

(Convenience translation of consolidated financial statements originally issued in Turkish-see Note 34)

**Eređli Demir ve elik
Fabrikaları T.A.Ş. and Its
Subsidiaries**

**Consolidated financial statements
as of 30 June 2010**

(Convenience translation of a review report originally issued in Turkish – see additional paragraph below for convenience translation - see Note 34)

**Independent auditor's review report on the interim consolidated financial statements
for the period January 1 – June 30, 2010**

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, 2010, 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 Market 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 Market 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 Market 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, 2010, and its financial performance and cash flows for the six-months period then ended in accordance with financial reporting standards issued by Capital Market Board.

Without qualifying our conclusion, as explained in detail in note 16 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 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.

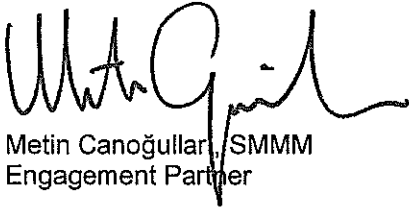
Other matter

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

Additional paragraph for convenience translation to English:

As of June 30, 2010, 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



Metin Canoğulları / SMMM
Engagement Partner

August 2, 2010
Istanbul, Turkey

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

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2010

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

		Current Period (Reviewed) 30 June 2010	Previous Period (Audited) 31 December 2009
	Note		
ASSETS			
Current Assets		5.548.382.352	3.729.502.669
Cash and Cash Equivalents	4	2.110.542.069	1.065.737.367
Financial Investments	5	-	22.588
Trade Receivables	8	779.013.981	692.485.126
<i>Due from Related Parties</i>	30	73.733.297	64.024.254
<i>Other Trade Receivables</i>	8	705.280.684	628.460.872
Other Receivables	9	741.361	124.456
Inventories	10	2.359.362.752	1.644.880.477
Other Current Assets	19	242.279.015	284.483.978
		5.491.939.178	3.687.733.992
 Non Current Assets Held for Sale	 27	 56.443.174	 41.768.677
Non Current Assets		7.196.845.832	7.420.919.878
Trade Receivables	8	1.922.102	2.360.741
Other Receivables	9	26.616.900	26.722.247
Financial Investments	5	52.111	41.666
Investment Properties	12	46.577.264	46.577.264
Property, Plant and Equipment	13	6.777.966.073	6.795.323.290
Intangible Assets	14	133.531.222	140.275.624
Deferred Tax Assets	28	170.224.219	353.505.904
Other Non Current Assets	19	39.955.941	56.113.142
TOTAL ASSETS		12.745.228.184	11.150.422.547

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2010**

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

	Note	Current Period (Reviewed) 30 June 2010	Previous Period (Audited) 31 December 2009
LIABILITIES			
Current Liabilities			
Financial Liabilities	6	2.615.218.575	837.296.086
Other Current Financial Liabilities	7	1.577.735	96.556.326
Trade Payables	8	610.974.241	355.004.343
<i>Due to Related Parties</i>	30	7.947.385	5.147.811
<i>Other Trade Payables</i>	8	603.026.856	349.856.532
Other Payables	9	85.042.159	53.444.045
<i>Due to Related Parties</i>	30	4.916.365	1.871.365
<i>Other Payables</i>	9	80.125.794	51.572.680
Current Tax Liabilities	28	7.488.767	2.385.751
Provisions	16	74.138.943	73.932.797
Other Current Liabilities	19	172.194.883	202.278.614
Non Current Liabilities		2.839.786.678	3.610.830.559
Financial Liabilities	6	2.603.431.573	3.328.726.727
Other Non Current Financial Liabilities	7	32.525.062	9.414.527
Provisions for Employment Benefits	18	136.949.569	121.870.564
Deferred Tax Liabilities	28	65.691.679	150.606.462
Other Non Current Liabilities	19	1.188.795	212.279
EQUITY	20	6.338.806.203	5.918.694.026
Equity attributable to equity holders of the parent		6.174.144.791	5.762.058.750
Issued Capital		1.600.000.000	1.600.000.000
Inflation Adjustment of Issued Capital		731.967.735	731.967.735
Treasury Shares (-)		(57.692.172)	(57.692.172)
Share Premium		231.020.042	231.020.042
Revaluation Reserves of Tangible Assets		24.560.768	25.869.903
Revaluation Reserves of Financial Assets		14.674.497	-
Cash Flow Hedge Reserves		(13.452.591)	(7.259.727)
Currency Translation Reserve		4.886.172	4.108.212
Restricted Reserves Assorted from Profit		1.696.170.542	1.688.196.335
Retained Earnings		1.537.874.215	1.714.538.844
Net Profit/(Loss) for the Period		404.135.583	(168.690.422)
Non-controlling Interest		164.661.412	156.635.276
TOTAL LIABILITIES AND EQUITY		12.745.228.184	11.150.422.547

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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

**CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTHS INTERIM PERIOD ENDED
30 JUNE 2010**

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

	Note	Reviewed 1 January- 30 June 2010	1 April- 30 June 2010	Reviewed 1 January- 30 June 2009	1 April- 30 June 2009
OPERATING INCOME					
Revenues	21	3,203,098.676	1,621,227,373	2,304,620,230	1,239,022,820
Cost of Sales (-)	21	(2,475,593,420)	(1,203,127,621)	(2,270,275,952)	(1,293,954,330)
GROSS PROFIT/(LOSS)		727,505,256	418,099,752	34,344,278	(54,931,510)
Marketing, Sales and Distribution Expenses (-)	22	(26,580,459)	(13,881,724)	(36,850,022)	(16,446,783)
General Administrative Expenses (-)	22	(56,694,862)	(29,453,052)	(55,270,540)	(27,843,182)
Research and Development Expenses (-)	22	(1,306,374)	(705,642)	(1,015,654)	(492,016)
Other Operating Income	24	25,923,929	15,045,417	28,855,544	9,114,039
Other Operating Expenses (-)	24	(64,618,795)	(2,952,046)	(48,352,007)	(32,742,078)
OPERATING PROFIT/(LOSS)		604,228,695	386,152,705	(78,288,401)	(123,341,530)
Share of Loss From Associates	11	-	-	(642,992)	-
Financial Income	25	137,692,165	9,848,058	94,750,894	(27,542,079)
Financial Expense (-)	26	(209,775,393)	(62,184,066)	(254,508,480)	115,941,248
PROFIT/(LOSS) BEFORE TAX		532,145,467	333,816,697	(238,688,979)	(34,942,361)
Tax Income/(Expense)	28	(113,962,399)	(82,618,294)	42,548,143	3,224,476
- Current Tax Expense		(13,758,123)	(7,586,487)	(10,636,753)	(3,087,939)
- Deferred Tax Income/(Expense)		(100,204,276)	(75,031,807)	53,184,896	6,312,415
PROFIT/(LOSS) FOR THE PERIOD		418,183,068	251,198,403	(196,140,836)	(31,717,885)
- Non-controlling Interest		14,047,485	7,468,182	1,232,003	10,812,439
- Equity Holders of the Parent		404,135,583	243,730,221	(197,372,839)	(42,530,324)
EARNINGS/(LOSS) PER SHARE	29	0,2526	0,1523	(0,1234)	(0,0266)
(TRY 1 Nominal value per share)					

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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

	Note	Reviewed		Reviewed	
		1 January-30 June 2010	1 April-30 June 2010	1 January-30 June 2009	1 April-30 June 2009
PROFIT/(LOSS) FOR THE PERIOD		418.183.068	251.198.403	(196.140.836)	(31.717.885)
Other Comprehensive Income/(Expense):					
Change in Revaluation Reserves of Tangible Assets		(1.309.135)	(1.176.357)	(511.678)	(282.466)
Change in Revaluation Reserves of Financial Assets		14.674.497	14.674.497	-	-
Change in Cash Flow Hedge Reserves		(6.653.660)	(2.910.114)	(6.022.436)	(6.315.849)
Change in Currency Translation Difference		777.960	699.335	(237.495)	(835.937)
OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD (AFTER TAX)	28	7.489.662	11.287.361	(6.771.609)	(7.434.252)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		425.672.730	262.485.764	(202.912.445)	(39.152.137)
Distribution of Total Comprehensive Income/(Loss)					
- Non-controlling Interest		13.586.689	7.291.385	797.242	10.355.164
- Equity Holders of the Parent		412.086.041	255.194.379	(203.709.687)	(49.507.301)

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish -- See Note 34)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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

Note	Issued Capital	Inflation Adjustment to Issued Capital	Treasury Shares (-)	Share Premium	Revaluation Reserves of Tangible Assets	Revaluation Reserves of Financial Assets	Cash Flow Hedge Reserves	Currency Translation Reserves	Restricted Reserves Assorted from Profit	Net Profit for the Period and Retained Earnings	Equity Attributable to the Parent	Non-controlling Interest	Total Equity
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) for the period	-	-	-	-	(1.309.135)	14.674.497	(6.192.864)	777.960	-	-	7.950.458	(460.796)	7.489.662
Total comprehensive income/(loss) for the period	-	-	-	-	(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	20	-	-	-	-	-	-	7.974.207	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
1 January 2009	1.148.812.500	731.967.735	(43.790.843)	231.020.042	26.376.841	-	(1.616.880)	3.464.667	1.665.921.924	2.174.099.426	5.936.255.412	167.372.727	6.103.628.139
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	(197.372.839)	(197.372.839)	1.232.003	(196.140.836)
Other comprehensive income/(loss) for the period	-	-	-	-	(511.678)	-	(5.587.675)	(237.495)	-	-	(6.336.848)	(434.761)	(6.771.609)
Total comprehensive income/(loss) for the period	-	-	-	-	(511.678)	-	(5.587.675)	(237.495)	-	(197.372.839)	(203.709.687)	797.242	202.912.445
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	763.424	763.424	-	763.424
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(10.505.729)	(10.505.729)
Transfers from retained earnings	20	-	-	-	-	-	-	-	22.274.411	(22.274.411)	-	-	-
30 June 2009	1.148.812.500	731.967.735	(43.790.843)	231.020.042	25.865.163	-	(7.204.555)	3.227.172	1.688.196.335	1.955.215.600	5.733.309.149	157.664.240	5.890.973.389

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS INTERIM PERIOD ENDED
30 JUNE 2010**

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

	Note	Current Period (Reviewed) 1 January – 30 June 2010	Previous Period (Reviewed) 1 January – 30 June 2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/ (loss) before tax and non-controlling interest		532.145.467	(238.688.979)
Adjustments to reconcile net profit /(loss) before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	21/23	131.401.160	116.000.209
Provision for employee termination benefits	18	18.442.976	16.623.699
Provision for seniority incentive premium	18	1.768.599	4.020.673
Share of loss from associates	11	-	642.992
Loss/(gain) on disposal of property plant and equipment	24	43.230	(547.383)
Increase in provision for doubtful receivables	8/9	21.730.845	3.841.462
Increase/(decrease) in impairment on inventories	10	1.681.928	(889.710.231)
Increase in provision for raw material price difference		109.090.539	-
Increase/(decrease) in provision for unused vacations	19	9.007.468	(5.367.288)
Increase in accrual for aid premium to employees	19	5.885.000	-
Increase/(decrease) in provision for pending claims and lawsuits	16	1.695.001	(608.122)
Increase in provision for fines	16	-	20.114.465
Decrease in penalty provision for obligatory employment shortage of disabled people, ex-convicts and terror victims	16	(1.488.855)	(2.740.163)
Decrease in provisions for tax related contingencies	16	-	(3.590.533)
Decrease in provision for purchase commitments	16	-	(101.637.544)
Financial expense	26	82.550.634	119.223.442
Interest income	25	(45.486.837)	(64.428.661)
Unrealized foreign currency loss of financial liabilities		98.611.311	136.000.481
(Gain)/loss on fair value changes of derivative financial instruments	25	(68.296.618)	98.796.201
Net cash provided/(used in) by operating activities before changes in working capital		898.781.848	(792.055.280)
Changes in working capital	34	(610.947.717)	1.294.794.479
Interest paid		(84.204.122)	(139.393.292)
Interest received		44.885.121	63.317.219
Taxes paid	28	(8.655.107)	(9.109.472)
Employee termination benefits paid	18	(5.132.570)	(26.870.077)
Net cash provided by operating activities		234.727.453	390.683.577
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in marketable securities held for trading	5	22.588	9.537
Changes in financial assets held as available for sale	5	(10.445)	(3.351)
Proceeds from sale of property, plant and equipment, intangible assets	13/14/24	1.101.787	2.888.191
Purchases of investment property	12	-	(603.714)
Purchases of property, plant and equipment	13	(115.905.196)	(220.342.562)
Purchases of intangible assets	14	(243.602)	(903.330)
Net cash used in investing activities		(115.034.868)	(218.955.229)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		1.466.953.076	2.747.328.775
Repayment of borrowings		(539.485.411)	(3.132.443.154)
Currency translation difference, net		2.603.288	46.229
Dividends paid to non-controlling interest		(5.560.553)	(10.505.729)
Net cash provided/(used in) by financing activities		924.510.400	(395.573.879)
NET CHANGES IN CASH AND CASH EQUIVALENTS		1.044.202.985	(223.845.531)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4	1.063.284.367	972.980.449
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	2.107.487.352	749.134.918
Accrued interest	4	3.054.717	1.600.818
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST	4	2.110.542.069	750.735.736

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

(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 more than fifty direct and indirect subsidiaries in industry, finance and service sectors. The detailed information about OYAK can be found on its official website (www.oyak.com.tr).

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

The Company’s shares have been traded in Istanbul Stock Exchange since the establishment of the Istanbul Stock Exchange (year1986).

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

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

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

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

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

The number of the personnel employed by the Group as at 30 June 2010 and 31 December 2009 are as follows:

	30 June 2010 Personnel	31 December 2009 Personnel
Monthly paid personnel (A)	3.218	3.244
Hourly paid personnel (B)	7.956	8.003
Candidate worker (C)	1.967	1.786
Contractual personnel (D)	18	17
Contractual personnel (SZ)	113	111
Total	13.272	13.161

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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

NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

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

CMB, in accordance with Communiqué Serial: XI, No: 29 on “Communiqué on Financial Reporting in the Capital Markets”, regulates the comprehensive set of principles, procedures and basis of preparation, presentation and announcement of financial statements prepared by the entities. This communiqué is effective for the periods from the first interim financial statements prepared subsequent 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”.

Functional and Reporting Currency

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

Functional and reporting currency for the subsidiary abroad

The financial statements of the subsidiary operating in Romania have been prepared in accordance with the legislation in force within the country, and are arranged reflecting the necessary adjustments and reclassifications in conformity with IFRS. The assets and liabilities of the foreign subsidiary 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

(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 for the subsidiary abroad (cont’d)

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 differences 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 financial statements have been approved and authorized to be published on 2 August 2010 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

2.2 The Adjustment of the Financial Statements in Hyperinflationary Periods

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

2.3 Changes in Accounting Estimates and Errors

The changes in accounting estimates affecting the current period are recognized in the current period, the changes in accounting estimates affecting both in the current and future periods, prospectively. Since 1 January 2009, based on the report of Hatch Associates Limited prepared as of 31 December 2008 and dated 12 May 2009, the Group has changed the depreciation method of Erdemir and İsdemir’s land improvements, machinery, equipment and vehicles from straight line to the units of production method, where it is appropriate to reflect their expected consumption model in a more accurate way.

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

(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

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

Subsidiaries

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

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

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

When the Group purchases a company, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. The amount of the 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 interest consists 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 exceeding the shares belonging to non-controlling interest are distributed to the shares of the Group, unless there is a mandatory obligation to compensate the recognized losses and an opportunity to make additional investments to cover the stated losses of the non-controlling interest. The equity and net income attributable to non-controlling shareholders’ interests are shown separately in the consolidated balance sheet and income statement, respectively.

Investments in Associates

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

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

According to the equity method, the investments in associates are carried into the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group’s share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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(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)

Investments in Associates (cont’d)

Unrealized gains resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate, however the unrealized losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate unless it indicates there is no impairment on asset transferred.

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

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

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

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

The Group makes estimates and assumptions for future while preparing its consolidated financial statements. These accounting estimates are rarely identical to the realized results.

The estimates and assumptions that may cause significant adjustments to the carrying values of assets and liabilities in the following reporting periods are listed below:

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

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

2.6.2 Deferred tax assets

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

2.6.3 Fair values of derivative financial instruments

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

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(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)

2.6.4 Provision for doubtful receivables

Allowance for doubtful receivables reflect the future loss that the Group anticipates to incur from the trade receivables as of the balance sheet date which are subject to collection risk considering the current economical conditions. During the impairment test for the receivables, the debtors, other than the key accounts and related parties, 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 are followed in the 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 inventories with the net realizable values below the costs are written down in the 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 18.

2.6.7 Provision for raw material price differences

The Group calculates the provision for raw material price differences based on the quantities of raw materials purchased during 2010 and estimated price differences which will be invoiced resulting to negotiations related with purchase agreements.

2.6.8 Revaluation reserves of financial investments

As of the balance sheet date, the difference between the estimated market value and the carrying value of the 9,34 % shares of Borçelik Çelik Sanayi Ticaret A.Ş. which is classified under “Non-Current Asset Held For Sale” (Note 27) and valued as a financial asset held for sale as of 1 April 2009, is recognized as a revaluation reserve of the financial asset.

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.

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(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

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

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

IFRS 1 (Amendment) ‘First-time Adoption of International Financial Reporting Standards’ - Additional exemptions for first time adopters,

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

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

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

IFRIC 17 ‘Distributions of Non-cash Assets to Owners’,

Improvements to IFRSs (issued in 2008),

Improvements to IFRSs (issued in 2009),

New and amended standards and interpretations issued that are effective subsequent to 31 December 2010 year-ends (these amendments have not been endorsed by European Union yet):

IFRS 1 (Amendment) - Limited exemption for comparative IFRS 7 Disclosures (effective for the periods beginning on or after 1 July 2010. Early application is permitted.)

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.

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

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

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

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

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

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

Improvements to IFRSs (issued in May 2010):

In May 2010, International Accounting Standards Board (IASB) made 11 changes in 7 standards. These changes have no impact on the financial performance of the Group. The revised standards are as below:

IFRS 1: Accounting policy changes in the year of adoption

IFRS 1: Revaluation basis as deemed cost

IFRS 1: Use of deemed cost for operations subject to rate regulation

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

IFRS 3: Measurement of non-controlling interests

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

IFRS 7: Clarification of disclosures

IAS 1: Clarification of statement of changes in equity

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

IAS 34: Significant events and transactions

IFRIC 13: Fair value of award credits

2.9 Valuation Principles Applied / Significant Accounting Policies

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

2.9.1 Revenue recognition

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

Sale of goods

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

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

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.

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

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(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)

2.9.1 Revenue recognition (cont’d)

Dividend and interest revenue (cont’d)

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

Rental income

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

2.9.2 Inventories

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

2.9.3 Property, plant and equipment

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

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

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

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

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

(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 (cont’d)

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

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

2.9.4 Intangible assets

Purchased intangible assets

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

The amortization rates of the intangible assets are stated below:

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

2.9.5 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization or depreciation and are tested annually for impairment. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the assets no longer exist or has decreased.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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

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

2.9.6 Leases

The Group as lessee:

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

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

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

The Group as lessor:

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

2.9.7 Borrowing costs

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

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

2.9.8 Financial instruments

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

Financial assets

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

(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)

2.9.8 Financial instruments (cont’d)

Financial assets (cont’d)

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.

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.

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

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

2.9.8 Financial instruments (cont’d)

Financial assets (cont’d)

Impairment of financial assets

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

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

2.9.8. Financial instruments (cont’d)

Financial liabilities (cont’d)

Other financial liabilities

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

2.9.9 The effects of foreign exchange rate changes

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

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

2.9.10 Earnings per share

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

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

2.9.11 Subsequent events

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

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

2.9.12 Provisions, contingent liabilities and contingent assets

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

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

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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 Related parties

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

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

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

2.9.14 Non current assets held for sale and discontinued operations

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

2.9.15 Investment properties

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

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

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

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

2.9.16 Taxation and deferred income taxes

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

(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 Taxation and deferred income taxes (cont’d)

Current and deferred tax for the period

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

2.9.17 Provisions for employment benefits

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

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

2.9.18 Statement of cash flows

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

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

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

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

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

2.9.19 Share capital and dividends

Common shares are classified as equity. Dividends on common shares are recognized inequity in the period which they are approved and declared.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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

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

2.9.20 Treasury shares

Article IV-K of Articles of Association “According to Turkish Commercial Code Article 329, transactions of an entity’s own shares” allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 30 June 2010, the Company holds its own shares with a nominal value of TRY 49.296.859 (31 December 2009 : TRY 49.296.859). The Company’s own shares have been reclassified with its indexed value in the consolidated balance sheet as a deduction under equity.

NOTE 3 – OPERATING SEGMENTS

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

NOTE 4 – CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as of 30 June 2010 and 31 December 2009 is as follows:

	30 June 2010	31 December 2009
Cash	23.377	24.725
Banks – demand deposits	22.138.597	57.474.534
Banks – time deposits	2.088.380.095	1.008.238.108
	<u>2.110.542.069</u>	<u>1.065.737.367</u>
Time deposit interest accruals (-)	(3.054.717)	(2.453.000)
Cash and cash equivalents excluding interest accruals	<u>2.107.487.352</u>	<u>1.063.284.367</u>

The breakdown of demand deposits is presented below:

	30 June 2010	31 December 2009
EUR	9.257.165	7.594.427
TRY	6.551.479	4.538.501
USD	5.666.798	40.342.507
RON	642.972	4.949.386
GBP	18.629	27.229
JPY	1.554	22.484
	<u>22.138.597</u>	<u>57.474.534</u>

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

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

The breakdown of time deposits is presented below:

	30 June 2010	31 December 2009
USD	1.688.150.337	648.714.606
TRY	376.656.153	294.414.407
EUR	23.573.605	65.109.095
	<u>2.088.380.095</u>	<u>1.008.238.108</u>

NOTE 5 – FINANCIAL INVESTMENTS

Marketable securities held for trading:

	30 June 2010	31 December 2009
Investment Funds	-	22.588

Financial assets held as available for sale:

As of 30 June 2010 and 31 December 2009 the Group’s subsidiaries, their percentage shares and amounts of the ownership interest are as follows:

Company	Rate %	30 June 2010	Rate %	31 December 2009
Erdemir Gaz San. ve Tic. A.Ş. (*)	100	52.111	100	41.666

(*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 1.354 and has not been operating since its establishment, are not consolidated as their effects on the consolidated financial statements are immaterial and disclosed at cost. There is no off balance sheet liabilities given between the Group companies and Erdemir Gaz in favor of each other.

NOTE 6 – FINANCIAL LIABILITIES

	30 June 2010	31 December 2009
Short term financial liabilities	36.164.851	29.393.986
Current portion of long term financial liabilities	2.579.053.724	807.880.899
Finance lease payables	-	21.201
Total short term financial liabilities	<u>2.615.218.575</u>	<u>837.296.086</u>
Long term financial liabilities	2.603.431.573	3.328.726.727
Total long term financial liabilities	<u>2.603.431.573</u>	<u>3.328.726.727</u>
	<u>5.218.650.148</u>	<u>4.166.022.813</u>

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010**

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

NOTE 6 – FINANCIAL LIABILITIES (cont’d)

As of 30 June 2010, the breakdown of the Group’s fixed interest loans in their original currency and by their weighted average effective interest rates, is presented as follows:

Type of original currency	The effective weighted average rate of interest (%)	Short term portion	Long term portion	30 June 2010
TRY	10,90	8.129.888	91.870.112	100.000.000
TRY	Spot	36.164.851	-	36.164.851
USD	5,78	1.062.596	-	1.062.596
		<u>45.357.335</u>	<u>91.870.112</u>	<u>137.227.447</u>

As of 30 June 2010, according to their type of original currency and interest rates, the breakdown of the Group’s fixed-interest loans that contain financial hedge arrangements in their original currency and by their respective interest rates, is presented as follows:

Type of original currency	Fixed rate of interest (%)	Short term portion	Long term portion	30 June 2010
EUR (*)	10,65	29.458.051	158.763.101	188.221.152
USD	1,84	159.026.508	-	159.026.508
USD	2,08	23.286.119	84.535.146	107.821.265
USD	1,00	63.699.719	30.822.698	94.522.417
USD	3,60	59.354.472	29.209.281	88.563.753
USD	2,03	23.753.912	44.416.642	68.170.554
USD	2,39	12.242.979	52.360.055	64.603.034
USD	3,35	31.896.973	15.544.087	47.441.060
USD	3,27	15.948.449	7.760.512	23.708.961
		<u>418.667.182</u>	<u>423.411.522</u>	<u>842.078.704</u>
Total fixed-interest rate loans		<u>464.024.517</u>	<u>515.281.634</u>	<u>979.306.151</u>

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

As of 30 June 2010, the breakdown of the Group’s floating interest loans in their original currency and by their weighted average effective interest rates, is presented as follows:

Type of original currency	The effective weighted average interest rate (%)	Short term portion	Long term portion	30 June 2010
USD	Libor + 2,65	1.165.242.866	1.678.761.316	2.844.004.182
TRY	TR Libor + 1,77	910.903.883	-	910.903.883
EUR	Euribor + 0,30	51.134.506	269.187.014	320.321.520
JPY	JPY Libor + 0,22	23.912.803	140.201.609	164.114.412
Total floating-interest rate loans		<u>2.151.194.058</u>	<u>2.088.149.939</u>	<u>4.239.343.997</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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NOTE 6 – FINANCIAL LIABILITIES (cont’d)

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

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

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

Type of original currency	Fixed rate of interest (%)	Short term portion	Long term portion	31 December 2009
USD	1,84	153.341.601	74.467.306	227.808.907
USD	1,00	61.348.704	59.137.410	120.486.114
USD	3,60	57.270.085	55.827.519	113.097.604
USD	2,03	22.444.722	52.909.326	75.354.048
USD	3,35	30.636.967	29.799.941	60.436.908
USD	3,27	15.328.004	14.879.863	30.207.867
USD	3,19	29.851.889	-	29.851.889
		<u>370.221.972</u>	<u>287.021.365</u>	<u>657.243.337</u>
Total fixed-interest rate loans		<u>380.825.768</u>	<u>287.021.365</u>	<u>667.847.133</u>

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

Type of original currency	The effective weighted average interest rate (%)	Short term portion	Long term portion	31 December 2009
USD	Libor + 1,32	290.236.756	1.527.129.581	1.817.366.337
TRY	TRLibor + 1,77	54.203.445	855.668.943	909.872.388
EUR	Euribor + 0,27	89.870.916	520.438.669	610.309.585
JPY	JPYLibor+0,22	22.138.000	138.468.169	160.606.169
Total floating-interest rate loans		<u>456.449.117</u>	<u>3.041.705.362</u>	<u>3.498.154.479</u>

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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NOTE 6 – FINANCIAL LIABILITIES (cont’d)

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

	30 June 2010	31 December 2009
Within one year	2.615.218.575	837.274.885
Between 1-2 years	557.707.923	2.264.672.684
Between 2-3 years	528.564.534	286.718.788
Between 3-4 years	462.044.423	238.613.532
Between 4-5 years	384.306.313	189.605.453
Five years or more	670.808.380	349.116.270
	<u>5.218.650.148</u>	<u>4.166.001.612</u>

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

	30 June 2010	31 December 2009
Within one year	-	21.201
	<u>-</u>	<u>21.201</u>

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

	30 June 2010	31 December 2009
EUR	-	21.201
	<u>-</u>	<u>21.201</u>

The net book value of the assets acquired by using finance lease is TRY 624.203 (31 December 2009: TRY 673.259).

NOTE 7 - OTHER FINANCIAL LIABILITIES

	30 June 2010	31 December 2009
<u>Other current financial liabilities</u>		
Expense accruals of the derivative financial instruments (Note 31)	1.577.735	96.556.326
<u>Other non current financial liabilities</u>		
Expense accruals of the derivative financial instruments (Note 31)	32.525.062	9.414.527

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(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 2010	31 December 2009
<u>Short term trade receivables</u>		
Trade receivables	734.949.256	590.157.406
Trade receivables due from related parties (Note 30)	73.733.297	64.024.254
Notes receivables	2.915.858	34.649.069
Discount on receivables (-)	(1.122.953)	(1.852.179)
Other trade receivables	11.166.388	25.571.526
Provision for doubtful receivables (-)	(42.627.865)	(20.064.950)
	<u>779.013.981</u>	<u>692.485.126</u>

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	20.064.950	12.815.687
Provision for the period	23.419.742	3.883.739
Provision released (-)	(856.827)	(42.277)
Closing balance	<u>42.627.865</u>	<u>16.657.149</u>

	30 June 2010	31 December 2009
<u>Long term trade receivables</u>		
Trade receivables	4.095.062	4.660.859
Discount on receivables (-)	(553.167)	(680.325)
Provision for doubtful receivables (-)	(1.619.793)	(1.619.793)
	<u>1.922.102</u>	<u>2.360.741</u>

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	1.619.793	1.619.793
Closing balance	<u>1.619.793</u>	<u>1.619.793</u>

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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 is disclosed in Note 31.

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

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

<u>Short term trade payables</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
Trade payables	595.949.506	348.736.935
Trade payables due to related parties (Note 30)	7.947.385	5.147.811
Discount on trade payables (-)	(1.346.584)	(573.055)
Other trade payables	8.423.934	1.692.652
	<u>610.974.241</u>	<u>355.004.343</u>

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NOTE 9 – OTHER RECEIVABLES AND PAYABLES

Other current receivables

	30 June 2010	31 December 2009
Other receivables	6.157.848	6.884.571
Provision for other doubtful receivables (-)	(6.157.848)	(6.884.571)
Deposits and guarantees given	741.361	124.456
	<u>741.361</u>	<u>124.456</u>

Other explanatory notes related to the Group’s credit risk is disclosed in Note 31.

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	6.884.571	6.800.431
Provision released (-)	(726.723)	(16.184)
Closing balance	<u>6.157.848</u>	<u>6.784.247</u>

Other non current receivables

	30 June 2010	31 December 2009
Receivables from Privatization Authority	52.945.960	53.156.654
Provision for other doubtful receivables (-)	(26.472.980)	(26.578.327)
Deposits and guarantees given	143.920	143.920
	<u>26.616.900</u>	<u>26.722.247</u>

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

	1 January- 30 June 2010	1 January- 30 June 2009
Opening balance	26.578.327	-
Provision released (-)	(105.347)	-
Closing balance	<u>26.472.980</u>	<u>-</u>

Other current payables

	30 June 2010	31 December 2009
Deferred and installed payables to public institutions	49.862.164	23.272.871
Taxes and funds payable	13.446.697	12.365.506
Social security deductions payable	12.822.124	11.772.583
Deposits and guarantees received	3.994.809	4.161.720
Non trade payables due to related parties (Note 30)	4.916.365	1.871.365
	<u>85.042.159</u>	<u>53.444.045</u>

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NOTE 10 – INVENTORIES

	30 June 2010	31 December 2009
Raw materials	638.518.298	423.726.902
Work in progress	559.553.484	380.153.868
Goods in transit	484.205.868	231.739.034
Finished goods	288.017.735	223.756.742
Spare parts	218.587.605	251.488.002
Trade goods	1.700.187	975.653
Other inventories	182.704.316	145.283.089
Allowance for impairment on inventories (-)	(13.924.741)	(12.242.813)
	<u>2.359.362.752</u>	<u>1.644.880.477</u>

The movements of the allowance for impairment on inventories:

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	12.242.813	989.041.083
Provision for the period	5.251.890	96.776.342
Utilized portion of the provision (-)	(3.569.962)	(986.486.573)
Closing balance	<u>13.924.741</u>	<u>99.330.852</u>

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 utilized portion of the allowance has been accounted under cost of sales(Note 21).

NOTE 11 – ASSOCIATES ACCOUNTED UNDER EQUITY METHOD

<u>Name of the associate:</u>	<u>Country of incorporation</u>	<u>Share in capital %</u>	<u>Voting right %</u>	<u>Nature of business</u>
ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş.	Turkey	25,00	25,00	Steel for packaging

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

	1 January – 31 March 2009
Income	40.904.945
Net profit/(loss)	<u>(2.571.969)</u>
Group's share in net profit/(loss)	<u>(642.992)</u>

The Group's financial asset which was previously consolidated by using the equity method, has been reclassified to "Non current assets held for sale" as of 1 April 2009 (Note 27). Starting from this date, the increase in the value of the associate is not recognized.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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NOTE 12 – INVESTMENT PROPERTIES

	1 January – 30 June 2010	1 January – 30 June 2009
<u>Cost</u>		
As of 1 January	46.577.264	45.973.550
Additions	-	603.714
As of 30 June	<u>46.577.264</u>	<u>46.577.264</u>
<u>Book value</u>	<u>46.577.264</u>	<u>46.577.264</u>

As of 30 June 2010, according to the valuation report dated December 2009, the fair value of the Group’s investment properties with a total carrying value of TRY 46.577.264 is, TRY 203.749.000. The fair value of the investment properties have been determined in reference to the valuation of an independent valuation firm. Harmoni Gayrimenkul Değerleme ve Danışmanlık A.Ş. is the independent valuation firm that is authorized by the CMB. The valuation is undertaken predominantly by using the precedent values of similar properties as references.

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

For the six months period ended 30 June 2010, the Group received rent income amounted to TRY 40.442 (30 June 2009: TRY 42.759) from investment properties leased under operational leases.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Opening balance as of									
1 January 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)
Transfers 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
Accumulated Depreciation									
Opening balance as of									
1 January 2010	-	(978.573.598)	(1.678.082.627)	(4.870.606.725)	(322.161.994)	(135.320.203)	(12.775.414)	-	(7.997.520.561)
Translation difference	-	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

(*) The amount of capitalized financial expenses is TRY 28.201.851 for the current period.(The capitalized financial expenses for six months period ended 30 June 2009 is: TRY 35.636.685)

(**) TRY 111.297 is transferred to intangible assets (Note 14).

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

<u>Cost</u>	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
Opening balance as of 1 January 2009	95.435.452	1.420.508.894	2.117.904.966	8.828.843.282	597.767.332	267.285.408	14.628.397	1.477.565.472	14.819.939.203
Translation difference	(370.696)	-	(396.942)	(1.026.646)	(38.492)	(63.018)	-	(85.950)	(1.981.744)
Additions	9.957	107.110	127.922	1.615.002	-	569.954	64.431	253.503.002	255.997.378
Disposals	-	(16.650.436)	(258.474)	(50.809.671)	(3.641.508)	(1.835.719)	(349.836)	(947.229)	(74.492.873)
Transfers from CIP (*)	-	2.712.410	429.321	28.417.675	1.723.269	245.414	-	(33.546.220)	(18.131)
Closing balance as of 30 June 2009	95.074.713	1.406.677.978	2.117.806.793	8.807.039.642	595.810.601	266.202.039	14.342.992	1.696.489.075	14.999.443.833
<u>Accumulated Depreciation</u>									
Opening balance as of 1 January 2009	-	(976.715.844)	(1.639.740.716)	(5.010.906.051)	(314.908.831)	(129.764.453)	(12.424.075)	-	(8.084.459.970)
Translation difference	-	-	35.731	627.544	19.914	34.409	-	-	717.598
Charge for the period	-	(8.469.509)	(32.512.748)	(79.342.085)	(6.451.254)	(6.404.345)	(285.761)	-	(133.465.702)
Disposals	-	16.648.995	182.998	49.990.869	3.437.068	1.563.892	328.243	-	72.152.065
Closing balance as of 30 June 2009	-	(968.536.358)	(1.672.034.735)	(5.039.629.723)	(317.903.103)	(134.570.497)	(12.381.593)	-	(8.145.056.009)
Net book value as of 31 December 2008	95.435.452	443.793.050	478.164.250	3.817.937.231	282.858.501	137.520.955	2.204.322	1.477.565.472	6.735.479.233
Net book value as of 30 June 2009	95.074.713	438.141.620	445.772.058	3.767.409.919	277.907.498	131.631.542	1.961.399	1.696.489.075	6.854.387.824

(*) TRY 18.131 is transferred to intangible assets (Note 14).

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

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

	<u>30 June 2010</u>	<u>30 June 2009</u>
Cost of sales	120.126.183	105.679.993
Capitalized on inventories	32.263.130	22.686.125
General administration expenses	5.052.858	5.033.140
Marketing, sales and distribution expenses	47.178	64.704
Research and development expenses	1.740	1.740
	<u>157.491.089</u>	<u>133.465.702</u>

NOTE 14 – INTANGIBLE ASSETS

	<u>Rights</u>	<u>Exploration costs and other assets with specific useful life</u>	<u>Other intangible fixed assets</u>	<u>Total</u>
<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	<u>151.117.148</u>	<u>61.593.885</u>	<u>4.020.869</u>	<u>216.731.902</u>
<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
Disposals	-	91.919	-	91.919
Charge for the period	(4.957.131)	(1.350.967)	(373.594)	(6.681.692)
Closing balance as of 30 June 2010	<u>(42.508.644)</u>	<u>(37.308.587)</u>	<u>(3.383.449)</u>	<u>(83.200.680)</u>
Net book value as of 31 December 2009	<u>113.333.922</u>	<u>25.900.157</u>	<u>1.041.545</u>	<u>140.275.624</u>
Net book value as of 30 June 2010	<u>108.608.504</u>	<u>24.285.298</u>	<u>637.420</u>	<u>133.531.222</u>

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NOTE 14 – INTANGIBLE ASSETS (cont’d)

	Rights	Exploration costs and other assets with specific useful life	Other intangible fixed assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2009	141.311.026	61.966.819	3.296.856	206.574.701
Additions	410.103	-	475.096	885.199
Transfer from investment properties	-	-	18.131	18.131
Closing balance as of 30 June 2009	141.721.129	61.966.819	3.790.083	207.478.031
<u>Accumulated amortization</u>				
Opening balance as of 1 January 2009	(29.785.963)	(33.312.024)	(2.426.754)	(65.524.741)
Charge for the period	(3.782.952)	(1.368.758)	(317.786)	(5.469.496)
Closing balance as of 30 June 2009	(33.568.915)	(34.680.782)	(2.744.540)	(70.994.237)
Net book value as of 31 December 2008	111.525.063	28.654.795	870.102	141.049.960
Net book value as of 30 June 2009	108.152.214	27.286.037	1.045.543	136.483.794

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

	30 June 2010	30 June 2009
Cost of sales	5.709.048	4.934.497
Capitalized on inventories	508.491	248.864
General administration expenses	462.565	285.803
Marketing, sales and distribution expenses	1.588	332
	6.681.692	5.469.496

NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES

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

	1 January – 30 June 2010	1 January – 30 June 2009
Social security grants	254.924	257.321
Research and development grants	250.877	-
Energy grants	-	2.265.373
Tax grants	-	26.928
	505.801	2.549.622

There is an amount of TRY 39.134.870 investment incentive right of the Group to deduct in the coming 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.

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NOTE 16 – PROVISIONS

	30 June 2010	31 December 2009
Provision for tax exposures	42.629.219	42.629.219
Provision for lawsuits	25.974.010	24.279.009
Penalty provision for obligatory employment shortage of disabled personnel	5.535.714	7.024.569
	<u>74.138.943</u>	<u>73.932.797</u>

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

The movements of the provisions:

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	42.629.219	44.636.012
Provision for the period	-	1.583.739
Provision released (-)	-	(5.174.272)
Closing balance	<u>42.629.219</u>	<u>41.045.479</u>

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	24.279.009	26.068.603
Provision for the period	5.810.198	3.686.845
Provision released (-)	(4.115.197)	(4.294.967)
Closing balance	<u>25.974.010</u>	<u>25.460.481</u>

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	7.024.569	57.377.349
Provision for the period	1.019.664	1.057.226
Provisions released (-)	(2.508.519)	(3.797.389)
Closing balance	<u>5.535.714</u>	<u>54.637.186</u>

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

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NOTE 16 – PROVISIONS (cont’d)

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	-	101.637.544
Provision released (-)	-	(101.637.544)
Closing balance	-	-

The movements of the provision for the penalties are as follows:

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	-	-
Provision for the period	-	20.114.465
Closing balance	-	20.114.465

As of 30 June 2010 and 31 December 2009, lawsuits filed by and against the Group are as follows:

	30 June 2010	31 December 2009
<u>Lawsuits filed by the Group</u>		
TRY	52.949.648	56.205.828
USD	86.794.073	82.990.942
	<u>139.743.721</u>	<u>139.196.770</u>

Provision for lawsuits filed by the Group

TRY	12.194.968	12.921.691
USD	8.059.073	7.705.942
	<u>20.254.041</u>	<u>20.627.633</u>

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

Lawsuits filed against the Group

TRY	78.137.809	78.248.219
USD	114.674.294	4.664.410
	<u>192.812.103</u>	<u>82.912.629</u>

Provision for lawsuits filed against the Group

TRY	18.240.098	19.010.920
USD	7.733.912	5.268.089
	<u>25.974.010</u>	<u>24.279.009</u>

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NOTE 16 – PROVISIONS (cont’d)

As of 30 June 2010 and 31 December 2009, USD 25.000.000 (TRY 39.367.500) of the lawsuits filed by the Group is against the insurance company for the compensation of the losses of a crane destructed due to a shipping accident in 2005, for which the value of the crane was recognized over scrap value in the 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 39.367.500).

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

Reasoned decision of the Competition Board dated 16 June 2009 no. 09-28/600-141 was communicated to the Company on 29 September 2009 and the Company filed an annulment lawsuit before the Council of State against that decision with an additional claim to get the execution of this decision be suspended by an interim decision until the end of the adjudication process. This lawsuit is still pending before the 13th Chamber of the Council of State (File No. 2009/7029E). However, Erdemir paid those fines as TRY 15.085.848 on 26 October 2009 by benefiting an early payment discount.

As of 30 June 2010 and 31 December 2009, the lawsuit amount to TRY 35.673.249 among the lawsuits initiated against the Group was filed by the Privatization Administration with a view to get the Company’s General Assembly’s Decision as to the dividend distribution for the year 2005 cancelled.

Information about the stages of the cases is given below:

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

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NOTE 16 – PROVISIONS (cont’d)

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

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

On the other hand, the Privatization Administration (PA) had filed a lawsuit before the 3rd Commercial Court of First Instance of Ankara against Erdemir on 1 May 2006 (E. 2006/218) asking the Court to cancel Erdemir’s General Assembly Resolution of 30 March 2006 regarding the dividend distribution which was also rejected by the Court by a decision dated 23 October 2008 and numbered E. 2006/218; K.2008/480. PA appealed this decision on 7 January 2009 before the 11th Chamber of the Supreme Court of Appeals (E. 2009/1319) and Erdemir, has responded this motion on 26 January 2009 stating that the challenged Judgment should be approved as it is. The case is still pending.

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

Therefore the Company has also filed a new annulment lawsuit in 10th Administrative Court of Ankara on 10 October 2006 against CMB’s restatement of consolidated financial statements as of 31 December 2005 on 15 August 2006. Later, the lawsuit has been forwarded to the 11th Administrative Court of Ankara. The 11th Administrative Court of Ankara has rejected this lawsuit with the decision numbered E.2006/2548; K.2007/1071 dated 25 June 2007. This decision has been declared to the Company on 18 September 2007 and the Company appealed this decision on 11 October 2007 with a demand of “Suspension of Execution”. The judicial process within the framework of the 13th Chamber of the State Council and numbered as 2007/13724 is still pending. However, the Chamber has decided to suspend the execution of the decision of 11th Administrative Court of Ankara numbered E.2006/2548; K.2007/1071 dated 25 June 2007 and CMB’s related action no. B.02.1.SP.K.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.

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NOTE 16 – 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 2010 and 31 December 2009 will not be affected from the above mentioned disputes.

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

In relation to the other lawsuits that are filed against the Group, as of 30 June 2010 a total of TRY 25.974.010 (31 December 2009: TRY 24.279.009) provision is allocated.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	30 June 2010	31 December 2009
Letters of guarantees received	839.966.380	952.654.202
	<u>839.966.380</u>	<u>952.654.202</u>

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

	30 June 2010	31 December 2009
A. Total CPM given for the Company's own legal entity	99.512.895	70.876.259
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	3.301.681.809	2.858.040.065
C. Total CPM given in favour of other 3rd parties for ordinary trading operations	-	-
D. Other CPM given	-	-
i. Total CPM given in favour of parent entity	-	-
ii. Total CPM given in favour of other Group companies out of the scope of clause B and C	-	-
iii. Total CPM given in favour of other 3rd parties out of the scope of clause C	-	-
	<u>3.401.194.704</u>	<u>2.928.916.324</u>

As of 30 June 2010, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2009: 0%).

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NOTE 18 – PROVISIONS FOR EMPLOYMENT BENEFITS

	30 June 2010	31 December 2009
Provisions for employee termination benefits	131.022.689	117.712.283
Provisions for seniority incentive premium	5.926.880	4.158.281
	<u>136.949.569</u>	<u>121.870.564</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 2010, the amount payable consists of one month’s salary limited to a maximum of TRY 2.427,04 (31 December 2009: TRY 2.365,16).

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

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

The principal assumption is that, the maximum liability for each employment year will increase parallel with the inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. In the consolidated financial statements as of 30 June 2010, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 4,80% and a discount rate of 11%, (31 December 2009: the annual inflation rate 4,80% and the discount rate 11%). The probability of retirement is assumed as 99,69%. (31 December 2009 : 99,67%).

The anticipated rate of resignations which do not result in the payment of employee benefits is also considered in the calculation. As the maximum liability is revised semi annually, the maximum amount of TRY 2.517,00 effective from 1 July 2010 has been taken into consideration in calculating the provision for employee termination benefits of the Group (31 December 2009: TRY 2.427,04 effective as of 1 June 2010).

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	117.712.283	117.287.493
Service cost	15.020.102	13.015.080
Interest cost	3.422.874	3.608.619
Termination benefits paid	<u>(5.132.570)</u>	<u>(26.870.077)</u>
Closing balance	<u>131.022.689</u>	<u>107.041.115</u>

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

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

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

	1 January – 30 June 2010	1 January – 30 June 2009
Opening balance	4.158.281	-
Provision for the period	2.089.981	4.020.673
Provision released (-)	(321.382)	-
Closing balance	<u>5.926.880</u>	<u>4.020.673</u>

NOTE 19 – OTHER ASSETS AND LIABILITIES

Other current assets

	30 June 2010	31 December 2009
VAT receivable	86.099.489	71.652.508
Advances given	63.395.945	20.676.146
Other VAT receivable	46.000.878	49.867.418
Prepaid expenses	26.772.840	19.866.609
VAT transferred	8.697.723	35.109.931
Prepaid taxes and funds	2.368.467	1.684.548
Income accruals	1.682.052	3.942.238
Due from personnel	750.297	245.841
Job advances given	144.053	117.856
VAT deductible	-	78.421.464
Other miscellaneous assets	6.367.271	2.899.419
	<u>242.279.015</u>	<u>284.483.978</u>

Other non current assets

	30 June 2010	31 December 2009
Prepaid expenses	25.988.243	34.260.652
Advances given	13.178.121	21.852.490
Other miscellaneous assets	789.577	-
	<u>39.955.941</u>	<u>56.113.142</u>

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

Other current liabilities

	30 June 2010	31 December 2009
Advances received	67.145.760	55.895.729
Provision for unused vacations	48.812.486	39.805.018
Due to personnel	19.142.942	12.928.323
Other VAT payable	10.385.011	8.812.583
Accrual for payroll aid premium	5.885.000	-
VAT payable	5.725.265	69.064.860
Accrual for insurance premium	5.034.335	8.218.785
Expense accruals	1.135.657	1.524.371
Deferred income	317.724	279.781
Other miscellaneous liabilities	8.610.703	5.749.164
	<u>172.194.883</u>	<u>202.278.614</u>

Other noncurrent liabilities

	30 June 2010	31 December 2009
Deferred income	212.279	212.279
Other miscellaneous liabilities	976.516	-
	<u>1.188.795</u>	<u>212.279</u>

NOTE 20 – EQUITY

As of 30 June 2010 and 31 December 2009, the capital structure is as follows:

Shareholders	(%)	30 June 2010	(%)	31 December 2009
Ataer Holding A.Ş.	49,29	788.563.515	49,29	788.563.515
Held by public	47,63	762.139.626	47,63	762.139.626
Erdemir’s own shares	3,08	49.296.859	3,08	49.296.859
Historical capital	100,00	1.600.000.000	100,00	1.600.000.000
Effect of inflation		731.967.735		731.967.735
Restated capital		2.331.967.735		2.331.967.735
Treasury shares		(57.692.172)		(57.692.172)
		<u>2.274.275.563</u>		<u>2.274.275.563</u>

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

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NOTE 20 – EQUITY (cont’d)

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.

	30 June 2010	31 December 2009
Other equity items		
Share premium	231.020.042	231.020.042
Revaluation reserves	39.235.265	25.869.903
- <i>Revaluation reserves of tangible assets</i>	24.560.768	25.869.903
- <i>Revaluation reserves of financial assets</i>	14.674.497	-
Cash flow hedge reserves	(13.452.591)	(7.259.727)
Currency translation reserves	4.886.172	4.108.212
Restricted Reserves Assorted from Profit	1.696.170.542	1.688.196.335
- <i>Legal reserves</i>	489.243.225	481.269.018
- <i>Statutory reserves</i>	1.206.927.317	1.206.927.317
Retained earnings	1.537.874.215	1.714.538.844
- <i>Extraordinary reserves</i>	537.873.352	537.873.352
- <i>Accumulated profit</i>	1.000.000.863	1.176.665.492
	<u>3.495.733.645</u>	<u>3.656.473.609</u>

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

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

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NOTE 20 – EQUITY (cont’d)

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

- “Capital restatement differences” account, following the “paid-in capital” line item in the financial statements, if the differences are caused by “paid-in capital” and have not been added to capital yet;
- “Retained earnings”, if the differences are arising from “restricted profit reserves” and “premium in excess of par” and have not been associated with either profit distribution or capital increase yet. Other equity items are carried at the amounts that are valued based on the CMB’s Financial Reporting Standards.

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

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

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

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

Cash flow hedge 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.

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NOTE 20 – EQUITY (cont’d)

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

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

Revaluation reserve of financial investments arises from the reversal of the impairment losses due to the increases in fair value of the available for sale financial assets classified as held for sale (Note 27).

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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NOTE 21 – REVENUE AND COST OF SALES

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Revenue				
Domestic sales	2.811.144.154	1.420.032.108	1.467.885.920	850.099.893
Export sales	329.126.192	170.138.276	784.482.056	362.307.408
Other revenues (*)	64.732.761	32.382.802	53.343.827	27.318.154
Sales returns (-)	(890.978)	(493.280)	(815.311)	(679.530)
Sales discounts (-)	(575.642)	(575.642)	(199.585)	-
Other discounts (-)	(437.811)	(256.891)	(76.677)	(23.105)
	3.203.098.676	1.621.227.373	2.304.620.230	1.239.022.820
	(2.475.593.420)	(1.203.127.621)	(2.270.275.952)	(1.293.954.330)
<u>Cost of Sales (-)</u>				
	727.505.256	418.099.752	34.344.278	(54.931.510)
Gross profit / (loss)				

(*) The total amount of by product exports in other revenues is TRY 8.501.538(30 June 2009; TRY 3.784.456).

The breakdown of cost of sales for the periods 1 January – 30 June 2010 and 1 January – 30 June 2009 is as follows:

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Raw material usage	(1.823.758.840)	(985.464.733)	(1.334.208.846)	(84.421.678)
Payroll expenses	(265.867.334)	(139.639.717)	(357.472.214)	(149.048.956)
Energy expenses	(173.101.730)	(82.551.221)	(185.212.159)	(82.682.373)
Depreciation and amortization expenses	(125.835.231)	(72.625.843)	(110.614.490)	(68.846.148)
Provision for impairment on inventory within the period	(5.251.890)	(4.883.887)	(96.776.342)	(91.013.262)
Change in finished and work in progress goods	243.660.609	258.551.727	(1.014.430.028)	(986.721.760)
Reversal of impairment on inventory	3.569.962	42.095	916.934.024	199.629.356
Reversal of provision for purchase commitments	-	-	101.637.544	85.401.298
Other	(329.008.966)	(176.556.042)	(190.133.441)	(116.250.807)
	(2.475.593.420)	(1.203.127.621)	(2.270.275.952)	(1.293.954.330)

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Marketing, sales and distribution expenses (-)	(26.580.459)	(13.881.724)	(36.850.022)	(16.446.783)
General administrative expenses (-)	(56.694.862)	(29.453.052)	(55.270.540)	(27.843.182)
Research and development expenses (-)	(1.306.374)	(705.642)	(1.015.654)	(492.016)
	<u>(84.581.695)</u>	<u>(44.040.418)</u>	<u>(93.136.216)</u>	<u>(44.781.981)</u>

NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 30 June 2010 and 1 January – 30 June 2009 is as follows:

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Payroll expense (-)	(3.412.590)	(1.833.267)	(3.923.014)	(1.843.956)
Depreciation and amortization(-)	(48.766)	(28.554)	(65.036)	(38.172)
Other (-)	(23.119.103)	(12.019.903)	(32.861.972)	(14.564.655)
	<u>(26.580.459)</u>	<u>(13.881.724)</u>	<u>(36.850.022)</u>	<u>(16.446.783)</u>

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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NOTE 23 – OPERATING EXPENSES ACCORDING TO THEIR NATURE (cont'd)

The breakdown of general administration expenses for the periods 1 January – 30 June 2010 and 1 January – 30 June 2009 is as follows:

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Payroll expense (-)	(27.609.315)	(14.577.625)	(28.997.950)	(13.777.009)
Depreciation and amortization (-)	(5.515.423)	(2.590.007)	(5.318.943)	(4.101.522)
Other (-)	(23.570.124)	(12.285.420)	(20.953.647)	(9.964.651)
	<u>(56.694.862)</u>	<u>(29.453.052)</u>	<u>(55.270.540)</u>	<u>(27.843.182)</u>

The breakdown of research and development expenses for the periods ended 1 January – 30 June 2010 and 1 January – 30 June 2009 is as follows:

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Payroll expense (-)	(560.424)	(298.765)	(640.156)	(301.499)
Depreciation and amortization (-)	(1.740)	(870)	(1.740)	(1.539)
Other (-)	(744.210)	(406.007)	(373.758)	(188.978)
	<u>(1.306.374)</u>	<u>(705.642)</u>	<u>(1.015.654)</u>	<u>(492.016)</u>

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NOTE 24 – OTHER OPERATING INCOME/(EXPENSE)

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
<u>Other operating income</u>				
Provisions released	7.282.597	4.943.414	12.982.198	440.358
Insurance indemnity income	3.171.916	1.356.626	468.203	453.125
Rent income	2.130.813	1.059.164	1.811.356	1.053.916
Service income	1.947.875	1.257.941	1.297.148	701.468
Indemnity and penalty detention income	1.227.906	747.443	4.428.864	1.994.697
Maintenance and repair income	1.125.557	562.334	1.580.880	645.001
Client deposits income	822.893	87.761	811.655	72.552
Gain on disposal of fixed assets	27.717	27.717	1.001.210	267.687
Other income and gains	8.186.655	5.003.017	4.474.030	3.485.235
	<u>25.923.929</u>	<u>15.045.417</u>	<u>28.855.544</u>	<u>9.114.039</u>
<u>Other operating expenses (-)</u>				
Provisions expenses	(28.665.649)	554.749	(29.036.966)	(22.146.671)
Fine expenses	(11.085.509)	(5.473.995)	(4.075.746)	(4.068.525)
Lawsuit compensation expenses	(8.496.828)	(109.111)	(4.252.225)	(1.684.134)
Service expenses	(2.868.935)	(1.284.961)	(2.486.024)	(1.082.280)
Rent expense	(724.193)	(405.655)	(192.930)	(123.209)
Loss on disposal of fixed assets	(70.947)	(15.987)	(453.827)	(1.430)
Real estate and property levies expenses	-	4.833.908	-	-
Construction license and utilization expenses	-	3.613.436	-	-
Other expenses and losses	(12.706.734)	(4.664.430)	(7.854.289)	(3.635.829)
	<u>(64.618.795)</u>	<u>(2.952.046)</u>	<u>(48.352.007)</u>	<u>(32.742.078)</u>

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NOTE 25 – FINANCIAL INCOME

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Fair value gain differences of derivative financial instruments	68.296.618	(24.555.391)	-	(9.077.694)
Interest income	31.038.543	17.373.764	30.211.131	16.829.459
Interest income due to sales on account	14.448.294	4.547.565	34.217.530	15.805.517
Foreign exchange gains from trade receivables and payables	22.222.812	21.646.663	-	(46.994.969)
Discount income	1.594.942	1.456.700	2.909.297	2.306.668
Foreign exchange gains from financial liabilities	-	(10.608.398)	-	-
Foreign exchange gains from bank deposits	90.956	(12.845)	25.986.245	(7.837.751)
Other financial income	137.692.165	9.848.058	1.426.691	1.426.691
			94.750.894	(27.542.079)

NOTE 26 – FINANCIAL EXPENSE

	1 January – 30 June 2010	1 April – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
Foreign exchange loss from bank deposits (-)	(94.899.290)	6.946.451	-	-
Interest expenses from financial liabilities (-)	(82.550.634)	(38.129.252)	(93.368.719)	(45.205.537)
Foreign exchange losses from financial liabilities (-)	(24.981.994)	(24.981.994)	(32.315.152)	268.143.122
Fair value differences of derivative financial instruments (-)	-	-	(98.796.201)	(98.796.201)
Interest expense from related parties (-)	-	-	(25.854.723)	(8.597.323)
Foreign exchange loss from trade receivables and payables (-)	(7.343.475)	(6.019.271)	(1.680.140)	(944.020)
Other financial expenses (-)	(209.775.393)	(62.184.066)	(2.493.545)	1.341.207
			(254.508.480)	115.941.248

During the period, TRY 25.202.726 of financial expenses related to foreign currency translation losses and TRY 2.999.125 of interest expenses in total TRY 28.201.851, have been capitalized as part of the Group's property, plant and equipment (1 January – 30 June 2009: the foreign currency translation losses of TRY 24.093.838, the interest expenses of TRY 11.542.847, in total TRY 35.636.685 has been capitalized).

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NOTE 27 –NON CURRENT ASSETS HELD FOR SALE

Company	Ratio %	30 June 2010	Ratio %	31 December 2009
ArcelorMittal Ambalaj Çeliği Tic. A.Ş.	25,00	11.498.657	25,00	11.498.657
Borçelik Çelik San. Tic. A.Ş.	9,34	48.415.165	9,34	48.415.165

Allowance for impairment (Borçelik Çelik San. Tic. A.Ş.) (*)

	(3.470.648)	(18.145.145)
	<u>56.443.174</u>	<u>41.768.677</u>

In accordance with the decision taken by the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş., ArcelorMittal Ambalaj Çeliği Tic. A.Ş. which was previously accounted by using the equity pick up method and Borçelik Çelik San. Tic. A.Ş. which was accounted as the available for sale financial assets were both reclassified as non-current assets held for sale as of 1 April 2009 as their sales are highly probable within the next twelve months. Nevertheless, as of 30 June, 2010 the studies of the sales of share transfer is not concluded yet, the sales transactions did not take place within twelve months. The sales of shares are expected to be completed in the year 2010.

(*) According to the recent audited financial statements of Borçelik Çelik San. Tic. A.Ş., the allowance for impairment has been reviewed and allowance for impairment amounting to TRY 14.674.497 has been reversed and accounted under consolidated statement of other comprehensive incomes.

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NOTE 28 – TAX ASSETS AND LIABILITIES

	30 June 2010	31 December 2009	1 January – 30 June 2010	1 January – 30 June 2009	1 April – 30 June 2009
<u>Corporate tax payable:</u>					
Current corporate tax provision	13.758.123	16.464.319		10.636.753	3.087.939
Prepaid taxes and funds (-)	(6.269.356)	(14.078.568)		(53.184.896)	(6.312.415)
	<u>7.488.767</u>	<u>2.385.751</u>		<u>(42.548.143)</u>	<u>(3.224.476)</u>
<u>Tax expense:</u>					
Current corporate tax expense	13.758.123	7.586.487		10.636.753	3.087.939
Deferred tax expense/(income)	100.204.276	75.031.807		(53.184.896)	(6.312.415)
	<u>113.962.399</u>	<u>82.618.294</u>		<u>(42.548.143)</u>	<u>(3.224.476)</u>

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NOTE 28 – 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 2010 (31 December 2009: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2010 is TRY 8.655.107 (30 June 2009: TRY 9.109.472).

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

Losses can be carried forward to offset the future taxable income for up to maximum 5 years. However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

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

Income withholding tax

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

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

Investment allowance application

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

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

Investment allowance application (cont’d)

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

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

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

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

Deferred tax

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

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) is 20%.for the subsidiaries in Turkey and, 16% for the subsidiary in Romania. (31 December 2009: in Turkey 20%, in Romania 16%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (December 2009:5%).

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

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

Deferred tax (cont’d)

	30 June 2010	31 December 2009
<u>Deferred tax assets:</u>		
Unused tax losses carry forward (*)	(150.182.763)	(248.555.949)
Provision for raw material price difference	(42.450.160)	-
Provision for employee termination benefits	(27.324.003)	(24.358.517)
Property, plant, equipment and intangible assets	(19.875.976)	(12.638.949)
Provision for unused vacations	(9.762.497)	(7.961.004)
Investment allowance	(7.826.974)	(7.459.235)
Inventories	(7.667.654)	(6.153.079)
Fair values of the derivative financial instruments	(6.996.656)	(21.194.170)
Provision for other doubtful receivables	(5.294.596)	(5.315.665)
Provision for lawsuits	(5.247.532)	(4.855.800)
Amortized cost adjustment on loans	(5.086.699)	(10.315.636)
Prepaid expenses	(1.938.978)	(2.115.284)
Other	(5.945.568)	(2.582.616)
	<u>(295.600.056)</u>	<u>(353.505.904)</u>
<u>Deferred tax liabilities:</u>		
Property, plant, equipment and intangible assets	158.256.031	121.141.420
Amortized cost adjustment on loans	17.340.531	23.671.943
Inventories	9.615.855	37.835
Land and parcels	776.937	776.937
Other	5.078.162	4.978.327
	<u>191.067.516</u>	<u>150.606.462</u>
	<u>(104.532.540)</u>	<u>(202.899.442)</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 will create a financial profit and will be able to use the unused tax losses, therefore the Group’s Management recorded deferred tax asset for the carry forward tax losses.

Net deferred tax assets and liabilities recognized in the subsidiaries’ financial statements prepared in accordance with CMB Financial Reporting Standards, are separately classified under deferred tax assets and liabilities accounts in the Group’s consolidated balance sheet. Temporary differences and deferred tax assets and liabilities presented above, which are prepared on the basis of gross amounts, show the net deferred tax position.

	30 June 2010	31 December 2009
<u>Presentation of deferred tax (asset)/ liabilities:</u>		
Deferred tax (assets)	(170.224.219)	(353.505.904)
Deferred tax liabilities	65.691.679	150.606.462
	<u>(104.532.540)</u>	<u>(202.899.442)</u>

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

Deferred tax (cont’d)

Deferred tax (asset)/ liability movements:

	<u>1 January – 30 June 2010</u>	<u>1 January – 30 June 2009</u>
Opening balance	(202.899.442)	(129.845.457)
Deferred tax expense/(income)	100.204.276	(53.184.896)
The amount netted under equity	(1.663.416)	(1.505.605)
Translation difference	(173.958)	-
Closing balance	<u>(104.532.540)</u>	<u>(184.535.958)</u>

Reconciliation of tax provision:

	<u>1 January – 30 June 2010</u>	<u>1 January – 30 June 2009</u>
Profit/ (loss) before tax	532.145.467	(238.688.979)
Effective tax rate	20%	20%
Calculated tax	106.429.093	(47.737.796)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	2.830.535	9.699.693
- Non-taxable income	(2.135.644)	(8.434.234)
- Effect of adjustments	3.375.354	4.706.090
- Effect of unused deferred tax asset	4.706.631	-
- Effect of the different tax rates due to foreign subsidiary	(861.723)	(533.736)
- Other	(381.847)	(248.160)
Tax expense/(income) in income statement	<u>113.962.399</u>	<u>(42.548.143)</u>

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NOTE 30 –RELATED PARTY DISCLOSURES

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

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

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

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

	30 June 2010	31 December 2009
<u>Trade receivables due from related parties (short term)</u>		
ArcelorMittal Amb. Çel. San. ve Tic. A.Ş. ⁽¹⁾	68.628.567	61.746.999
Oyak Renault Otomobil Fab. A.Ş. ⁽³⁾	4.958.619	1.241.900
Oyak Beton A.Ş. ⁽³⁾	134.574	250.680
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	-	783.325
Other	11.537	1.350
	<u>73.733.297</u>	<u>64.024.254</u>
<u>Trade payables due to related parties (short term)</u>		
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	5.059.678	-
Omsan Logistica SRL ⁽³⁾	552.478	493.637
Borçelik Çelik Sanayii Ticaret A.Ş. ⁽²⁾	393.967	80.588
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	250.800	1.069.752
Omsan Lojistik A.Ş. ⁽³⁾	240.052	1.750.319
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	237.491	434.747
Other	1.212.919	1.318.768
	<u>7.947.385</u>	<u>5.147.811</u>
<u>Non trade payables due to related parties (shot term)</u>		
Payables to shareholders ⁽⁴⁾	1.730.257	1.789.615
Omsan Lojistik A.Ş. ⁽³⁾	1.057.867	-
Omsan Denizcilik A.Ş. ⁽³⁾	668.165	-
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	469.267	-
Other	990.809	81.750
	<u>4.916.365</u>	<u>1.871.365</u>

⁽¹⁾ Affiliates

⁽²⁾ Financial assets

⁽³⁾ Subsidiaries of the parent company

⁽⁴⁾ Payables to shareholders are the liabilities for dividend distributions outstanding.

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NOTE 30 – RELATED PARTY TRANSACTIONS (cont’d)

	1 January – 30 June 2010	1 January – 30 June 2009
<u>Major sales to related parties</u>		
ArcelorMittal Amb.Çel. San. ve Tic. A.Ş. ⁽¹⁾	80.169.015	34.723.198
Borçelik Çelik San. Tic. A.Ş. ⁽²⁾	60.164.695	40.597.341
Oyak Renault Otomobil Fab. A.Ş. ⁽³⁾	11.361.181	-
Adana Çimento Sanayi T.A.Ş. ⁽³⁾	7.243.664	7.352.306
Ünye Çimento Sanayi ve Ticaret A.Ş. ⁽³⁾	1.166.806	769.335
Oytaş İç ve Dış Ticaret A.Ş. ⁽³⁾	938.780	1.094.553
Bolu Çimento Sanayi A.Ş. ⁽³⁾	803.783	551.798
Lafarge Ereğli Çimento A.Ş. ⁽³⁾	574.664	-
Oyak Beton A.Ş. ⁽³⁾	173.349	443.570
	<u>162.595.937</u>	<u>85.532.101</u>

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

	1 January – 30 June 2010	1 January – 30 June 2009
<u>Major purchases from related parties</u>		
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽³⁾	6.347.557	8.302.334
Omsan Logistica SRL ⁽³⁾	2.672.279	4.697.208
Omsan Lojistik A.Ş. ⁽³⁾	2.635.072	1.843.896
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽³⁾	1.595.517	794.951
Oyak Telekomünikasyon A.Ş. ⁽³⁾	1.098.277	-
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. ⁽³⁾	506.404	1.328.151
Other	529.773	622.848
	<u>15.384.879</u>	<u>17.589.388</u>

⁽¹⁾ Affiliates

⁽²⁾ Financial assets

⁽³⁾ Subsidiaries of the parent company

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

For the period ended 30 June 2010, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 3.470.402 (30 June 2009: TRY 3.814.390).

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

Additional information about financial instruments

(a) Capital risk management

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

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

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

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

As of 30 June 2010 and 31 December 2009 the net debt/equity ratio is as follows:

	Note	30 June 2010	31 December 2009
Total financial liabilities	6	5.218.650.148	4.166.022.813
Less: Cash and cash equivalents	4	2.110.542.069	1.065.737.367
Net debt		3.108.108.079	3.100.285.446
Total adjusted equity (*)		6.352.258.794	5.925.953.753
Total resources		9.460.366.873	9.026.239.199
Net debt/Total adjusted equity ratio	20	49%	52%
Distribution of net debt/ total adjusted equity		33/67	34/66

(*) Total adjusted equity is calculated by subtracting cash flow hedge 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”.

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

Additional information about financial instruments (cont’d)

(c) Financial risk management objectives

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

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

(d) Market risk

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

The Group prefers 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.

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

Additional information about financial instruments (cont'd)

(e) Credit risk management

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

Credit risk of financial instruments

	Receivables					Derivative financial instruments
	Trade receivables		Other receivables			
	Related party	Third party	Related party	Third party	Bank deposits	
30 June 2010						
Maximum credit risk exposure as of balance sheet date ^(*) (A+B+C+D+E)	73.733.297	707.202.786	-	27.358.261	2.110.518.692	-
- Secured part of the maximum credit risk exposure via collateral etc.	68.867.933	643.088.895	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	73.733.297	696.982.547	-	885.281	2.110.518.692	-
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	965.798	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	9.254.441	-	-	26.472.980	-	-
- Secured part via collateral etc.	-	9.254.441	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	44.247.658	-	32.630.828	-	-
- Impairment (-)	-	(44.247.658)	-	(32.630.828)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

(*) The factors that increase credibility such as guarantees received are not taken into account in determination of amount.

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

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

Credit risk of financial instruments

	Receivables				Derivative financial instruments(**)	
	Trade receivables		Other receivables			
31 December 2009	Related party	Third party	Related party	Third party	Bank deposits	
Maximum credit risk exposure as of balance sheet date ^(*) (A+B+C+D+E)	64.024.254	630.821.613	-	26.846.703	1.065.712.642	301.585
- Secured part of the maximum credit risk exposure via collateral etc.	61.746.999	502.520.675	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	64.024.254	591.479.696	-	-	1.065.712.642	301.585
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	39.341.917	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	-	-	26.846.703	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	21.684.743	-	33.462.898	-	-
- Impairment (-)	-	(21.684.743)	-	(33.462.898)	-	-
- 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.

(**) The balances are presented net under other liabilities in the consolidated balance sheet.

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

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

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

30 June 2010	<u>Receivables</u>			<u>Derivative financial instruments</u>	<u>Other</u>	<u>Total</u>
	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>			
Overdue 1-30 days	-	-	-	-	-	-
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	9.254.441	-	-	-	-	9.254.441
Overdue 1-5 years	-	26.472.980	-	-	-	26.472.980
Overdue 5 years or more	-	-	-	-	-	-
Total overdue assets	9.254.441	26.472.980	-	-	-	35.727.421
Secured part via collateral etc.	9.254.441	-	-	-	-	9.254.441

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

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

Additional information about financial instruments (cont'd)

(e) Credit risk management (cont'd)

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

	<u>Receivables</u>			<u>Derivative financial instruments</u>	<u>Other</u>	<u>Total</u>
31 December 2009	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Bank deposits</u>			
Overdue 1-30 days	-	-	-	-	-	-
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	26.846.703	-	-	-	26.846.703
Overdue 5 years or more	-	-	-	-	-	-
Total overdue assets	-	26.846.703	-	-	-	26.846.703
Secured part via collateral	-	-	-	-	-	-

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NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)****(f) Foreign currency risk management**

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

	30 June 2010				
	TRY (Functional Currency)	USD (Original Currency)	EUR (Original Currency)	JPY (Original Currency)	GBP (Original Currency)
1. Trade Receivables	685.534.714	431.520.791	3.132.083	-	-
2a. Monetary financial assets	1.726.668.088	1.075.648.163	17.081.096	87.748	7.862
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	64.442.428	40.385.836	265.696	18.989.214	-
4. Current assets (1+2+3)	2.476.645.230	1.547.554.790	20.478.875	19.076.962	7.862
5. Trade receivables	-	-	-	-	-
6a. Monetary trade receivables	-	-	-	-	-
6b. Non-monetary trade receivables	-	-	-	-	-
7. Other	5.488.483	2.592.214	731.917	-	-
8. Non current assets (5+6+7)	5.488.483	2.592.214	731.917	-	-
9. Total assets (4+8)	2.482.133.713	1.550.147.004	21.210.792	19.076.962	7.862
10. Trade payables	447.981.964	258.975.045	9.573.485	1.229.152.190	4.544
11. Financial liabilities	1.660.019.953	987.816.469	41.938.157	1.350.395.492	-
12a. Other monetary financial liabilities	64.844.676	41.153.593	20.873	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	2.172.846.593	1.287.945.107	51.532.515	2.579.547.682	4.544
14. Trade payables	-	-	-	-	-
15. Financial liabilities	2.511.561.461	1.234.146.019	222.693.509	7.917.416.315	-
16a. Other monetary financial liabilities	976.521	620.133	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	2.512.537.982	1.234.766.152	222.693.509	7.917.416.315	-
18. Total liabilities (13+17)	4.685.384.575	2.522.711.259	274.226.024	10.496.963.997	4.544
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	200.526.392	-	104.348.438	-	-
19.a Off-balance sheet foreign currency derivative financial assets	200.526.392	-	104.348.438	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	(2.002.724.470)	(972.564.255)	(148.666.794)	(10.477.887.035)	3.318
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(2.273.181.773)	(1.015.542.305)	(254.012.845)	(10.496.876.249)	3.318
22. Fair value of derivative financial instruments used in foreign currency hedge	(24.987.068)	-	(13.002.585)	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	200.526.392	-	104.348.438	-	-
25. Exports	337.627.730	166.012.692	42.771.684	-	-
26. Imports	1.888.819.490	1.233.632.762	9.534.094	-	-

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NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)**

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

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

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

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

Additional information about financial instruments (cont’d)

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

Foreign currency sensitivity

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

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

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.

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 2010	31 December 2009
Foreign Currency Position Parametric VaR	52.480.352	37.320.644

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

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

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

Additional information about financial instruments (cont'd)

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

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

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

As of 30 June 2010 asset and liability balances are translated by using the following exchange rates: TRY 1,5747 = US \$ 1, TRY 1,9217 = EUR 1 and TRY 0,0177 = JPY 1 (31 December 2009: TRY 1,5057 = US \$ 1, TRY 2,1603 = EUR 1 and TRY 0,0163 = JPY 1)

30 June 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- USD net asset/liability	(153.149.693)	153.149.693
2- Hedged portion from USD risk (-)	-	-
3- Effect of capitalization (-)	30.364.672	(30.364.672)
4- USD net effect (1+2+3)	(122.785.021)	122.785.021
5- EUR net asset/liability	(48.621.938)	48.621.938
6- Hedged portion from EUR risk (-)	20.052.640	(20.052.640)
7- Effect of capitalization (-)	-	-
8- EUR net effect (5+6+7)	(28.569.298)	28.569.298
9- JPY net asset/liability	(18.545.860)	18.545.860
10- Hedged portion from JPY risk(-)	-	-
11- Effect of capitalization (-)	1.490.454	(1.490.454)
12- JPY net effect (9+10+11)	(17.055.406)	17.055.406
13- Other currencies net asset/liability	786	(786)
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	786	(786)
TOTAL (4+8+12+16)	(168.408.939)	168.408.939

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

Additional information about financial instruments (cont'd)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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

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

Additional information about financial instruments (cont'd)

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

Cross currency and interest rate swap agreements:

As of 30 June 2010 the details of the cross currency and interest rate swap agreements are provided in the table below:

30 June 2010	Average exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
--------------	-----------------------	------------------------------	----------------------------------	------------------------------------	----------------------------------	------------

Cross currency and interest rate swap agreements:

EUR sale/ TRY purchase						
More than 5 years	2,0820	104.348.438	217.303.950	200.526.392	225.513.461	(24.987.068)
						(24.987.068)

As of 31 December 2009 the details of the forward agreements are provided in the table below:

31 December 2009	Average exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
------------------	-----------------------	------------------------------	----------------------------------	------------------------------------	----------------------------------	------------

Forward agreements:

TRY sale/ USD purchase						
Less than 3 months	1,8673	498.582.400	267.000.000	498.582.400	594.811.104	(96.228.704)
						(96.228.704)

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

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

Additional information about financial instruments (cont'd)

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

Forward agreements:

As of 30 June 2010, there is no forward transactions.

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

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

(g) Interest rate risk management

The majority of the Group's borrowings is based on 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 USD, the Group minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

Interest rate sensitivity

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

Interest position table

	30 June 2010	31 December 2009
Floating interest rate financial instruments		
Financial liabilities	4.239.343.997	3.498.154.479

In addition to these, as of 30 June 2010, the amount of the Group's financial loans is TRY 842.078.704 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2009: TRY 657.243.337) (Note 6).

For the year round, if the USD, EUR and JPY denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in USD and EUR and 25 base points in JPY respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 12.121.750 (30 June 2009: TRY 8.820.350).

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

Additional information about financial instruments (cont’d)

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

Interest rate swap agreements

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

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

30 June 2010

<u>Unrealized agreements with fixed payments and floating interest receipts</u>	<u>Average fixed interest rate of the agreements</u>	<u>Nominal amount(*)</u>	<u>Fair Value amount</u>
Less than a year	1,84%	157.470.000	(1.577.735)
Between 1-3 years	2,53%	502.787.804	(7.537.994)
		<u>660.257.804</u>	<u>(9.115.729)</u>

31 December 2009

<u>Unrealized agreements with fixed payments and floating interest receipts</u>	<u>Average fixed interest rate of the agreements</u>	<u>Nominal amount (*)</u>	<u>Fair Value amount</u>
Between 3-6 months	% 3,19	29.720.653	(327.622)
Between 1-4 years	% 2,55	624.865.500	(9.414.527)
		<u>654.586.153</u>	<u>(9.742.149)</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 660.257.804(31 December 2009: TRY 654.586.153) is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity with its deferred tax effect and non-controlling interest deducted as (TRY 6.805.069) (31 December 2009: TRY 7.259.727).

Cross currency and interest rate swap agreements

30 June 2010

<u>Unrealized agreements with fixed payments and floating interest receipts</u>	<u>Average fixed interest rate of the agreements</u>	<u>Nominal amount (*)</u>	<u>Fair Value amount</u>
More than 5 years	%10,65	217.303.950	(24.987.068)

(*) In order to hedge against the interest and foreign exchange rate risk of the Euro borrowings, the Group trades floating interest rates with fixed rates and Euro amounts with TRY amounts by making cross currency swap agreements. The fair value of the interest rate swap agreements with a nominal amount of TRY 217.303.950 is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity net off its deferred tax effect and non-controlling interest as (TRY 6.647.522).

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010**

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

NOTE 31 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**Additional information about financial instruments (cont’d)**

(h) Liquidity risk management

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.

30 June 2010

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow due to 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	5.218.650.148	5.468.643.923	213.012.030	2.414.745.852	2.275.784.670	565.101.371
Trade payables	610.974.241	612.320.825	414.169.059	198.151.766	-	-
Other financial liabilities (*)	108.816.841	108.816.841	56.448.996	52.367.845	-	-
Total liabilities	5.938.441.230	6.189.781.589	683.630.085	2.665.265.463	2.275.784.670	565.101.371

30 June 2010

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow due to 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>
Derivative financial liabilities	(34.102.797)	(83.067.938)	(561.249)	(27.785.311)	(67.297.509)	12.576.131
Derivative cash inflows	(**)	242.018.401	2.054.196	9.275.250	12.889.286	217.799.669
Derivative cash outflows	(34.102.797)(**)	(325.086.339)	(2.615.445)	(37.060.561)	(80.186.795)	(205.223.538)

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

(**) This balance is presented with its net off value.

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

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

NOTE 31 – NATURE AND LEVEL OF RISKS DRIVED FROM FINANCIAL INSTRUMENTS (cont’d)

Additional information about financial instruments (cont’d)

(h) Liquidity risk management (cont’d)

Liquidity risk tables (cont’d)

31 December 2009

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow due to 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	4.166.001.612	4.393.228.578	187.624.741	660.570.786	3.139.056.417	405.976.634
Finance leasing liabilities	21.201	21.370	-	21.370	-	-
Trade payables	355.004.343	355.577.398	152.303.618	203.273.780	-	-
Other financial liabilities (*)	27.408.638	27.408.638	25.912.244	1.496.394	-	-
Total liabilities	4.548.435.794	4.776.235.984	365.840.603	865.362.330	3.139.056.417	405.976.634

31 December 2009

<u>Contractual maturity analysis</u>	<u>Book value</u>	<u>Total cash outflow due to 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>
Derivative financial liabilities	(105.970.853)	(106.811.528)	(97.314.299)	(6.104.016)	(3.393.213)	-
Derivative cash inflows	301.585 (**)	418.203.347	405.920.107	7.475.418	4.807.822	-
Derivative cash outflows	(106.272.438) (**)	(525.014.875)	(503.234.406)	(13.579.434)	(8.201.035)	-

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

(**) This balance is presented with its net off value.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 34)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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

NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Additional information about financial instruments

Categories of the financial instruments and their fair values

	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Held for trading financial instruments	Financial liabilities at amortized cost	Hedging instruments (Equity)	Hedging instruments (Income Statement)	Carrying value	Note
30 June 2010									
<u>Financial Assets</u>									
Cash and cash equivalents	2.110.542.069	-	-	-	-	-	-	2.110.542.069	4
Trade receivables	-	780.936.083	-	-	-	-	-	780.936.083	8
Financial investments	-	-	52.111	-	-	-	-	52.111	5
Other financial assets	-	27.358.261	-	-	-	-	-	27.358.261	9
Derivative financial instruments	-	-	-	-	-	-	-	-	7
<u>Financial Liabilities</u>									
Financial payables	-	-	-	-	5.218.650.148	-	-	5.218.650.148	6
Trade payables	-	-	-	-	610.974.241	-	-	610.974.241	8
Other liabilities	-	-	-	-	108.816.841	-	-	108.816.841	9/19
Derivative financial instruments	-	-	-	-	-	34.102.797	-	34.102.797	7
31 December 2009									
<u>Financial Assets</u>									
Cash and cash equivalents	1.065.737.367	-	-	-	-	-	-	1.065.737.367	4
Trade receivables	-	694.845.867	-	-	-	-	-	694.845.867	8
Financial investments	-	-	41.666	22.588	-	-	-	64.254	5
Other financial assets	-	26.846.703	-	-	-	-	-	26.846.703	9
Derivative financial instruments	-	-	-	-	-	301.585	-	301.585	7
<u>Financial Liabilities</u>									
Financial payables	-	-	-	-	4.166.022.813	-	-	4.166.022.813	6
Trade payables	-	-	-	-	355.004.343	-	-	355.004.343	8
Other liabilities	-	-	-	-	27.408.638	-	-	27.408.638	9/19
Derivative financial instruments	-	-	-	-	-	10.043.734	96.228.704	106.272.438	7

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS INTERIM PERIOD ENDED 30 JUNE 2010

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NOTE 32 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont’d)

Additional information about financial instruments (cont’d)

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

<u>Financial asset and liabilities at fair value</u>	30 June 2010	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
Financial assets at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets (*)	-	-	-	-
Derivative financial liabilities (*)	-	-	-	-
Derivative financial assets (*)	-	-	-	-
Derivative financial liabilities (*)	(34.102.797)	-	(34.102.797)	-
Total	(34.102.797)	-	(34.102.797)	-
<u>Financial asset and liabilities at fair value</u>	<u>31 December 2009</u>	<u>Fair value level as of reporting date</u>		
		Level 1	Level 2	Level 3
Financial assets at fair value through profit/loss				
Financial assets held for trading	22.588	22.588	-	-
Derivative financial assets (*)	-	-	-	-
Derivative financial liabilities (*)	(96.228.704)	-	(96.228.704)	-
Derivative financial assets (*)	301.585	-	301.585	-
Derivative financial liabilities (*)	(10.043.734)	-	(10.043.734)	-
Total	(105.948.265)	22.588	(105.970.853)	-

(*) This balance is presented with its net off value.

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

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

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

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NOTE 33 – SUBSEQUENT EVENTS

According to the decisions taken by the Board of Directors of Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. (ERBOR) dated 14 July 2010 and numbered 334 and Board of Directors of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (ERSEM) dated 14 July 2010 and numbered 22, after all the necessary preliminary work to be performed, ERBOR with all its remaining assets and liabilities will be taken over and merged by ERSEM. Also, Board of Directors of ERBOR with its decision dated 14 July 2010 and numbered 333, within the context of merger transactions, decided the application of “Grants for Voluntary Termination”.

NOTE 34 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION

Changes in working capital are as follows:

	1 January – 30 June 2010	1 January – 30 June 2009
Current trade receivables	(109.091.770)	39.352.676
Inventories	(603.482.526)	1.602.333.154
Other receivables / current assets	40.477.407	(183.561.117)
Noncurrent trade receivables	438.639	16.473
Other long term receivables / noncurrent assets	16.367.895	(5.873.365)
Current trade payables	66.969.306	(50.000.631)
Other short term payables / liabilities	(46.713.719)	(107.305.676)
Other noncurrent trade payables/ liabilities	24.087.051	(167.035)
	<u>(610.947.717)</u>	<u>1.294.794.479</u>

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

<u>Account Name</u>	(Previously reported) 1 January – 30 June 2009	(Restated) 1 January - 30 June 2009	Difference
Revenues ^{(3) (6)}	2.303.905.851	2.304.620.230	714.379
Cost of sales (-) ^{(1) (2) (3) (4) (5) (6) (7)}	(2.263.322.265)	(2.270.275.952)	(6.953.687)
General administrative expenses (-) ⁽⁴⁾	(55.667.798)	(55.270.540)	397.258
Other operating income ^{(1) (5) (8)}	29.078.120	28.855.544	(222.576)
Other operating expense (-) ^{(1) (2) (5) (7) (8)}	(54.416.633)	(48.352.007)	6.064.626
Financial income ⁽⁹⁾	96.056.130	94.750.894	(1.305.236)
Financial expense (-) ⁽⁹⁾	(255.813.716)	(254.508.480)	1.305.236
Total			<u>-</u>

(1) Train ferry expense of TRY 1.024.399 which is previously reported under “Other operating expenses (-)” and train ferry income of TRY 190.139 which were previously reported in “Other operating income” are reclassified to “Cost of sales (-)”

(2) Cost of electricity sales of TRY 100.093 which was previously reported in “Other operating expenses(-)” is reclassified to “Cost of sales (-)”.

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NOTE 34 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION (cont’d)

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

- (3) Income from electricity sales of TRY 1.387.722 which was previously netted from “Cost of sales (-)” is reclassified to “Sales”.
- (4) Laboratory service expense of TRY 397.258 which was previously reported in “General administrative expenses (-)” is reclassified to “Cost of sales (-)”.
- (5) Dispatch income of TRY 55.815 which was previously netted from “Cost of sales (-)” is reclassified to “Other Operating Income” and demurrage expense of TRY 1.581.412 which was previously reported in “Cost of sales (-)” is reclassified to “Other operating expenses (-)”.
- (6) Excess scrap and raw material sales income of TRY 673.393 which was previously reported in “Sales” is reclassified to “Cost of sales (-)”.
- (7) Company housing expenses of TRY 6.433.294 which was previously reported in “Other operating expenses (-)” is reclassified to “Cost of sales (-)”.
- (8) Delivery warehouse income of TRY 88.252 which was previously reported in “Other Operating income” is netted from “Other operating expense”.
- (9) Raw material foreign exchange gain of TRY 1.305.236 which was previously reported in “Financial income” is netted from “Financial expenses (-)”.

Additional paragraph for 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 accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified in the accompanying 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 accompanying 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.