.703.852	1.829.324	-	-	
Total liabilities	6.381.716.358	6.946.332.166	1.852.057.708	1.878.833.235	2.468.055.946	747.385.277	
Derivative financial liabilities							
Derivative cash inflows	6.380.731	574.471.379	236.693.369	55.725.598	253.224.204	28.828.208	
Derivative cash outflows	(31.262.557)	(683.373.395)	(234.331.034)	(87.227.193)	(330.497.021)	(31.318.147)	
	(24.881.826)	(108.902.016)	2.362.335	(31.501.595)	(77.272.817)	(2.489.939)	

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

**NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)
Additional information about financial instruments**

Categories of the financial instruments and their fair values

	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Held for trading financial instruments	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
30 June 2011									
Financial Assets									
Cash and cash equivalents	1.424.530.592	-	-	-	-	-	-	1.424.530.592	4
Trade receivables	-	989.949.967	-	-	-	-	-	989.949.967	8
Financial investments	-	-	62.790	-	-	-	-	62.790	5
Other financial assets	-	546.422	-	-	-	-	-	546.422	9
Derivative financial instruments	-	-	-	-	-	24.766.023	480.057	25.246.080	5
Financial Liabilities									
Financial liabilities	-	-	-	-	4.591.210.883	-	-	4.591.210.883	6
Trade payables	-	-	-	-	536.815.009	-	-	536.815.009	8
Other liabilities	-	-	-	-	148.688.094	-	-	148.688.094	9/18
Derivative financial instruments	-	-	-	-	-	5.745.838	68.818	5.814.656	7
31 December 2010									
Financial Assets									
Cash and cash equivalents	2.877.790.271	-	-	-	-	-	-	2.877.790.271	4
Trade receivables	-	718.459.958	-	-	-	-	-	718.459.958	8
Financial investments	-	-	56.681	-	-	-	-	56.681	5
Other financial assets	-	60.303.017	-	-	-	-	-	60.303.017	9
Derivative financial instruments	-	-	-	-	-	1.370.505	5.010.226	6.380.731	7
Financial Liabilities									
Financial liabilities	-	-	-	-	5.851.241.280	-	-	5.851.241.280	6
Trade payables	-	-	-	-	359.941.902	-	-	359.941.902	8
Other liabilities	-	-	-	-	170.533.176	-	-	170.533.176	9/18
Derivative financial instruments	-	-	-	-	-	29.424.063	1.838.494	31.262.557	7

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

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont'd)

Additional information about financial instruments (cont'd)

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

Financial asset and liabilities at fair value

	30 June 2011	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	480.057	-	480.057	-
Derivative financial liabilities	(68.818)	-	(68.818)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	24.766.023	-	24.766.023	-
Derivative financial liabilities	(5.745.838)	-	(5.745.838)	-
Total	19.431.424	-	19.431.424	-

Financial asset and liabilities at fair value

	31 December 2010	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	5.010.226	-	5.010.226	-
Derivative financial liabilities	(1.838.494)	-	(1.838.494)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	1.370.505	-	1.370.505	-
Derivative financial liabilities	(29.424.063)	-	(29.424.063)	-
Total	(24.881.826)	-	(24.881.826)	-

First Level: Quoted (non adjusted) prices in active markets for identical assets or liabilities.

Second Level: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Third Level: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Convenience Translation into English of Consolidated Interim Financial Statements Originally Issued in Turkish – See Note 33)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011

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

NOTE 32 – SUBSEQUENT EVENTS

None.

NOTE 33 – 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- 30 June 2011	1 January- 30 June 2010
Current trade receivables	(278.041.661)	(109.219.872)
Inventories	(341.856.245)	(619.126.091)
Other short term receivables / current assets	77.762.466	41.588.058
Non current trade receivables	2.621.888	438.639
Other long term receivables / non current assets	(49.478.538)	15.189.937
Current trade payables	176.873.107	66.969.306
Other short term payables / liabilities	50.422.069	(143.501.079)
Other long term payables / liabilities	(21.877.219)	24.087.051
	<u>(383.574.133)</u>	<u>(723.574.051)</u>

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

<u>Account</u>	(Previously reported) 1 January- 30 June 2010	(Restated) 1 January- 30 June 2010	Difference
Revenues ⁽¹⁾⁽²⁾	3.203.098.676	3.204.380.003	(1.281.327)
Cost of sales (-) ⁽¹⁾⁽²⁾⁽⁴⁾	(2.475.593.420)	(2.479.043.606)	3.450.186
Marketing, sales and distribution expenses (-) ⁽⁴⁾⁽⁵⁾⁽⁶⁾	(26.580.459)	(26.995.841)	415.382
General administrative expenses (-) ⁽⁵⁾⁽⁶⁾	(56.694.862)	(55.204.325)	(1.490.537)
Research and development expenses (-) ⁽⁵⁾⁽⁶⁾	(1.306.374)	(212.670)	(1.093.704)
Other operating income ⁽³⁾	25.923.929	22.311.706	3.612.223
Other operating expense (-) ⁽³⁾	(64.618.795)	(61.006.572)	(3.612.223)
Financial income ⁽⁷⁾	137.692.165	70.326.729	67.365.436
Financial expense (-) ⁽⁷⁾	(209.775.393)	(142.409.957)	(67.365.436)
Total			<u>-</u>

(1) Excess scrap and raw material sales income of TRY 267.581 which is previously netted off under “Cost of sales (-)” is reclassified to “Revenues”.

(2) Raw material sales revenue of TRY 1.013.746 which is previously netted off under “Cost of sales (-)” is reclassified to “Revenues”.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2011**

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

NOTE 33 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION (cont’d)

**The details and the amounts of the reclassifications made of the income statement are as follows:
(cont’d)**

- (3) Lawsuit compensation expenses related to the lawsuits already provided for, of TRY 3.612.223 are netted off under “Other operating income”.
- (4) Transportation expenses of TRY 2.168.859 which are previously reported in “Marketing, sales and distribution expenses” are reclassified to “Cost of sales (-)”.
- (5) Amortization expenses amount of TRY 2.426.627 which is previously reported in “General administrative expenses” and amortization expenses of TRY 1.740 which is previously reported in “Research and development expenses” is reclassified to “Marketing, sales and distribution expenses”.
- (6) TRY 155.874 of personnel and other expenses amount of TRY 1.091.964 which is previously reported in “Research and development expenses” is reclassified to “Marketing, sales and distribution expenses”; TRY 936.090 of that expense is reclassified to “General administrative expenses”.
- (7) Fair value differences of derivative financial instruments of TRY 26.653.371 which is previously netted off under “Financial income” is reclassified to “Financial expenses”. In addition, net interest accrual expense from cross currency and interest rate swap agreements of TRY 880.483 which is previously netted off under “Financial income” is reclassified to “Financial expenses”. Foreign exchange gain from bank deposits of TRY 94.899.290 which is previously reported in “Financial income” is netted off under “Financial expenses”.

Convenience translation to English:

The effect of differences between the Financial Reporting Standards published by the Capital Market Board in Turkey and accounting principles generally accepted in countries in which the consolidated financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified in the consolidated financial statements. The differences with IFRS mainly related to the application of inflation accounting which was ceased one year later in IFRS, and the presentation of the basic consolidated financial statements and the notes to them. Accordingly, the consolidated financial statements are not intended to present the consolidated financial position and consolidated financial performance of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries in accordance with the accounting principles generally accepted in such countries and IFRS.