

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

1. Period of the Report

01.01.2012 - 30.06.2012

2. Title of the Association

EREGLI IRON AND STEEL WORKS, INC.

3. Members of the Board of Directors and Auditors

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors and Auditors are executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership or in Auditors' Board within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next regular general assembly to be approved. The company's 2011 Regular General Assembly has been executed on 30.03.2012.

An extraordinary General Assembly of the Shareholders was held on 29 June 2012 in order to accept the necessary Executive Board changes including the election of the independent board members and to adopt the required amendments of the articles of association stipulated by the Turkish Capital Market Board's Communique n° Serial: IV No:56 dated 30 December 2011 named "Communique on the Determination and Implementation of the Corporate Governance Principles".

The active members of the Board of Directors as of 30.06.2012:

Board of Directors	Title	Effective from
Fatih Osman TAR	Chairman – Executive Director (1 year)	22.02.2010
Nihat KARADAĞ	Deputy Chairman– Executive Director (1 year)	30.09.2009
Ahmet AKSU	Board Member (1 year)	13.03.2012
Diğ KIZILDEMİR	Board Member – Executive Director (1 year)	27.02.2006
Ertuğrul AYDIN	Board Member (1 year)	31.03.2008
Fatma CANLI	Board Member (1 year)	09.03.2010
Nazmi DEMİR	Board Member (1 year)	29.06.2012
Atilla Tamer ALPTEKİN	Board Member (1 year)	29.06.2012

Changes in the Executive Board within the Period

Board member Arzu Hatice ATİK who had been elected as a Board Member on 26.02.2008, resigned on 13.03.2012. Ahmet AKSU was elected to fill this vacancy on the same date. On the Shareholders General Meeting of 30.03.2012 Ahmet AKSU was elected as a member of the Executive Board once again.

At the extraordinary General Assembly of the Shareholders of 29.06.2012, Memberships to the Executive Board were increased from 7 to 9, and a new election was made, and in addition to Fatih Osman TAR, Nihat KARADAĞ, Ahmet AKSU, Diğ KIZILDEMİR, Ertuğrul AYDIN and Fatma CANLI, who were re-elected as Board Members, Ali Husrev BOZER, Nazmi DEMİR and Atilla Tamer ALPTEKİN were also elected as independent members to the Board.

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Oğuz Nuri ÖZGEN's membership to the Board, which had been started on 17.07.2006, ended as of the extraordinary General Assembly of the ShareHolders of 29.06.2012.

Ali Husrev BOZER, who were elected to the Board as an independent member at the extraordinary General Assembly of the Shareholders of 29.06.2012, resigned on 05.07.2012. The necessary procedure to elect a new independent member to the Board for the seat of Ali Husrev BOZER has been initiated in accordance with the Turkish Capital Markets Board's respective legislation on the Determination and Implementation of the Corporate Governance Principles.

The active members of the Board of Auditors as of 30.06.2012:

Board of Auditors	Title	Effective from
Ahmet Türker ANAYURT	Board of Auditors Member (1 year)	09.03.2010
Ünal TAYYAN	Board of Auditors Member (1 year)	31.03.2011

Powers and duties of the members of the Board of Directors' and Auditors'

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

4. Executive Management

Executive Management	Title	Effective from	Education	Experience
Fatih Osman TAR (by proxy)	Chief Executive Officer	02.07.2012	Boğaziçi University – Business Administration	37 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	31 Years
Kaan BÖKE	Executive Vice President (Human Resources and Admin. Affairs)	02.04.2012	Gazi University – Labor Economics	22 Years
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011	Hacettepe University - Business Administration	25 Years
Sami Nezh TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	28 Years
Mustafa Ayhan KALMUKOĞLU (by proxy)	ERDEMİR Group Marketing and Sales Coordinator	12.07.2010	Middle East Technical University – Business Administration	33 Years
Ahmet Samim ŞAYLAN (by proxy)	ERDEMİR Group Procurement Coordinator	12.07.2012	Middle East Technical University – Business Administration	39 Years

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Ahmet Samim ŞAYLAN	Executive Vice President (Procurement)	23.03.2011	Middle East Technical University – Business Administration	39 Years
Mehmet Müçteba BEKCAN	Executive Vice President (Technical Services and Investments)	14.07.2010	Middle East Technical University – Industrial Engineering	34 Years
Öner SONGÜL	ERDEMİR Group Information Technologies Coordinator	12.08.2010	Middle East Technical University – Industrial Engineering	32 Years
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	28 Years
Mesut Uğur YILMAZ	ERDEMİR Grup Technology Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	32 Years

Ahmet Samim ŞAYLAN, who has been conducting the Executive Vice Presidency for Procurement by proxy since 23.03.2011, has been appointed as Executive Vice President for Procurement, effective from 02.04.2012.

Also, Kaan BÖKE was appointed as the Executive Vice President for Human Resources and Administration Affairs, which had become vacant upon Ahmet Samim ŞAYLAN's assignment to the Executive Vice Presidency for Procurement.

Effective upon 02.07.2012, two new positions, "ERDEMİR Group Production Coordinatorship" and "ERDEMİR Group Technology Coordinatorship" were introduced. Our Company's CEO Oğuz Nuri ÖZGEN was assigned as ERDEMİR Group Production Coordinator, while Mesut Uğur YILMAZ, ISDEMİR's vice general manager responsible for the facilities, was commissioned as ERDEMİR Group Technology Coordinator. ERDEMİR Group Procurement Coordinator Şafak ÇAPAR was assigned to the Vice Presidency of Iskenderun Demir ve Çelik A.Ş. Responsible for the Facilities. Our Company's Chairman and the executive director Fatih Osman TAR was also assigned as the Proxy Chief Executive Officer upon Oğuz Nuri Özgen's appointment to ERDEMİR Group Production Coordinatorship.

However as of 12.07.2012, Ahmet Samim ŞAYLAN substituted for Şafak ÇAPAR as Proxy ERDEMİR Group Procurement Coordinator.

5. Compliance With The Corporate Governance Principles

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity report for the year ending 2011 were met during the period 01.01.2012 – 30.06.2012. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been charged.

6. Amendments in The Articles of Association

At the extraordinary General Assembly of the Shareholders of 29.06.2012, some provisions of the articles of association of the company were amended as follows:

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“Capital:

Article 7 – The Company has adopted the Registered Capital System in accordance with provisions of the Capital Markets Law no.2499 as amended by the law no. 3794, and started to use this system with the permission of the Capital Markets Board no. İDİD/150/2416 dated 15.08.1983.

The upper limit of the registered capital of the Company is TL 7,000,000,000.00 (seven billion Turkish Liras) The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kuruş) up to the amount of the registered capital, between the years 2012 and 2016, in accordance with the requirements as set forth herein.

The permission granted by the Capital Markets Board in respect of the upper limit of the registered capital is valid for the years between 2012 and 2016 (5 years). Even if the upper limit of the registered capital as permitted is not reached by the end of the year 2016, in order to adopt a resolution for increasing the capital after 2016, the board of directors shall be required to obtain authority from the general meeting of shareholders for a new period by means of gaining permission from the Capital Markets Board for the upper limit previously permitted or a new upper limit. In case of the failure to obtain such authority, the Company shall be deemed to have quit the registered capital system.

The Board of Directors is authorized to restrict the rights of the shareholders to receive new shares, and also authorized to issue shares at such prices greater than their nominal values.

Each share has one 1 voting right.

The Issued Capital of the Company is TL 3.090.000.000,00 (three billion and ninety million Turkish Liras), all of which is paid. This capital is composed of 309.000.000.000 (three hundred and nine billion) shares each with a nominal value of 1 Kuruş (One Kuruş).

Shares representing the capital shall be traced in records in accordance with the basis of dematerialization.

This capital is divided into Group A and B shares. Out of such shares, 1 (one) registered share corresponding to the capital in the amount of 1 Kr (one Kuruş) shall constitute the Group A, and 308.999.999.999 (three hundred and eight billion nine hundred and ninety-nine million nine hundred and ninety-nine thousand nine hundred and ninety-nine) shares corresponding to the capital in the amount of TL 3.089.999.999,99 (three billion eighty nine million nine hundred and ninety-nine thousand and nine hundred ninety-nine Turkish liras and ninety-nine Kuruş) shall constitute the Group B.

A beneficial right is to be established on the Group A shares in the name of the Directorate of Privatization Administration, which shall be valid until otherwise decided by the High Board of Privatization. All voting rights pertaining to the Group A shares shall be exercised by the beneficial owner (“beneficial right”).

Board of Directors:

Article 10- Company's business and management is governed by the Board of Directors.

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Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly of Shareholders among shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law.

The number and the qualifications of the independent members that shall take office in the Board of Directors are determined according to the regulations of Capital Market Board regarding corporate management.

General Assembly of Shareholders determines the number of members to be selected for Board of Directors in such a manner to ensure the members to perform effective and creative activities, to take quick and rational decisions and efficiently organize their activities as well as formation of committees.

As the General Assembly of Shareholders can select the members of Board of Directors fully or partially among the candidates shown by the same legal entity acting as the Company's partner, legal entities acting as the Company's partners can be represented by multiple members at Board of Directors.

One of the members to the Board of Directors is appointed by the General Assembly of Shareholders among the candidates to be nominated by Privatization Administration as the beneficial owner to represent the Group A shares.

Term of Board of Directors:

Article 11- Members of Board of Directors are appointed for one year, and those for whom the term of election has expired may be re-elected. In case of vacancy in a position of a member for any reason, the Board of Directors shall appoint someone with the qualifications stipulated in Turkish Commercial Code, Capital Markets Board legislation and the present Articles of Association temporarily for this position, and submit to the approval of first coming General Assembly of Shareholders. So the elected member completes the former member's post term.

General Assembly of Shareholders is entitled to change members of the Board of Directors whenever it deems necessary.

In case the duty of the member of Board of Directors representing the Group A shares expires in any way within the term he has been elected for, the substitute member must also be elected among the candidates to be offered by the Privatization Administration as the beneficial owner to represent the Group A shares.

Meetings:

Article 12- Board of Directors gathers at the corporate headquarters or at another location upon the resolution of Board of Directors at least six times a year or whenever deemed necessary for the Company's business. Should no negotiation is requested on the issue, the resolutions may be passed by receiving the written consent of the members without holding a meeting. Board of Directors elects a chairman and a vice chairman to act as proxy in his absence among the members during the first meeting of each year. The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting, as well as duties, rights and authorities of Board of Directors are subject to provisions of Turkish Commercial Code and related legislation. Board of Directors gathers with participation of 3 persons when 5 members are available, 4 when 7 are available, and 5 when 9 are available. In other circumstances, the quorum for meeting is one plus half of the

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full number of members. Resolutions of Board of Directors are entered into the official minutes book. It is also signed by the chairman and the members. Without prejudice to the rights conferred upon the Group A by the article 22 of the present Articles of Association; Board of Directors may grant all or some part of the authority of representation and administration to one or several executive directors who are also the members of Board of Directors other than independent board members.

Board of Directors shall have to discuss on a detailed report issued by the General Directorate showing the quarterly progress of investment projects, and to pass a resolution upon the suggestions made by the member of Board of Directors as the representative of the beneficial owner to represent the Group A shares. The development of investment projects is reflected on the annual report of Board of Directors in detail. Furthermore, no resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 41 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the representative of the beneficial owner to represent the Group A shares.

The member of Board of Directors representing the beneficial owner or a person to be addressed by him shall participate in the General Assemblies of Shareholders of Subsidiaries to represent the Group A shares of the Company in Subsidiaries. One of the members of Board of Directors of the Subsidiary shall be selected among the candidates to be shown by that representative.

In the event that a resolution is to be passed in General Assemblies of the Subsidiary on issues concerning the rights granted to the Group A shares in the Subsidiary, the affirmative vote of the said representative shall be sought.

Resolutions to be passed by the Company's Board of Directors on any rights and obligations regarding the Group A shares in the Subsidiaries shall be passed upon the affirmative vote of the member of Board of Directors representing the beneficial owner.

For the purposes of the present Articles of Association, "Subsidiary" refers to İskenderun Demir ve Çelik Anonim Şirketi and Erdemir Madencilik Sanayi ve Ticaret Anonim Şirketi.

It's mandatory that the member of Board of Directors representing the beneficial owner also casts an affirmative vote on resolutions to be passed concerning the rights granted to the Group A shares.

It shall be observed the Corporate Management Principles, the implementation of which is made obligatory by Capital Markets Board. The transactions made and the resolutions passed without observing the obligatory principles are held invalid and deemed contrary to the articles association.

With regard to the implementation of the Corporate Management Principles, the regulations of Capital Market Board on corporate management are observed in the transactions deemed to have an important nature and any subsidiary transactions of the company as well as the transactions for giving security and establishing pledge and mortgage in favor of third persons.

Committees

Article 19 – The provisions of the related legislation are applied regarding the formation, duties and working principles of the committees that the Board of Directors is obliged to establish under the related legislation as well as their relations with the Board of Directors.

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Announcement:

Article 33 - Announcements pertaining to the Company shall be made through a daily newspaper published in the location where the principal office of the Company is situated without prejudice to the provisions of Turkish Commercial Code.

Regarding the General Assembly meetings, it is observed the terms and principles for the announcements provided for in the applicable Turkish Commercial Code and Capital Markets Board Corporate Management Principles.

In the official web site of the company, besides the notices and explanations that the company is required to make as per legislation, it is also included the matters stipulated in the Corporate Management Principles of Capital Markets Board.

The Capital Markets Board arrangements concerning the announcements to be made are reserved.

For announcements pertaining to capital decrease and liquidation, provisions of Turkish Commercial Code and capital markets legislation are applied. “

7. The Nature and Amount of Issued Capital Market Instruments

In accordance with the decision of the Board of Directors dated 15.02.2012 and numbered 9111, it was decided to raise the paid up capital from TRY 2.150.000.000, to TRY 3.090.000.000, by an increase of TRY 940.000.000, 43,7209% of the consisting paid up capital. Registration and publication of the Capital Market Board document dated 12.04.2012 and numbered 1061 has been completed with the publication of Turkish Trade Registry Gazette dated 17.04.2012 and numbered 8050.

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

While no significant changes occurred in the environment the company operates in, the effects of developments in neighboring countries to Erdemir Group are measured and necessary precautions are taken. Information in relevant subject is given in other sections of the Report.

9. Information about the sector

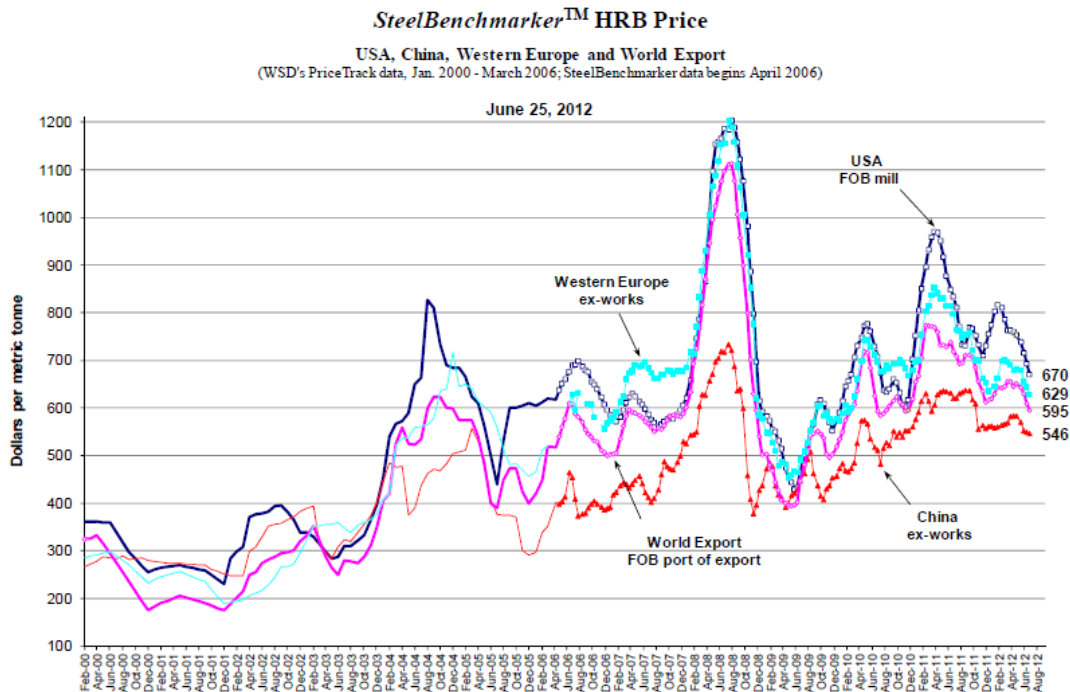
The world crude steel output in 2012, reached to 766.8 m tonnes, an increase of 0.9% over 2011. The fifteen major steelmaking countries in 2011 remained the same at the first half of 2012, in terms of the crude steel production.

With its crude steel production performance in the first half of 2012 when compared to the same period of the previous year, our country took the first place among the major fifteen countries with an increase of %9.3 in production. In terms of production increase, USA and France are at second and third positions respectively. In Brazil, Germany, Ukraine, Taiwan and Spain, output decreases were observed when compared to the first half of the previous year.

The industry's capacity-utilization rate which was 76.8% in 2011 crept up to 80.4% in June, which was 2.5 percentage points lower than in June 2011.

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The global hot rolled product price change is provided in the graph below:



Turkish crude steel production in June turned to be 2.936 million tons with an increase of 4% when compared to the previous year. In the first half of 2012, the crude steel production increased by 9.3% to 17.924 million tons when compared to the same period of 2011. Turkey has produced 17.924 million tons of crude steel in the first half of 2012, out of 13.552 million tons have been produced in electrical arc furnaces while 4.372 million tons have been produced in integrated plants.

10. The Position of Erdemir Group within the Sector

Our Group's production in 2011 has been expanded to 7.5 million tons. In the first half of 2012, the crude steel production in Ereğli Plant has decreased by 13.4% because of Blast Furnace No.2 relining and went down to 1,417,489 tons while the crude steel production in İskenderun went up to 2,226,139 tons with an increase of 9.6%.

11. Research and Development Activities

Homologation studies and industrial trial tests in Ereğli Iron and Steel Works Inc continued in accordance with the demands of leading companies of the automobile industry within the period. After getting successful results from homologation and trial tests, special steel qualities were developed for the companies and presented to the market. Ereğli Plant has also started working on the establishment of R&D center and studies are ongoing.

12. Investment Activities

Operating within the modern plants and by a modern production technology, Erdemir Group produces competitive products globally and continues its investments aligned to continuous development strategy. In 'Ereğli plant, Ereğli Steel Service Center projects' main contract was signed and the site activities are continuing. Tender studies related to 'Coke Oven Battery No.4' and 'Blast Furnace Top Pressure Recovery Turbines' projects have currently been in progress. 'Air Separation Plant No.7', 'New Turbo Blower' and 'TinCal Automation Modernization' project's main contracts were signed; engineering and construction works were initiated. 'Modernization activities aiming the replacement of Combined Rolling Mills at Hot Strip Mill No.1' and 'Investments in BOF and Continuous

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Casting Facilities in accordance with relineline' is carried out. 'Advanced Plant Planning and Scheduling Project' has been completely commissioned in Erdemir. 'Modernization of Slab Furnace No.2' has been completed. Also 'Blast Furnace No.2 Reline and Other Modernization Projects in Iron Making Facilities' project has been completed successfully and the first hot metal produced in 03.07.2012.

On the other hand, in İskenderun Facilities; 'Modernization of the Coke Oven Battery No.4', 'Harbor Investments', 'Environmental Investments', 'Development of Existing Coil Stock Yard', 'Improvement of Desulfurization' and "Alternative Reladling Pit and Changing Crane Ginders" projects are in progress.

Total investments (except the routine fixed asset expenditure) in Ereğli and İskenderun plants in the first 6 months amount to USD 93.844.691 as of 30 June 2012 (30 June 2011: USD 70.256.415).

13. Government Grants

Government grants and incentives, received by Erdemir Group are as follows:

(TRY)	1 January - 30 June 2012	1 January- 30 June 2011
Research and Development Grant	536.375	70.747
Social Security Grant	245.608	219.651
Total	781.983	290.398

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

There is an investment incentive right of the Group amounting to TRY 46.489.471 deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (31 December 2010: TRY 43.125.871).

14. Developments Regarding the Plants

In the first half of 2012, global economic activity demonstrated a weak outlook due to the financial risks born in the Euro Area. The steps taken for the solution of the sovereign debt crisis in the Euro Area had a positive effect on the markets; however this effect vanished soon. Besides, global risk perception has increased and concerns regarding the future of the common currency have risen due to the fact that no tangible improvement in macroeconomic outlook of the region has been observed.

Despite of positive expectations regarding economic activity in the US at the beginning of 2012, limited recovery in the housing market and employment turned these expectations down. On the other hand, emerging and developing economies slow down due to the existing problems at developed countries.

The economic indicators of China are also under close observation in order to analyze the global economic run. As per the latest data, increase in both exports and imports of China had a slowdown in June. The Chinese Economy grew 7,6% in the second quarter of 2012 compared to the same period of 2011. This rate indicates the worst growth performance within last 3 years.

Parallel to the above-mentioned macroeconomic developments; World Steel Association (WSA) reported that the crude steel production increased 0,9% in the first half of 2012 compared to the same period of 2011 and reached 766,9 million tons. Moreover, the

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capacity utilization ratio realized at slightly over 80% level in June after its peak in April with a level of 81.4%.

According to the WSA data, Turkey produced 17,9 million tons of crude steel in the first half of 2012 and increased its steel production 9% compared to the same period of last year. After reaching the eighth place in the top 10 steel producer list in February 2012, Turkey has kept its position by the first half of 2012.

WSA estimates that the apparent steel use of EU (27) will shrink 3,4% in 2012 due to recessions in Italy, France and Spain. Despite the decrease in the apparent steel use of EU (27), the global apparent steel use is expected to increase 3,3% and reach 1.42 billion tons in 2012. The apparent steel use is expected to increase 4,4% in Emerging and Developing countries, 4,2% in BRIC countries and 7,9% in Turkey, rising apparent steel use up to 29 million tons level.

Turkish Iron and Steel Producers Association (TISPA) reported that Turkish consumption of flat and long finished products increased 9% in the first five months of 2012 compared to the same period of 2011 and reached 11,4 million tons. The consumption of flat finished steel products reached to 5,4 million tons with a 2,6% increase yoy and long finished steel products reached to 6 million tons with a 15,3% increase yoy.

Erdemir Group increased its total flat product sales volume by 0,4% compared to the first half of 2012 and reached to 3,04 million tons level. As a result of the slowdown in North African and European markets, group's export volume shrunk by 47% in the first half of 2012. On the other hand; domestic sales volume of the flat products increased 13% and reached to 2,7 million tons. It is estimated that ERDEMİR Group increased its market share and reached to 35% in the first half of 2012.

ERDEMİR Group increased its total long products sales volume by 125% and reached to 0,54 million tons level. While domestic shipments increased 85% in the first half of 2012; the export shipments of long products increased almost six times compared to the same period of 2011 and reached 129 ktons.

15. Products

The main products of Erdemir Group are as follows:

Erdemir	Isdemir	Ermaden
Tinplate	Billet	Pellets
Galvanized	Wire Rod	Iron Ore
Cold Rolled	Slab	
Hot Rolled	Hot Rolled	
Plate		

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16. Production Plants and Productivity

The information about the capacities of main product groups by Ereğli Iron and Steel Works Inc. are stated below:

	1 January- 30 June 2012	1 January- 30 June 2011
	C.U.P. (%)	C.U.P. (%)
Tinplate	96	92
Galvanized	96	108
Cold Rolled	83	90
Hot Rolled	70	74
Plate	47	31

The information about the capacities of main product groups by İskenderun Iron and Steel Works Co. is stated below:

	1 January- 30 June 2012	1 January- 30 June 2011
	C.U.P. (%)	C.U.P. (%)
Billet	49	26
Wire Rod	119	93
Hot Rolled	65	74

17. Production (quantity)

Final Products (000 Tons)	01 January - 30 June 2012	01 January - 30 June 2011
Erdemir	1.734	1.779
İsdemir	2.175	1.602
Ermaden	1.278	1.242

18. Developments Regarding Sales

The structure of the Marketing and Sales Organization has been reinforced with the recruitment of new staff in the second quarter of 2012. In addition to the sales executives, the number of the regional representatives has been increased in order to strengthen the relations with our customers.

The sales executives and regional representatives continued and increased their planned customer visits in order to increase customer loyalty. It is intended to increase brand awareness and strengthen the corporate image with these visits; as well as assisting the fulfillment of sales targets.

Concerning the target of strengthening corporate image and acquiring new customers, customer events have been organized. In the second quarter of 2012, in addition to the regional customer meetings in Aegean Region, İskenderun and Gaziantep etc, sector-specific meetings have also been organized for the customers in Packaging and Automotive industries in order to receive customers' views, expectations and share information.

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In addition to orientation trainings for new personnel of Marketing and Sales Organization and annual planned trainings; also trainings on materials and management standards have been organized in order to develop employees' competencies.

Customers Loyalty Study, which started in the first quarter of 2012, is proceeding. Field studies are expected to be completed in the second half of 2012 and provide reference results to be used for the improvement of ERDEMİR Group. On the other hand, concrete steps have been taken regarding the "management information system" project for the effective management of Customer Relations mechanisms. Ongoing tender process is expected to be finalized in the second half of 2012. Design and improvement phases will follow the tender process.

As a result of new quality and product development studies, new symbols have been added to our product mix in the cold-rolled and galvanized product groups in accordance with customer expectations.

Also feasibility studies, regarding investments for the continuous improvement of service quality delivered by ERDEMİR Group, are carried on at full speed.

Despite of blast furnace re-line studies started in the second quarter of 2012, flat products delivery performance is remaining over the targets.

19. Sales (quantity)

Final Products (000 Tons)	1 January - 30 June 2012	1 January - 30 June 2011
Erdemir	1.875	1.762
Isdemir	2.147	1.589
Ermaden*	1.498	1.511

(*) 1.306 thousand tons of Ermaden's sales are to Group Companies as of 30 June 2012. (30 June 2011: 1.408 thousand tons).

20. Indicators and Ratios

Financial statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and have been reviewed as of 30 June 2012 and 30 June 2011.

Summary of Balance Sheet

	(Reviewed) Current Period	(Reviewed) Previous Period
(TRY)	30 June 2012	31 December 2011
Current Assets	5.895.483.997	6.026.987.737
Non-current Assets	7.395.790.435	7.365.849.568
Total Assets	13.291.274.432	13.392.837.305
Current Liabilities	2.946.175.676	2.472.663.550
Non-current Liabilities	3.151.440.875	3.632.625.683
Shareholders' Equity	7.193.657.881	7.287.548.072
Total Liabilities	13.291.274.432	13.392.837.305

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Summary of Income Statement

(TRY)	(Reviewed)	(Reviewed)
	Current Period	Previous Period
	1 January- 30 June 2012	1 January- 30 June 2011
Sales Revenue	4.784.577.538	4.216.821.406
Operating Profit	270.048.855	847.774.052
Profit from Continuing Operations Before Taxation	279.801.092	711.892.129
Profit for the Period (*)	223.403.759	574.487.911
EBITDA	444.974.724	1.001.028.276
Earnings Per Share	6,66%	17,94%

(*) Shareholder's share in the net profit for the period is TRY 205.650.749 in June 2012 (June 2011: TRY 554.494.158).

Key Ratios

(%)	30 June 2012	30 June 2011
Operating Profit Margin	5,6	20,1
Profit Margin	4,3	13,1
EBITDA Margin	9,3	23,7

21. Collective Labor Agreement Applications and the Benefits

23rd Period Collective Labor Agreement, which will be valid between 01.09.2010 - 31.08.2012, has been signed on May 5, 2011 between the Turkish Employers' Association of Metal Industries (MESS) on behalf of our company and the Turkish Metalworkers Union as the collective bargaining agency.

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

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

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The number of the personnel on 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012	31 December 2011
Monthly paid personnel (A)	3.388	3.368
Hourly paid personnel (B)	9.185	8.640
Candidate worker (C)	705	1.293
Contractual personnel (D)	24	20
Contractual personnel (Contractor)	69	112
TOTAL	13.371	13.433

22. Shareholding and Capital Structure

Authorized Capital : TRY 5.000.000.000
Paid-in Capital : TRY 3.090.000.000

Shareholders	Shares (TRY)	%
Ataer Holding A.Ş.	1.522.913.196	49,29
Publicly Held	1.471.882.268	47,63
Erdemir's Own Shares	95.204.536	3,08
Total	3.090.000.000	100,00

23. Dividend Distribution Policy

Erdemir Groups' Dividend Distribution Policy is as follows:

"Clause 37 of our Articles of Association titled "Determinaton and Distribution of the Dividend", which is drafted in accordance with Capital Market Board's respective regulations, explains the procedure and the merits of our dividend distribution.

Our Company tries to balance the financial burden of the investments with our shareholders' expectations for corporate governance in determining the ratio of the cash or bonus shares to be distributed from the net distributable profit of the period calculated according to the aforementioned clause of our Articles of Association and legislation, without ignoring Capital Markets Board's compulsory minimum distribution ratio, and aims to distribute the maximum dividend that the financial leverage ratios allow.

As stated above, in the determination and distribution of the dividend, Our Company abides by Capital Markets Board's regulations, distributes dividends within the legally specified periods, and informs shareholders at General Meetings about every issue regarding dividend distribution."

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

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

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25. Risk Management Policy

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

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. After evaluations, the committee provides valid precautions to be taken. 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.

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

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks Erdemir Group is exposed to and the amount of gain / loss, which may arise possible interest rate changes, is measured using a sensitivity analysis. Additionally, the ratio of total amount of loans with a floating interest rate to whole credit portfolio of the Group is monitored and actions are taken to keep this ratio within a defined limit. According to firm and market situation, derivative instruments are recommended to executives and also bank offers are analyzed for compliance test.

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

Financial valuation and technical assessment report of investments is presented to the Consolidation and the Group Risk Management Center. According to the investment amount and duration of investment, production and sales volumes, the expected net cash flows of the project, the net present value, internal rate of return and Payback Period, Consolidation and Group Risk Management Center evaluates the results of the financial affairs and reports to Finance Coordinator. Investment advices not approved by Consolidation and Group Risk Management Center will not be offered to the Board of Directors.

26. The Information About Affiliates Subject to Consolidation

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

Name of the Company	Country of Operation	Operation	2012 Share %	2011 Share %
İskenderun Demir ve Çelik A.Ş.	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 Lojistik A.Ş.	Turkey	Logistics Services	100,00	100,00

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Erdemir Gaz San. ve Tic. A.Ş. as disclosed in non-current financial investments is excluded from consolidation, as it has not been dormant operating since its establishment and as it does not significantly affect the consolidated financial statements of the Group.). In the Extraordinary General Meeting of Erdemir Gaz San. ve Tic. A.Ş. dated 7 May 2012, liquidation of the Company has been decided. In the General Meeting of Erdemir Lojistik A.Ş. dated 8 June 2012, the merger of the Company with Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. has been decided.

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

27. Organizations Out of the Headquarters

None.

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28. Information About Approval Given by the Board to Controlling Shareholders, Board Members, Executive Management and Relatives up to the Second Degree to Make Transactions and Get into Competition with the Company or Its Subsidiaries That May Cause Conflicts of Interest

None.

29. Information About the Report on the Conditions and Market Comparison of Transactions That Amount to 10% or more of the Total Assets or Gross Sales in Annual Financial Statements in Accordance with the Capital Markets Board Legislation

None.

30. Information for Shareholders

None.
