

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

1. Period of the Report

01/01/2009-30/06/2009

2. Title of the Association

EREĞLİ IRON AND STEEL WORKS, INC.

3. Members of the Board of Directors and Auditors

According to the Turkish Trade Act and related regulations, the elections of the Board of Directors and Auditors are executed by the General Assembly within the framework of the Articles of Association. The changes during the period are made by the decisions of the Board of Directors for members of the Board of Directors and by the Board of Auditors for members of the Board of Auditors, as to be approved in the next regular general assembly. The company's 2008 Regular General Assembly has been executed on 30.03.2009.

Members of the Board of Directors as of 30.06.2009:

Board of Directors	Title	Effective from
Şerif Coşkun ULUSOY	Chairman (1 year)	27/02/2006
Mehmet Aydın MÜDERRİSOĞLU	Deputy Chairman (1 year)	27/02/2006
Arzu Hatice ATİK	Board Member (1 year)	26/02/2008
Celalettin ÇAĞLAR	Board Member (1 year)	27/02/2006
Ergün Oktay OKUR	Board Member (1 year)	27/02/2006
Ali Caner ÖNER	Board Member (1 year)	27/02/2006
Dinç KIZILDEMİR	Board Member (1 year)	27/02/2006
Ertuğrul AYDIN	Board Member (1 year)	31/03/2008
Oğuz Nuri ÖZGEN	Board Member (1 year)	17/07/2006

Changes in the Board of Directors within the Period

None.

Members of the Board of Auditors as of 30.06.2009:

Board of Auditors	Title	Effective from
Fatma CANLI	Auditor (1 year)	22/03/2007
Ali Güner TEKİN	Auditor (1 year)	31/03/2008

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Changes in the Board of Auditors within the Period

None.

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

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

4. Executive Management

Executive Management	Title	Effective from
Oğuz Nuri ÖZGEN	President and Chief Executive Officer	13/07/2006
Esat GÜNDAY	Executive Vice President (Operations)	13/07/2006
Ahmet Samim ŞAYLAN	Executive Vice President (Human Resources and Admin. Affairs)	13/07/2006
Halil Cem KARAKAŞ	Executive Vice President (Chief Financial Officer)	28/08/2007
Günhan BEŞE	Executive Vice President (Sales and Marketing)	13/07/2006
Ozan BEKÇİ	Executive Vice President (Raw Materials and Procurement)	13/07/2006
İsmail Hakkı GÜROL	Executive Vice President (Technical Services and Investment)	13/07/2006

Changes in the Executive Management within the Period

None.

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 2008 were complied with during the period 01/01/2009 – 30/06/2009

6. Amendments in The Articles of Association

None.

7. The Nature and Amount of Issued Capital Market Instruments

None.

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None.

9. Information about the sector

The high supply and demand balance was maintained up until September 2008 in the iron and steel sector. The increase in raw material costs led to a rise in steel prices, thus record high increases continued until September. However, the economic crisis which began in the USA has spread globally. It induced a monetary pressure on steel manufacturers and caused production cuts which increased stocks and resulted in record-low price declines. Cutbacks in production beginning from the third quarter of 2008 have continued with an increasing pace throughout the first half of 2009. Several measures such as closure of plants, lay offs, reduction of salaries or flexible working hours have been enforced. Therefore, in the first half of 2009, the world crude steel production has fallen down to 549,3 million tons; indicating a 21,3 % decrease on a y-o-y basis. From May to June 2009, the world crude steel production has increased by 4% to 99,8 million tons; reaching the maximum level of output since the September 2008 production of 107,9 million tons. Since the beginning of June, there has been an increase in demand and the prices. The reasons behind such increases are believed to arise from efforts to reincrease stock levels. Consequently, manufacturers who had cutback or halted the production, have begun to initiate operations in their furnaces. Furthermore, another significant development is that all producers except the Chinese have agreed on the 2009 iron ore reference prices.

In the first half of 2009, Turkey has produced 11.768 thousand tons of crude steel which indicates a 17,3% decrease y-o-y. Among this 11,8 million tons; 3,6 millions were cast in integrated plants and 8,2 millions were casted in electric arc furnaces.

10. The Position of the Group within the Sector

In 2008, the Erdemir Group has produced 6 million tons of crude steel. By doing so, it was ranked 50th globally, 15th Europe-wide and 8th within EU-27 according to World Steel Organization. In the first half of 2009, the crude steel production at the Ereğli premises has been 1.829.231 tons which indicates an increase of 23,1% y-o-y. The cause in the rise of production is due to the lack of production during the commissioning works of blast furnace no:1 (Ayşe) in 2008. Regarding the İskenderun premises, the crude steel output in the first half of 2009 has been 1.196.070 tons which indicates a decrease of 25% y-o-y.

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11. Research and Development Activities

Research and Development Activities within the period are as follows:

- The production of X-80 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process. (TÜBİTAK-TEYDEB Project)
- The production of X-70 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process. (TÜBİTAK-TEYDEB Project)
- The production and development of alternative DC04 ED enameling steel grade according to DIN EN 10209 standards, having improved aging properties.
- The production and development of electric steel grades having high silicon content. (Sale to offer, continue to observing.)
- The development and production of steel grades S355JO, S355K2, S355J2W (resistant to the atmospheric corrosion) produced in the concern of DIN EN 10025 standard due to the requirement of structural construction companies. (Sale to offer, continue to observing.)
- The development of DIN EN 10149 grade S700MC for Mercedes.
- The Improvement of DIN EN 10149 grade S500MC.
- The production of plates with TCR rolling up to API X-60 steel grades.
- The development and production of steel grades XES- XE280D for Renault.
- The briquetting of pellet dust with using suitable additives in laboratory scale and research to charging of produced briquettes into the steel mill, sinter and blast furnace.

12. Investment Activities

Throughout the first half of 2009, investments of Erdemir Group have continued. Details of the main works are as follows:

Ereğli Plants;

- Yarımca Harbor & Logistics Center
- Automation Modernization of Continuous Pickling Line (CPL) and Tandem Cold Mill (TCM) Cold Rolling Mill No.2
- Automation Modernization of Continuous Annealing Line (CAL) Cold Rolling Mill No.2
- Advanced Planning & Scheduling System
- Hot Strip Mill No.1 Combined Mill Drive Motor
- Enterprise Resource Planning (including İskenderun Plants)

İskenderun Plants;

- No.2 Sinter Plant
 - BOF Modernization
 - Waste Recovery System (phase I)
 - No.4 Blast Furnace
 - Modernization of No.4 Coke Oven Battery
 - Harbour Investments (2nd Stage) "First Phase of Coastal Structures"
 - Cut to Length Lines and Slitting Line
 - Harbor Investments (Cargo and CB Cranes)
 - Infrastructure Improvements
 - Modernization of Existing Steam Boilers
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13. Production Plants

Main plants and capacities of Ereğli Iron and Steel Works Inc. are as follows:

	01 January-30 June 2009		
	Capacity* (tons)	Production (tons)	C.U.P. (%)
Coke Plant	500.000	480.774	96,2
Sinter Plant	1.000.000	915.955	91,6
Blast Furnaces	1.700.000	1.643.279	96,7
BOF	1.750.000	1.882.628	107,6
Casters	1.700.000	1.828.914	107,6
Hot Strip Mill.1	575.000	553.056	96,2
Hot Strip Mill.2	1.825.000	1.517.184	83,1
Plate Mill	150.000	15.051	10,0
Cold Mill.1	225.000	111.776	49,7
Cold Mill.2	775.000	618.366	79,8
Galvanizing Line	150.000	112.764	75,2
Electrolytic Tinning Line	125.000	69.606	55,7
General C.U.P %			93,1

* Actual capacity for the 1st half.

Main plants and capacities of İskenderun Iron and Steel Works Co. are as follows:

	01 January-30 June 2009		
	Capacity (tons)	Production (tons)	C.U.P. (%)
Coke Plant	1.075.000	774.055	72,0
Sinter Plant	1.500.000	970.827	64,7
Blast Furnaces	1.900.000	1.135.900	59,8
BOF	1.750.000	1.215.533	69,5
Billet Casting	1.250.000	1.105.876	88,5
Slab Casting	2.500.000	90.193	3,6
Wire Rod Mill	250.000	257.143	102,9
General C.U.P %			54,3

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14. Products

Erdemir	Isdemir	Ermaden
Tinplate	Billet	Pellets
Galvanized	Wire Rod - Rebar	Iron Ore
Cold Rolled	Pig Iron	
Hot Rolled	Slab	
	Hot Rolled	

15. Productivity

Main plants and capacities of Ereğli Iron and Steel Works Inc. are as follows:

	01 January-30 June 2009			01 January-30 June 2008			01 January-30 June 2007		
	Capacity* (tons)	Production (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)
Coke Plant	500.000	480.774	96,2	519.500	500.912	96,4	519.500	505.009	97,2
Sinter Plant	1.000.000	915.955	91,6	1.000.000	944.170	94,4	1.000.000	1.021.225	102,1
Blast Furnaces	1.700.000	1.643.279	96,7	1.350.000	1.317.690	97,6	1.350.000	1.428.171	105,8
BOF	1.750.000	1.882.628	107,6	1.500.000	1.530.268	102,0	1.500.000	1.649.489	110,0
Casters	1.700.000	1.828.914	107,6	1.450.000	1.485.713	102,5	1.450.000	1.606.121	110,8
Hot Strip Mill.1	575.000	553.056	96,2	575.000	564.700	98,2	191.667	548.327	286,1
Hot Strip Mill.2	1.825.000	1.517.184	83,1	1.825.000	1.717.552	94,1	1.787.500	1.421.501	79,5
Plate Mill	150.000	15.051	10,0	250.000	135.050	54,0	250.000	101.970	40,8
Cold Mill.1	225.000	111.776	49,7	250.000	189.207	75,7	250.000	151.519	60,6
Cold Mill.2	775.000	618.366	79,8	750.000	728.362	97,1	750.000	617.675	82,4
Galvanizing Line	150.000	112.764	75,2	150.000	199.823	133,2	150.000	120.836	80,6
Elect. Tinning Line	125.000	69.606	55,7	125.000	145.680	116,5	125.000	98.770	79,0
General C.U.P %			93,1			97,1			99,4

* Actual capacity for the 1st half.

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Main plants and capacities of İskenderun Iron and Steel Works Co. are as follows:

	01 January-30 June 2009			01 January-30 June 2008			01 January-30 June 2007		
	Capacity (tons)	Production (tons)	C.U.P. (%)	Capacity (tons)	Produc. (tons)	C.U.P. (%)	Capacity (tons)	Produc. (tons)	C.U.P. (%)
Coke Plant	1.075.000	774.055	72,0	1.075.000	1.032.088	96,0	870.000	661.610	76,0
Sinter Plant	1.500.000	970.827	64,7	1.260.000	1.342.419	106,5	1.260.000	1.158.255	91,9
Blast Furnaces	1.900.000	1.135.900	59,8	1.900.000	1.599.602	84,2	1.800.000	1.292.211	71,8
BOF	1.750.000	1.215.533	69,5	1.750.000	1.639.349	93,7	1.100.000	1.182.059	107,5
Billet Casting	1.250.000	1.105.876	88,5	1.250.000	1.113.630	89,1	1.250.000	1.007.825	80,6
Slab Casting	2.500.000	90.193	3,6	2.500.000	491.666	19,7	1.250.000	151.390	12,1
Wire Rod Mill	250.000	257.143	102,9	250.000	270.713	108,3	250.000	260.910	104,4
General C.U.P %			54,3			75,0			73,4

16. Production (quantity)

Final Products (000 Tons)	01 Jan. - 30 June 2009	01 Jan. - 30 June 2008	01 Jan. - 30 June 2007
Erdemir	2.011	2.358	1.947
İsdemir	1.301	1.641	1.293
Ermaden	996	948	879

17. Sales (quantity)

Final Products (000 Tons)	01 Jan. - 30 June 2009	01 Jan. - 30 June 2008	01 Jan. - 30 June 2007
Erdemir	2.185	2.304	2.117
İsdemir	1.413	1.612	1.256
Ermaden	844	960	959

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18. Indicators and Ratios

Financial Statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and are subject to a limited review as of 30 June 2009 and a full scope of audit as of 31 December 2008.

Selected Balance Sheet Items (TL)

(TL)	30/06/2009	31/12/2008
Current Assets	3.917.482.920	4.649.284.426
Non-current Assets	7.466.489.337	7.285.155.391
Total Assets	11.383.972.257	11.934.439.817
Current Liabilities	2.428.208.827	3.355.971.032
Non-current Liabilities	3.064.790.041	2.474.840.646
Shareholders' Equity	5.890.973.389	6.103.628.139
Total Liabilities	11.383.972.257	11.934.439.817

Selected Income Statement Items (TL)

(TL)	30/06/2009	30/06/2008
Net Sales	2.303.905.851	3.616.528.459
Operating Profit/(Loss)	(78.288.401)	942.178.476
Profit / (Loss) for the Period	(238.688.979)	1.059.361.294
Net Profit / (Loss) for the Period*	(196.140.836)	854.770.507
EBITDA	81.013.809	1.105.111.541
Earnings / (Loss) Per Share	(0,1718)	0,7157

* Parent company's share in the net profit/(loss) for the period is (197.372.839)TL in June 2009.(June 2008: 822.228.039 TL)

Key Ratios

(%)	30/06/2009	30/06/2008
Operating Profit Margin	(3,4)	26,1
Net Profit Margin	(8,5)	23,6
EBITDA Margin	3,5	30,6

19. Collective Labor Agreement Applications and the Benefits

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

In the scope of collective agreement applications, rights and benefits of the white-collar and blue-collar workers are classified under bonuses and social benefits, and vacations. **Bonuses and social benefits;** bonuses, holiday pay, heating allowance, paid annual leave allowance, marriage allowance, birth allowance, bereavement allowance (the death of the worker,

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spouse, children, mother, father or sibling, death of the worker as a result of a work accident. The allowance will pass onto the worker's heir in case of death as a result of a work accident), military service allowance, children allowance, educational allowance for each child (primary school, secondary school, higher education), meal allowance, and transportation allowance. Vacations; paid annual leaves, family leaves for medical purposes, leaves of absence with excuse, unpaid leaves, and other paid leaves consisting marital leaves, bereavement leaves, maternity leaves, nursing leaves and leaves in case of a natural catastrophe.

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

In order to be least affected by the severe damages caused by the expanding and deepening global crisis in iron and steel industry in our Country as in whole world which can not be predicted where to stop, besides the various measures that have already been taken and still being taken in Ereğli Iron and Steel Company and its most important subsidiary Iskenderun Iron and Steel Company, Labor Unions and employers, parties to the Collective Labor Agreements, have decided, taking into consideration the intense proposals that come from the workers as a result of the actual circumstances that they are going through, to amend some articles of the applicable Collective Labor Agreement for a period of 16 months. A public announcement has been made on this issue in Istanbul Stock Exchange Bulletin on 21-22 April 2009. To ensure the healthy continuance of businesses and maintain their functions in national economy, wages and wage-related benefits are reduced by thirty five percent according to the aforesaid Agreement which reflects the mutual confidence, respect and compromise present between the parties since before now; serves for employment peace as constituting an alternative for massive layoffs under today's conditions and which is considered as having the largest implementation ever in our Country; however, pecuniary or non-pecuniary social contributions have not been affected by this reduction. Every term of this Agreement, without making any exceptions, have also been applied in exactly the same way to the personnel who are not subject to collective labor agreement including top executives. It has been concluded that this treatment could be reassessed depending on the circumstances and determination of the permanent improvements. Following that, this practice has also been realized in other group companies called Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. and Erdemir Lojistik A.Ş.

The number of the personnel based on categories at 30 June 2009 and 31 December 2008 are as follows:

	30 June 2009	31 December 2008
Monthly paid personnel (A)	3.286	3.551
Hourly paid personnel (B)	8.182	9.063
Candidate worker (C)	1.786	1.797
Contractual personnel (D)	17	17
Contractual personnel (Contractor)	85	209
TOTAL	13.356	14.637

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20. Shareholding and Capital Structure

Authorized Capital : TL 5.000.000.000
Paid-in Capital : TL 1.148.812.500

Shareholders	Shares (TL)	%
Ataer Holding A.Ş.	566.194.732	49,29
Publicly Held	547.222.238	47,63
Erdemir's Own Shares	35.395.530	3,08
Total	1.148.812.500	100,00

21. Dividend Distribution Policy

The Company's Dividend Distribution Policy is as follows:

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

22. The Availability of Financial Sources and The Policies The Company Applies in This Framework

Erdemir has full access to all national and international financial sources with its market making force 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 is developed based on the capability of cash generation and the strong equity structure. Hedging methods and amounts used against financial risks during the global crisis environment are developed based on a frame of systematic models. Within risk tolerances forward, futures, swap and options reflecting market conditions are implemented, if necessary. Sales price and terms are improved against liquidity risks. Sales prices are re-regulated in parallel with international prices and methods for increasing the sales volumes are sought.

23. Risk Management Policy

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

Value at Risk method (VaR) is used to measure the market risk and the maximum loss which might occur from changes in currency rate is calculated periodically within a probability ratio and time interval.

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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 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 the Group is exposed to and the amount of gain / loss which may arise in possible interest rate changes is measured using a sensitivity analysis.

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

24. The Information About Affiliates Subject to Consolidation

The main scope of business and the participation in their shareholding are as follows:

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

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

(**)In the current reporting period, Arcelor Mittal Ambalaj Çeliği San. ve Tic. A.Ş. has been disclosed as "current assets held for sale" while it was consolidated using the equity pick-up method in the previous reporting period.

(***)Group's participation rate in Borçelik as of 30 June 2009 is 9,34%.

The consolidated financial statements incorporate the financial statements of the Group and its subsidiaries controlled by the Group. Adjustments are made to eliminate intercompany sales and purchases, intergroup receivables and payables and intergroup equity investments.

Entities in which the Group, directly or indirectly, has above 50% shareholding or interest of voting rights or otherwise has power to exercise control over operations, are fully consolidated. Control is achieved where the Group has the power to govern the financial and operating policies of an investor enterprise so as to obtain benefits from its activities.

The accounting policies of the subsidiaries included in consolidation are changed and adopted to the Group's accounting policies where necessary. All significant transactions and balances between the Company and its consolidated subsidiaries are eliminated for consolidation purposes.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the

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minority's proportion of the fair values of the assets and liabilities recognized. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other subsidiaries of the Group.

25. Information for Shareholders

On 15.09.2008 it was announced on ISE bulletin that Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) decided to end the Commercial Agreement which was concluded on 17.10.2002 between ArcelorMittal Ambalaj Çeliği Tic. A.Ş. and Arcelor Packaging International SA, and also decided to end the partnerships with ArcelorMittal Ambalaj Çeliği Tic. A.Ş. and Borçelik Çelik San. ve Tic. A.Ş according to the Board of Directors' resolution numbered 8971, dated 11 September 2008. Negotiations are still continuing.

According to the decision of the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş (Erdemir) dated 24.07.2009, numbered 9010, taking into account that the registered capital ceiling permitted until 2012 is TL 5.000.000.000 (five billion TL) (stated in clause 7 of the Articles of Association), the executive management is authorized for increasing the registered capital to 1.600.000.000 TL from 1.148.812.500 TL by 451.187.500 TL (39,27425%) utilizing retained earnings resulting from inflation differences and for the execution of the transactions related to the new shares that will be distributed as bonus shares.

The Group plans to produce 100.000 tons/month of hot rolled products in the İskenderun hot rolling mill which has begun test production in August 2008 and which has an annual capacity of 3.5 million tons/year starting from August 2009. It is planned to increase the production level up to 3.5 million tons/year in the future based on market demand.

The Group has received borrowings amounting to 550 Million USD in July 2009 which has resulted in the successful completion of the Group's refinancing efforts. Together with the borrowings amounting to 900 Million TL received during May 2009, the maturities of borrowings which were primarily due in 2009 and up until April 2010 have been postponed to 2011.
