

(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 September 2010**

<b>TABLE OF CONTENTS</b>		<b>Page</b>
<b>CONSOLIDATED BALANCE SHEET .....</b>		<b>1-2</b>
<b>CONSOLIDATED STATEMENT OF INCOME.....</b>		<b>3</b>
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....</b>		<b>4</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....</b>		<b>5</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOW .....</b>		<b>6</b>
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....</b>		<b>7-83</b>
NOTE 1	GROUP'S ORGANIZATION AND NATURE OF OPERATIONS .....	7
NOTE 2	BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS .....	8-25
NOTE 3	OPERATING SEGMENTS .....	25
NOTE 4	CASH AND CASH EQUIVALENTS.....	25-26
NOTE 5	FINANCIAL INVESTMENTS .....	26
NOTE 6	FINANCIAL LIABILITIES.....	26-29
NOTE 7	OTHER FINANCIAL LIABILITIES .....	30
NOTE 8	TRADE RECEIVABLES AND PAYABLES .....	30-31
NOTE 9	OTHER RECEIVABLES AND PAYABLES .....	32
NOTE 10	INVENTORIES.....	33
NOTE 11	ASSOCIATES ACCOUNTED UNDER EQUITY METHOD .....	33
NOTE 12	INVESTMENT PROPERTIES .....	34
NOTE 13	PROPERTY, PLANT AND EQUIPMENT.....	35-37
NOTE 14	INTANGIBLE ASSETS .....	37-38
NOTE 15	GOVERNMENT GRANTS AND INCENTIVES .....	38
NOTE 16	PROVISIONS .....	39-43
NOTE 17	COMMITMENTS AND CONTINGENCIES .....	43
NOTE 18	PROVISIONS FOR EMPLOYMENT BENEFITS .....	44-45
NOTE 19	OTHER ASSETS AND LIABILITIES .....	45-46
NOTE 20	EQUITY .....	46-49
NOTE 21	REVENUE AND COST OF SALES.....	50
NOTE 22	RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES.....	51
NOTE 23	OPERATING EXPENSES ACCORDING TO THEIR NATURE .....	51-52
NOTE 24	OTHER OPERATING INCOME/EXPENSES .....	53
NOTE 25	FINANCIAL INCOME.....	54
NOTE 26	FINANCIAL EXPENSE.....	54
NOTE 27	NON CURRENT ASSETS HELD FOR SALE.....	55
NOTE 28	TAX ASSETS AND LIABILITIES .....	56-61
NOTE 29	EARNINGS / (LOSS) PER SHARE .....	61
NOTE 30	RELATED PARTY TRANSACTIONS .....	62-63
NOTE 31	NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS .....	64-79
NOTE 32	FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) .....	80-81
NOTE 33	SUBSEQUENT EVENTS.....	82
NOTE 34	OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR UNDERSTANDABLE AND INTERPRETABLE PRESENTATION .....	82-83

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

**CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 2010**

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

		<b>Current Period (Unaudited) 30 September 2010</b>	<b>Previous Period (Audited) 31 December 2009</b>
<b>ASSETS</b>	<b>Note</b>		
<b>Current Assets</b>		<b>5.777.102.068</b>	<b>3.729.502.669</b>
Cash and Cash Equivalents	4	2.146.337.441	1.065.737.367
Financial Investments	5	-	22.588
Trade Receivables	8	704.203.615	692.485.126
<i>Due from Related Parties</i>	30	77.885.084	64.024.254
<i>Other Trade Receivables</i>	8	626.318.531	628.460.872
Other Receivables	9	178.036	124.456
Inventories	10	2.665.111.337	1.644.880.477
Other Current Assets	19	204.828.465	284.483.978
		<u>5.720.658.894</u>	<u>3.687.733.992</u>
Non Current Assets Held for Sale	27	56.443.174	41.768.677
<b>Non Current Assets</b>		<b>7.163.365.011</b>	<b>7.420.919.878</b>
Trade Receivables	8	2.263.383	2.360.741
Other Receivables	9	26.306.100	26.722.247
Financial Investments	5	54.602	41.666
Investment Properties	12	46.577.264	46.577.264
Property, Plant and Equipment	13	6.758.062.246	6.795.323.290
Intangible Assets	14	132.781.131	140.275.624
Deferred Tax Assets	28	156.974.384	353.505.904
Other Non Current Assets	19	40.345.901	56.113.142
<b>TOTAL ASSETS</b>		<b><u>12.940.467.079</u></b>	<b><u>11.150.422.547</u></b>

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

**CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 2010**

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

	<b>Note</b>	<b>Current Period (Unaudited) 30 September 2010</b>	<b>Previous Period (Audited) 31 December 2009</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Financial Liabilities	6	2.669.473.595	837.296.086
Other Current Financial Liabilities	7	2.817.327	96.556.326
Trade Payables	8	368.154.559	355.004.343
<i>Due to Related Parties</i>	30	5.050.069	5.147.811
<i>Other Trade Payables</i>	8	363.104.490	349.856.532
Other Payables	9	44.307.335	53.444.045
<i>Due to Related Parties</i>	30	2.713.893	1.871.365
<i>Other Payables</i>	9	41.593.442	51.572.680
Current Tax Liabilities	28	6.889.462	2.385.751
Provisions	16	81.491.206	73.932.797
Other Current Liabilities	19	175.052.136	202.278.614
<b>Non Current Liabilities</b>		<b>3.030.973.628</b>	<b>3.610.830.559</b>
Financial Liabilities	6	2.758.745.958	3.328.726.727
Other Non Current Financial Liabilities	7	45.822.858	9.414.527
Provisions for Employment Benefits	18	142.931.647	121.870.564
Deferred Tax Liabilities	28	82.462.529	150.606.462
Other Non Current Liabilities	19	1.010.636	212.279
<b>EQUITY</b>	<b>20</b>	<b>6.561.307.831</b>	<b>5.918.694.026</b>
<b>Equity attributable to equity holders of the parent</b>			
<b>6.385.545.182</b>			
<b>5.762.058.750</b>			
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		24.963.897	25.869.903
Revaluation Reserves of Financial Assets		14.674.497	-
Cash Flow Hedge Reserves		(25.853.002)	(7.259.727)
Currency Translation Reserve		4.646.535	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		627.772.893	(168.690.422)
<b>Non-controlling Interest</b>		<b>175.762.649</b>	<b>156.635.276</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>12.940.467.079</b>	<b>11.150.422.547</b>

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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

	<u>Note</u>	<b>(Unaudited) 1 January- 30 September 2010</b>	<b>(Unaudited) 1 July- 30 September 2010</b>	<b>(Unaudited) 1 January- 30 September 2009</b>	<b>(Unaudited) 1 July- 30 September 2009</b>
<b>OPERATING INCOME</b>					
Revenues	21	4.711.834.572	1.508.735.896	3.608.017.211	1.303.396.981
Cost of Sales (-)	21	(3.692.235.214)	(1.216.641.794)	(3.604.964.642)	(1.334.688.690)
<b>GROSS PROFIT/(LOSS)</b>		<b>1.019.599.358</b>	<b>292.094.102</b>	<b>3.052.569</b>	<b>(31.291.709)</b>
Marketing, Sales and Distribution Expenses (-)	22	(42.814.345)	(16.233.886)	(51.494.064)	(14.644.042)
General Administrative Expenses (-)	22	(84.170.886)	(27.476.024)	(83.853.255)	(28.582.715)
Research and Development Expenses (-)	22	(2.010.003)	(703.629)	(1.728.397)	(712.743)
Other Operating Income	24	42.440.801	16.516.872	37.643.035	8.787.491
Other Operating Expenses (-)	24	(98.305.051)	(33.686.256)	(57.211.976)	(8.859.969)
<b>OPERATING PROFIT/(LOSS)</b>		<b>834.739.874</b>	<b>230.511.179</b>	<b>(153.592.088)</b>	<b>(75.303.687)</b>
Share of Loss From Associates	11	-	-	(642.992)	-
Finance Income	25	278.912.785	209.517.238	139.839.214	53.627.198
Finance Expense (-)	26	(305.825.378)	(164.346.603)	(341.851.361)	(95.881.759)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>807.827.281</b>	<b>275.681.814</b>	<b>(356.247.227)</b>	<b>(117.558.248)</b>
Tax Income/(Expense)	28	(154.120.381)	(40.157.982)	65.512.879	22.964.736
- Current Tax Expense		(20.661.215)	(6.903.092)	(14.789.710)	(4.152.957)
- Deferred Tax Income/(Expense)		(133.459.166)	(33.254.890)	80.302.589	27.117.693
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>653.706.900</b>	<b>235.523.832</b>	<b>(290.734.348)</b>	<b>(94.593.512)</b>
- Non-controlling Interest		25.934.007	11.886.522	(2.699.405)	(3.931.408)
- Equity Holders of the Parent		627.772.893	223.637.310	(288.034.943)	(90.662.104)
<b>EARNINGS/(LOSS) PER SHARE</b>	29	<b>0,3924</b>	<b>0,1398</b>	<b>(0,1800)</b>	<b>(0,0567)</b>
<b>(TRY 1 Nominal value per share)</b>					

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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

	(Unaudited) 1 January- 30 September 2010	(Unaudited) 1 July- 30 September 2010	(Unaudited) 1 January- 30 September 2009	(Unaudited) 1 July- 30 September 2009
Note				
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>653.706.900</b>	<b>235.523.832</b>	<b>(290.734.348)</b>	<b>(94.593.512)</b>
<b>Other Comprehensive Income/(Expense):</b>				
Change in Revaluation Reserves of Tangible Assets	(906.006)	403.129	(376.495)	135.183
Change in Revaluation Reserves of Financial Assets	14.674.497	-	-	-
Change in Cash Flow Hedge Reserves	(19.839.356)	(13.185.696)	(7.047.020)	(1.024.584)
Change in Currency Translation Difference	538.323	(239.637)	707.169	944.664
<b>OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD (AFTER TAX)</b>	<b>28 (5.532.542)</b>	<b>(13.022.204)</b>	<b>(6.716.346)</b>	<b>55.263</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	<b>648.174.358</b>	<b>222.501.628</b>	<b>(297.450.694)</b>	<b>(94.538.249)</b>
<b>Distribution of Total Comprehensive Income/(Loss)</b>				
- Non-controlling Interest	24.687.926	11.101.237	(3.208.615)	(4.005.857)
- Equity Holders of the Parent	623.486.432	211.400.391	(294.242.079)	(90.532.392)

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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

	<b>Note</b>	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	<b>Equity Attributable to the Parent</b>	Non- controlling Interest	<b>Total Equity</b>
<b>1 January 2010</b>		<b>1.600.000.000</b>	<b>731.967.735</b>	<b>(57.692.172)</b>	<b>231.020.042</b>	<b>25.869.903</b>	-	<b>(7.259.727)</b>	<b>4.108.212</b>	<b>1.688.196.335</b>	<b>1.545.848.422</b>	<b>5.762.058.750</b>	<b>156.635.276</b>	<b>5.918.694.026</b>
Net profit for the period		-	-	-	-	-	-	-	-	-	627.772.893	<b>627.772.893</b>	25.934.007	<b>653.706.900</b>
Other comprehensive income/ (loss)		-	-	-	-	(906.006)	14.674.497	(18.593.275)	538.323	-	-	<b>(4.286.461)</b>	(1.246.081)	<b>(5.532.542)</b>
Total comprehensive income/ (loss)		-	-	-	-	(906.006)	14.674.497	(18.593.275)	538.323	-	627.772.893	<b>623.486.432</b>	24.687.926	<b>648.174.358</b>
Dividends paid		-	-	-	-	-	-	-	-	-	-	-	(5.560.553)	<b>(5.560.553)</b>
Transfers from retained earnings	20	-	-	-	-	-	-	-	-	7.974.207	(7.974.207)	-	-	-
<b>30 September 2010</b>	<b>20</b>	<b>1.600.000.000</b>	<b>731.967.735</b>	<b>(57.692.172)</b>	<b>231.020.042</b>	<b>24.963.897</b>	<b>14.674.497</b>	<b>(25.853.002)</b>	<b>4.646.535</b>	<b>1.696.170.542</b>	<b>2.165.647.108</b>	<b>6.385.545.182</b>	<b>175.762.649</b>	<b>6.561.307.831</b>
(Unaudited)														
<b>1 January 2009</b>		<b>1.148.812.500</b>	<b>731.967.735</b>	<b>(43.790.843)</b>	<b>231.020.042</b>	<b>26.376.841</b>	-	<b>(1.616.880)</b>	<b>3.464.667</b>	<b>1.665.921.924</b>	<b>2.174.099.426</b>	<b>5.936.255.412</b>	<b>167.372.727</b>	<b>6.103.628.139</b>
Net profit/(loss) for the period		-	-	-	-	-	-	-	-	-	(288.034.943)	<b>(288.034.943)</b>	(2.699.405)	<b>(290.734.348)</b>
Other comprehensive income/ (loss)		-	-	-	-	(376.495)	-	(6.537.810)	707.169	-	-	<b>(6.207.136)</b>	(509.210)	<b>(6.716.346)</b>
Total comprehensive income/ (loss)		-	-	-	-	(376.495)	-	(6.537.810)	707.169	--	(288.034.943)	<b>(294.242.079)</b>	(3.208.615)	<b>(297.450.694)</b>
Cumulative translation adjustments		-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid		-	-	-	-	-	-	-	-	-	-	-	(10.505.729)	<b>(10.505.729)</b>
Transfers from retained earnings	20	451.187.500	-	(13.901.329)	-	-	-	-	-	22.274.411	(459.560.582)	-	-	-
<b>30 September 2009</b>	<b>20</b>	<b>1.600.000.000</b>	<b>731.967.735</b>	<b>(57.692.172)</b>	<b>231.020.042</b>	<b>26.000.346</b>	-	<b>(8.154.690)</b>	<b>4.171.836</b>	<b>1.688.196.335</b>	<b>1.426.503.901</b>	<b>5.642.013.333</b>	<b>153.658.383</b>	<b>5.795.671.716</b>
(Unaudited)														

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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

	<b>Note</b>	<b>Current Period (Unaudited) 1 January – 30 September 2010</b>	<b>Previous Period (Unaudited) 1 January – 30 September 2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/ (loss) before tax and non-controlling interest		807.827.281	(356.247.227)
<b>Adjustments to reconcile net profit/(loss) before tax to net cash provided by operating activities:</b>			
Depreciation and amortization expenses	21/23	201.080.572	190.006.624
Provision for employee termination benefits	18	25.942.360	21.917.466
Provision for seniority incentive premium	18	1.975.316	3.628.514
Share of loss from associates	11	-	642.992
Loss/(gain) on sale of property plant and equipment	24	41.445	(506.519)
Loss on write off of property plant and equipment	24	8.966.509	386.196
Increase in provision for doubtful receivables	8/9	20.424.508	8.834.864
Increase/(decrease) in impairment on inventories	10	1.308.485	(962.605.015)
Increase in provision for raw material price difference		183.265.027	-
Increase/(decrease) in provision for unused vacations	19	5.554.540	(11.652.739)
Increase in provision for pending claims and lawsuits	16	13.942.435	2.782.844
Increase in provision for fines	16	-	15.085.848
Increase / (decrease) in penalty provision for obligatory employment shortage of disabled people, ex-convicts and terror victims	16	37.533	(3.699.012)
(Decrease) in provisions for tax related contingencies	16	-	(2.798.665)
(Decrease) in provision for purchase commitments	16	-	(101.637.544)
Interest expense	26	155.760.992	175.498.959
Interest income	25	(88.060.450)	(94.060.363)
Unrealized foreign currency (gain)/loss of financial liabilities		(106.480.419)	74.002.192
Loss on fair value changes of derivative financial instruments	25	14.874.140	124.346.100
<b>Net cash provided by/(used in) operating activities before changes in working capital</b>		<b>1.246.460.274</b>	<b>(916.074.485)</b>
Changes in working capital	34	(1.229.445.098)	1.497.834.032
Interest paid		(96.007.205)	(158.828.476)
Interest received		79.507.705	91.329.117
Lawsuits paid	16	(5.094.545)	(4.614.898)
Penalty paid for the employment shortage of disabled people	16	(1.327.014)	-
Taxes paid	28	(16.157.504)	(12.351.874)
Employee termination benefits paid	18	(6.856.593)	(29.860.628)
<b>Net cash (used in) / provided by operating activities</b>		<b>(28.919.980)</b>	<b>467.432.788</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Changes in marketable securities held for trading	5	22.588	(13.801)
Changes in financial assets held as available for sale	5	(12.936)	(3.429)
Proceeds from sale of property, plant and equipment, intangible assets	13/14/24	1.038.649	28.920.073
Purchases of investment property	12	-	(603.714)
Purchases of property, plant and equipment	13	(208.385.455)	(290.868.607)
Purchases of intangible assets	14	(1.137.690)	(1.225.379)
<b>Net cash used in investing activities</b>		<b>(208.474.844)</b>	<b>(263.794.857)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		3.056.171.193	3.642.013.392
Repayment of borrowings		(1.742.979.619)	(3.752.999.290)
Currency translation difference, net		1.811.132	36.511
Dividends paid to non-controlling interest		(5.560.553)	(10.505.729)
<b>Net cash provided/(used in) by financing activities</b>		<b>1.309.442.153</b>	<b>(121.455.116)</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>		<b>1.072.047.329</b>	<b>82.182.815</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	4	<b>1.063.284.367</b>	<b>972.980.449</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	4	<b>2.135.331.696</b>	<b>1.055.163.264</b>
<b>Accrued interest</b>	4	<b>11.005.745</b>	<b>3.220.621</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST</b>	4	<b>2.146.337.441</b>	<b>1.058.383.885</b>

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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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](http://www.oyak.com.tr)).

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

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

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

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

According to the decisions taken by the Board of Directors of Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. dated 14 July 2010 and numbered 334 and Board of Directors of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. dated 14 July 2010 and numbered 22, the two company will be merged

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 September 2010 and 31 December 2009 are as follows:

	30 September 2010 Personnel	31 December 2009 Personnel
Monthly paid personnel (A)	3.256	3.244
Hourly paid personnel (B)	7.685	8.003
Candidate worker (C)	2.171	1.786
Contractual personnel (D)	243	17
Contractual personnel (SZ)	118	111
Total	13.473	13.161

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 26 October 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%

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 (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).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

(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 is 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

(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.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

---

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

##### **2.8 Adoption of New and Revised International Financial Reporting Standards (cont’d)**

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**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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)**

**2.9.1 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 NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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 ( 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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)**

###### **2.9.6 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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)

*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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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 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 associates them with profit or loss.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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)**

**2.9.9 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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)**

**2.9.13 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.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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**

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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 NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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)**

**2.9.20 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 September 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 September 2010 and 31 December 2009 is as follows:

	30 September 2010	31 December 2009
Cash	23.682	24.725
Banks – demand deposits	48.198.216	57.474.534
Banks – time deposits	2.098.115.543	1.008.238.108
	<u>2.146.337.441</u>	<u>1.065.737.367</u>
Time deposit interest accruals (-)	(11.005.745)	(2.453.000)
Cash and cash equivalents excluding interest accruals	<u>2.135.331.696</u>	<u>1.063.284.367</u>

The breakdown of demand deposits is presented below:

	30 September 2010	31 December 2009
USD	40.137.375	40.342.507
EURO	4.722.678	7.594.427
TRY	3.166.806	4.538.501
RON	144.866	4.949.386
GBP	24.434	27.229
JPY	2.057	22.484
	<u>48.198.216</u>	<u>57.474.534</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

(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 September 2010	31 December 2009
TRY	1.209.728.617	294.414.407
USD	868.689.012	648.714.606
EUR	19.272.041	65.109.095
RON	425.873	-
	<u>2.098.115.543</u>	<u>1.008.238.108</u>

**NOTE 5 – FINANCIAL INVESTMENTS**

Marketable securities held for trading:

	30 September 2010	31 December 2009
Investment Funds	-	22.588

Financial assets held as available for sale:

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

<u>Company</u>	Rate %	30 September 2010	Rate %	31 December 2009
Erdemir Gaz San. ve Tic. A.Ş. (*)	100	54.602	100	41.666

(\*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 1.603 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 September 2010	31 December 2009
Short term financial liabilities	697.559.695	29.393.986
Current portion of long term financial liabilities	1.971.913.900	807.880.899
Finance lease payables	-	21.201
Total short term financial liabilities	<u>2.669.473.595</u>	<u>837.296.086</u>
Long term financial liabilities	2.758.745.958	3.328.726.727
Total long term financial liabilities	<u>2.758.745.958</u>	<u>3.328.726.727</u>
	<u>5.428.219.553</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 NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

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

As of 30 September 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 September 2010
TRY	8,99	598.050.837	412.712.578	1.010.763.415
TRY	Spot	15.540.010	-	15.540.010
USD	2,12	102.726.739	-	102.726.739
		<u>716.317.586</u>	<u>412.712.578</u>	<u>1.129.030.164</u>

As of 30 September 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 September 2010
EUR (*)	10,65	36.044.883	164.285.581	200.330.464
USD (**)	7,22	15.515.639	92.228.794	107.744.433
USD	2,38	21.348.396	78.625.915	99.974.311
USD	2,40	58.923.089	28.628.431	87.551.520
USD	4,65	54.815.197	27.051.659	81.866.856
USD	3,34	72.848.189	-	72.848.189
USD	3,29	11.251.145	48.866.222	60.117.367
USD	3,28	21.283.694	30.441.922	51.725.616
USD	4,30	29.450.295	14.409.862	43.860.157
USD	4,32	14.730.543	7.196.854	21.927.397
		<u>336.211.070</u>	<u>491.735.240</u>	<u>827.946.310</u>
Total fixed-interest rate loans		<u>1.052.528.656</u>	<u>904.447.818</u>	<u>1.956.976.474</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; TRY and purchase of;.Euro.

(\*\*) As described in Note 31 (f) and Note 31 (g), as a result of the sale of TRY / purchase of USD, by the cross currency swap agreements made that will be matured on 03October 2016, TL equivalent of the amount represents the fixed portion of the credit until 2016 which is USD 98.699.816, and will mature on 03 April 2018.

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

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

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

As of 30 September 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 September 2010
USD	Libor + 2,76	610.101.789	1.445.455.314	2.055.557.103
TRY	TR Libor + 1,77	930.481.885	-	930.481.885
EUR	Euribor + 0,30	52.861.515	270.911.439	323.772.954
JPY	JPY Libor + 0,22	23.499.750	137.931.387	161.431.137
Total floating-interest rate loans		1.616.944.939	1.854.298.140	3.471.243.079

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
		10.603.796	-	10.603.796

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

Type of original currency	Fixed rate of interest (%)	Short term portion	Long term portion	31 December 2009
USD	3,34	153.341.601	74.467.306	227.808.907
USD	2,40	61.348.704	59.137.410	120.486.114
USD	4,65	57.270.085	55.827.519	113.097.604
USD	3,28	22.444.722	52.909.326	75.354.048
USD	4,30	30.636.967	29.799.941	60.436.908
USD	4,32	15.328.004	14.879.863	30.207.867
USD	3,69	29.851.889	-	29.851.889
		370.221.972	287.021.365	657.243.337
Total fixed-interest rate loans		380.825.768	287.021.365	667.847.133

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**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 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	TR Libor + 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	JPY Libor+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>

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

	30 September 2010	31 December 2009
Within 1 year	2.669.473.595	837.274.885
Between 1-2 years	554.070.972	2.264.672.684
Between 2-3 years	574.311.149	286.718.788
Between 3-4 years	507.977.964	238.613.532
Between 4-5 years	428.175.987	189.605.453
Five years or more	694.209.886	349.116.270
	<u>5.428.219.553</u>	<u>4.166.001.612</u>

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

	30 September 2010	31 December 2009
Within 1 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 September 2010	31 December 2009
EUR	-	21.201
	<u>-</u>	<u>21.201</u>

As of 30 September 2010 the net book value of the assets acquired by using finance lease is TRY 599.675 (31 December 2009: TRY 673.259).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 7 - OTHER FINANCIAL LIABILITIES**

	30 September 2010	31 December 2009
<u>Other current financial liabilities</u>		
Expense accruals of the derivative financial instruments (Note 31)	2.817.327	96.556.326
<u>Other non-current financial liabilities</u>		
Expense accruals of the derivative financial instruments (Note 31)	45.822.858	9.414.527

**NOTE 8 – TRADE RECEIVABLES AND PAYABLES**

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

	30 September 2010	31 December 2009
<u>Short term trade receivables</u>		
Trade receivables	653.264.795	590.157.406
Trade receivables due from related parties (Note 30)	77.885.084	64.024.254
Notes receivables	1.957.030	34.649.069
Discount on receivables (-)	(925.240)	(1.852.179)
Other trade receivables	12.637.908	25.571.526
Provision for doubtful receivables (-)	(40.615.962)	(20.064.950)
	<u>704.203.615</u>	<u>692.485.126</u>

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

	1 January – 30 September 2010	1 January – 30 September 2009
Opening balance	20.064.950	12.815.687
Provision for the period	24.746.076	9.148.249
Doubtful receivables collected (-)	(986.346)	(8.120)
Provision released (-)	(3.208.718)	(249.291)
Closing balance	<u>40.615.962</u>	<u>21.706.525</u>



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 8 – TRADE RECEIVABLES AND PAYABLES (cont’d)**

<u>Long term trade receivables</u>	<u>30 September 2010</u>	<u>31 December 2009</u>
Trade receivables	4.330.620	4.660.859
Discount on receivables (-)	(447.444)	(680.325)
Provision for doubtful receivables (-)	(1.619.793)	(1.619.793)
	<u>2.263.383</u>	<u>2.360.741</u>

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

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

For trade receivables, a certain maturity without interest charge is identified for each customer according to the market conditions and product types. For the sales which are overdue, an interest charge is applied according to the market conditions and product types.

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

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

Other explanatory notes related to the credit risk of the Group are disclosed in Note 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 September 2010</u>	<u>31 December 2009</u>
Trade payables	364.016.566	348.736.935
Trade payables due to related parties (Note 30)	5.050.069	5.147.811
Discount on trade payables (-)	(918.240)	(573.055)
Other trade payables	6.164	1.692.652
	<u>368.154.559</u>	<u>355.004.343</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 9 – OTHER RECEIVABLES AND PAYABLES**

Other current receivables

	30 September 2010	31 December 2009
Other receivables	5.268.808	6.884.571
Provision for other doubtful receivables (-)	(5.268.808)	(6.884.571)
Deposits and guarantees given	178.036	124.456
	<u>178.036</u>	<u>124.456</u>

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

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

	1 January – 30 September 2010	1 January – 30 September 2009
Opening balance	6.884.571	6.800.431
Other doubtful receivables collected (-)	(918.505)	-
Provision released (-)	(697.258)	(64.094)
Closing balance	<u>5.268.808</u>	<u>6.736.337</u>

Other non-current receivables

	30 September 2010	31 December 2009
Receivables from Privatization Authority	52.325.470	53.156.654
Provision for other doubtful receivables (-)	(26.162.735)	(26.578.327)
Deposits and guarantees given	143.365	143.920
	<u>26.306.100</u>	<u>26.722.247</u>

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

	1 January- 30 September 2010	1 January- 30 September 2009
Opening balance	26.578.327	-
Provision released (-)	(415.592)	-
Closing balance	<u>26.162.735</u>	<u>-</u>

Other current payables

	30 September 2010	31 December 2009
Taxes and funds payable	20.016.251	12.365.506
Social security deductions payable	16.917.233	11.772.583
Deposits and guarantees received	4.659.958	4.161.720
Non trade payables to related parties (Note 30)	2.713.893	1.871.365
Deferred and installed payables to public institutions	-	23.272.871
	<u>44.307.335</u>	<u>53.444.045</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 10 – INVENTORIES**

	30 September 2010	31 December 2009
Raw materials	848.150.796	423.726.902
Work in progress	644.144.207	380.153.868
Finished goods	477.969.043	223.756.742
Goods in transit	284.210.266	231.739.034
Spare parts	233.432.769	251.488.002
Trade goods	1.695.163	975.653
Other inventories	189.060.391	145.283.089
Allowance for impairment on inventories (-)	(13.551.298)	(12.242.813)
	<u>2.665.111.337</u>	<u>1.644.880.477</u>

The movements of the allowance for impairment on inventories:

	1 January – 30 September 2010	1 January – 30 September 2009
Opening balance	12.242.813	989.041.083
Provision for the period	5.681.377	103.200.659
Utilized portion of the provision (-)	(4.372.892)	(1.065.805.674)
Closing balance	<u>13.551.298</u>	<u>26.436.068</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 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	<u>40.904.945</u>
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 equity of the associate is not recognized in the accompanying consolidated financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 12 – INVESTMENT PROPERTIES**

	<u>1 January – 30 September 2010</u>	<u>1 January – 30 September 2009</u>
<u>Cost</u>		
As of 1 January	46.577.264	45.973.550
Additions	-	603.714
As of 30 September	<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 September 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 has 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 nine months period ended 30 September 2010, the Group recognized rent income amounted to TRY 60.177 (30 September 2009: TRY 62.429) under other operating income.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**NOTE 13 – PROPERTY, PLANT AND EQUIPMENT**

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
<b>Cost</b>									
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	(632.967)	(141.021)	(784.531)	(1.723.197)	(65.681)	-	(94.627)	(142.782)	(3.584.806)
Additions (*)	10.029	80.059	-	9.475.029	368.653	2.961.526	159.902	191.062.058	204.117.256
Disposals	-	(7.790.530)	(248.574.852)	(8.303.056)	(414.875)	(512.647)	(574.726)	-	(266.170.686)
Transfers from CIP (**)	-	363.246	332.847	35.496.497	970.593	2.300.590	165.276	(41.440.953)	(1.811.904)
Closing balance as of 30 September 2010	94.542.134	1.450.763.253	2.109.177.231	9.312.081.933	657.290.490	314.519.126	14.302.677	772.716.867	14.725.393.711
<b>Accumulated Depreciation</b>									
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	212.932	1.164.018	41.108	-	80.448	-	1.512.372
Charge for the period	-	(16.160.194)	(49.429.693)	(138.985.704)	(12.586.208)	(10.187.075)	(362.378)	-	(227.711.252)
Disposals	-	7.785.414	240.210.892	7.363.518	390.981	438.121	199.050	-	256.387.976
Closing balance as of 30 September 2010	-	(986.934.512)	(1.487.088.496)	(5.001.064.893)	(334.316.113)	(145.069.157)	(12.858.294)	-	(7.967.331.465)
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 September 2010	94.542.134	463.828.741	622.088.735	4.311.017.040	322.974.377	169.449.969	1.444.383	772.716.867	6.758.062.246

(\*) The amount of capitalized financial income is TRY (4.268.199) for the current period (The capitalized financial expenses for nine months period ended 30 September 2009 is: TRY 22.593.139).

(\*\*) TRY 1.811.904 is transferred to intangible assets (Note 14).

(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

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

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture and fixtures	Other property, plant and equipment	Construction in progress (CIP)	Total
<b>Cost</b>									
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	(276.612)	-	(296.194)	(766.070)	(28.723)	(47.023)	-	(64.135)	(1.478.757)
Additions	75.589	255.205	128.518	3.651.061	15.765	791.639	228.921	308.315.048	313.461.746
Disposals	-	(16.650.436)	(33.625.023)	(51.346.138)	(3.813.894)	(2.172.310)	(406.040)	(24.659.738)	(132.673.579)
Transfers from CIP (*)	-	52.721.725	272.261.141	686.037.146	62.813.408	44.514.358	-	(1.118.391.228)	(43.450)
Closing balance as of 30 September 2009	95.234.429	1.456.835.388	2.356.373.408	9.466.419.281	656.753.888	310.372.072	14.451.278	642.765.419	14.999.205.163
<b>Accumulated Depreciation</b>									
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	-	-	26.661	468.266	14.859	25.676	-	-	535.462
Charge for the period	-	(13.098.484)	(50.823.284)	(123.057.299)	(10.103.383)	(9.809.145)	(380.448)	-	(207.272.043)
Disposals	-	16.649.049	30.997.711	50.451.935	3.509.246	1.895.698	370.190	-	103.873.829
Closing balance as of 30 September 2009	-	(973.165.279)	(1.659.539.628)	(5.083.043.149)	(321.488.109)	(137.652.224)	(12.434.333)	-	(8.187.322.722)
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 September 2009	95.234.429	483.670.109	696.833.780	4.383.376.132	335.265.779	172.719.848	2.016.945	642.765.419	6.811.882.441

(\*) TRY 43.450 is transferred to intangible assets (Note 14).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

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

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

	30 September 2010	30 September 2009
Cost of sales	183.988.570	173.582.580
Capitalized on inventories	36.182.431	25.297.317
General administration expenses	7.469.127	8.297.459
Marketing, sales and distribution expenses	68.455	92.078
Research and development expenses	2.669	2.609
	<u>227.711.252</u>	<u>207.272.043</u>

**NOTE 14 – INTANGIBLE ASSETS**

	Rights	Exploration costs and other assets with specific useful life	Other intangible fixed assets	Total
<u>Cost</u>				
Opening balance as of 1 January 2010	150.893.966	61.949.696	4.073.415	216.917.077
Translation difference	(27.575)	-	(99.948)	(127.523)
Additions	441.119	-	696.571	1.137.690
Disposals	-	(355.811)	-	(355.811)
Transfers from CIP	1.811.904	-	-	1.811.904
Closing balance as of 30 September 2010	<u>153.119.414</u>	<u>61.593.885</u>	<u>4.670.038</u>	<u>219.383.337</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	6.611	-	14.530	21.141
Disposals	-	91.918	-	91.918
Charge for the period	(7.459.513)	(2.026.450)	(587.849)	(10.073.812)
Closing balance as of 30 September 2010	<u>(45.012.946)</u>	<u>(37.984.071)</u>	<u>(3.605.189)</u>	<u>(86.602.206)</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 September 2010	<u>108.106.468</u>	<u>23.609.814</u>	<u>1.064.849</u>	<u>132.781.131</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 14 – INTANGIBLE ASSETS (cont’d)**

<u>Cost</u>	<u>Rights</u>	<u>Exploration costs and other assets with specific useful life</u>	<u>Other intangible fixed assets</u>	<u>Total</u>
Opening balance as of 1 January 2009	141.311.026	61.966.819	3.296.856	206.574.701
Additions	450.592	-	774.787	1.225.379
Disposals	(42.306)	-	(67.865)	(110.171)
Transfer from investment properties	-	-	43.450	43.450
Closing balance as of 30 September 2009	141.719.312	61.966.819	4.047.228	207.733.359
<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	(5.709.149)	(2.053.137)	(525.661)	(8.287.947)
Disposals	42.306	-	67.865	110.171
Closing balance as of 30 September 2009	(35.452.806)	(35.365.161)	(2.884.550)	(73.702.517)
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 September 2009	106.266.506	26.601.658	1.162.678	134.030.842

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

	<u>30 September 2010</u>	<u>30 September 2009</u>
Cost of sales	8.895.750	7.575.754
Capitalized on inventories	522.061	256.049
General administration expenses	653.277	455.449
Marketing, sales and distribution expenses	2.724	695
	10.073.812	8.287.947

**NOTE 15 – GOVERNMENT GRANTS AND INCENTIVES**

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

	<u>1 January – 30 September 2010</u>	<u>1 January – 30 September 2009</u>
Social security grants	387.654	377.040
Tax grants	257.271	42.678
Research and development grants	85.880	551.273
Energy grants	-	3.403.004
	730.805	4.373.995

There is an investment incentive right of the Group amounting to TRY 39.134.870, to deduct in the coming periods within the concept of the law numbered 5479, article 2 which repealed the 19<sup>th</sup> article of Income Tax Law (ITL) as of 1 January 2006.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 16 – PROVISIONS**

	30 September 2010	31 December 2009
Provision for tax exposures	42.629.219	42.629.219
Provision for lawsuits	33.126.899	24.279.009
Penalty provision for employment shortage of disabled personnel	5.735.088	7.024.569
	<u>81.491.206</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 September 2010	1 January – 30 September 2009
Opening balance	42.629.219	44.636.012
Provision for the period	-	2.375.607
Provision released (-)	-	(5.174.272)
Closing balance	<u>42.629.219</u>	<u>41.837.347</u>

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

	1 January – 30 September 2010	1 January – 30 September 2009
Opening balance	24.279.009	26.068.603
Provision for the period	14.340.082	5.776.586
Paid lawsuits amount (-)	(5.094.545)	(4.614.898)
Provision released (-)	(397.647)	(2.993.742)
Closing balance	<u>33.126.899</u>	<u>24.236.549</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 September 2010	1 January – 30 September 2009
Opening balance	7.024.569	57.377.349
Provision for the period	1.542.688	1.604.066
Paid penalty for the employment shortage of disabled personnel (-)	(1.327.014)	-
Provisions released (-)	(1.505.155)	(5.303.078)
Closing balance	<u>5.735.088</u>	<u>53.678.337</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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**NOTE 16 – PROVISIONS (cont’d)**

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

	1 January – 30 September 2010	1 January – 30 September 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 September 2010	1 January – 30 September 2009
Opening balance	-	-
Provision for the period	-	20.114.465
Provision released (-)	-	(5.028.617)
Closing balance	-	15.085.848

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

	30 September 2010	31 December 2009
<u>Lawsuits filed by the Group</u>		
TRY	49.119.975	56.205.828
USD	79.987.019	82.990.942
	<u>129.106.994</u>	<u>139.196.770</u>

Provision for lawsuits filed by the Group

TRY	8.939.030	12.921.691
USD	7.427.019	7.705.942
	<u>16.366.049</u>	<u>20.627.633</u>

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

	30 September 2010	31 December 2009
<u>Lawsuits filed against the Group</u>		
TRY	76.448.683	78.248.219
USD	113.918.821	4.664.410
	<u>190.367.504</u>	<u>82.912.629</u>

Provision for lawsuits filed against the Group

TRY	17.761.379	19.010.920
USD	15.365.520	5.268.089
	<u>33.126.899</u>	<u>24.279.009</u>

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

#### **NOTE 16 – PROVISIONS (cont’d)**

As of 30 September 2010 and 31 December 2009, USD 25.000.000 (TRY 36.280.000) of the lawsuits filed by the Group is against the insurance company for the compensation of the losses of a crane destructed due to a shipping accident in 2005, for which the value of the crane was recognized over scrap value in the consolidated financial statements. Again for the same accident, ship owner, captain and indemnity insurance company of the ship is sued by the Group and the amount of this lawsuit is USD 25.000.000 (TRY 36.280.000).

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 September 2010 and 31 December 2009, the lawsuit which amounts to TRY 35.673.249 among the lawsuits initiated against the Group was filed by the Privatization Administration (PA). In this lawsuit PA asked the court to declare the Company’s General Assembly Decision as to the dividend distribution for the year 2005 void. However, 3rd Commercial Court of Ankara rejected the case by its decision dated 23 September 2008 no. 2006/218 E., 2008/480 K. as explained below.

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

---

**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.SPK.0.13-855-7484 of 5 May 2006 notifying its decision No: 21/526 also made on 5 May 2006, decided that, Erdemir’s consolidated financial statements as of 31 December 2005 should be revised in accordance with the set of accounting standards that were used in the interim periods (standards regulated in the “Communiqué”), publicly disclosed and should be immediately presented to the General Assembly for approval.

Erdemir filed an annulment lawsuit before 11th Administrative Court of Ankara against that decision (CMB’s decision No: B.02.1.SPK.0.13-855-7484 of 5 May 2006 made at the meeting No. 21/526 of 5 May 2006) which was rejected by the court with a decision numbered E. 2006/1396; K. 2007/494 dated 29 March 2007. Erdemir appealed to this decision on 11 October 2007 before the 13th Chamber of the State Council (File number 2007/13762). The Chamber, ratified the first instance court’s decision by its judgement dated 12.05.2010 no. 2007/13762 E.; 2010/3984 K. however The Company has requested the revision of this decision on 2 September.2010.

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.SPK.0.17/83-3483 dated 7 March 2006 and the related lawsuits are also pending, Erdemir has not fulfilled CMB’s request and consequently CMB restated the Erdemir’s consolidated financial statements as of 31 December 2005 by adding negative goodwill of 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 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.SPK.0.13-855-7484 taken on the meeting dated 5 May 2006 and numbered 21/526, by its decision numbered 2007/13724 and dated 4 December 2007 and consequently abolished first instance court’s decision by its judgment dated 12 May 2010, no. 2007/13724; K. 2010/3985.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

#### 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 September 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 September 2010 a total of TRY 33.126.899 (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 September 2010	31 December 2009
Letters of guarantees received	745.346.317	952.654.202
	<u>745.346.317</u>	<u>952.654.202</u>

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

	30 September 2010	31 December 2009
A. Total CPM given for the Company's own legal entity	88.300.517	70.876.259
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	3.106.642.771	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>3.194.943.288</u>	<u>2.928.916.324</u>

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**NOTE 18 – PROVISIONS FOR EMPLOYMENT BENEFITS**

	30 September 2010	31 December 2009
Provisions for employee termination benefits	136.798.050	117.712.283
Provisions for seniority incentive premium	6.133.597	4.158.281
	<u>142.931.647</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 September 2010, the amount payable consists of one month’s salary limited to a maximum of TRY 2.517,00 (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 September 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 99,67%. (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 January 2010).

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

	1 January – 30 September 2010	1 January – 30 September 2009
Opening balance	117.712.283	117.287.493
Service cost	20.808.050	16.504.536
Interest cost	5.134.310	5.412.930
Termination benefits paid	(6.856.593)	(29.860.628)
Closing balance	<u>136.798.050</u>	<u>109.344.331</u>

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

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

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

	1 January – 30 September 2010	1 January – 30 September 2009
Opening balance	4.158.281	-
Provision for the period	2.296.698	3.628.514
Provision released (-)	(321.382)	-
Closing balance	<u>6.133.597</u>	<u>3.628.514</u>

**NOTE 19 – OTHER ASSETS AND LIABILITIES**

Other current assets

	30 September 2010	31 December 2009
Advances given	56.582.952	20.676.146
Other VAT receivable	52.402.689	49.867.418
VAT receivable	36.859.054	71.652.508
VAT carried forward	25.809.575	35.109.931
Prepaid expenses	23.350.505	19.866.609
Prepaid taxes and funds	2.413.577	1.684.548
Income accruals	1.184.826	3.942.238
Due from personnel	817.899	245.841
Job advances given	433.123	117.856
VAT deductible	-	78.421.464
Other miscellaneous assets	4.974.265	2.899.419
	<u>204.828.465</u>	<u>284.483.978</u>

Other noncurrent assets

	30 September 2010	31 December 2009
Prepaid expenses	28.638.972	34.260.652
Advances given	10.979.277	21.852.490
Other miscellaneous assets	727.652	-
	<u>40.345.901</u>	<u>56.113.142</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

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

Other current liabilities

	30 September 2010	31 December 2009
Advances received	86.736.573	55.895.729
Provision for unused vacations	45.359.558	39.805.018
Due to personnel	24.841.170	12.928.323
Other VAT payable	10.254.419	8.812.583
Expense accruals	1.343.011	1.524.371
VAT payable	751.722	69.064.860
Accrual for insurance premium	727.653	8.218.785
Deferred income	289.166	279.781
Other miscellaneous liabilities	4.748.864	5.749.164
	<u>175.052.136</u>	<u>202.278.614</u>

Other non-current liabilities

	30 September 2010	31 December 2009
Deferred income	212.279	212.279
Other miscellaneous liabilities	798.357	-
	<u>1.010.636</u>	<u>212.279</u>

**NOTE 20 – EQUITY**

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

<u>Shareholders</u>	(%)	30 September 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.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**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 September 2010	31 December 2009
Other equity items		
Share premium	231.020.042	231.020.042
Revaluation reserves	39.638.394	25.869.903
- <i>Revaluation reserves of tangible assets</i>	24.963.897	25.869.903
- <i>Revaluation reserves of financial assets</i>	14.674.497	-
Cash flow hedge reserves	(25.853.002)	(7.259.727)
Currency translation reserves	4.646.535	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>3.483.496.726</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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

---

**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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

---

**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)

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

#### NOTE 21 – REVENUE AND COST OF SALES

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
<i>Revenue</i>				
Domestic sales	4.076.738.676	1.265.594.522	2.519.190.338	1.051.304.418
Export sales	552.803.106	223.676.914	1.001.474.134	216.992.078
Other revenues (*)	92.045.598	27.312.837	89.507.821	36.163.994
Sales returns (-)	(2.243.794)	(1.352.816)	(1.819.417)	(1.004.106)
Sales discounts (-)	(6.553.589)	(5.977.947)	(199.585)	-
Other discounts (-)	(955.425)	(517.614)	(136.080)	(59.403)
	<u>4.711.834.572</u>	<u>1.508.735.896</u>	<u>3.608.017.211</u>	<u>1.303.396.981</u>
<i>Cost of Sales (-)</i>	<u>(3.692.235.214)</u>	<u>(1.216.641.794)</u>	<u>(3.604.964.642)</u>	<u>(1.334.688.690)</u>
Gross profit / (loss)	<u>1.019.599.358</u>	<u>292.094.102</u>	<u>3.052.569</u>	<u>(31.291.709)</u>

(\*) The total amount of by product exports in other revenues is TRY 12.192.309 (30 September 2009: TRY 4.880.600).

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

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
Raw material usage	(2.888.465.979)	(1.064.707.139)	(2.397.839.299)	(1.063.630.453)
Payroll expenses	(426.024.755)	(160.157.421)	(477.837.342)	(120.365.128)
Energy expenses	(256.936.676)	(83.834.946)	(278.885.201)	(93.673.042)
Depreciation and amortization expenses	(192.884.320)	(67.049.089)	(181.158.334)	(70.543.844)
Provision for impairment on inventory within the period	(5.681.377)	(429.487)	(103.200.659)	(6.424.317)
Change in finished and work in progress goods	518.202.640	274.542.031	(1.056.951.689)	(42.521.661)
Reversal of impairment on inventory	4.372.892	802.930	996.250.124	79.316.100
Reversal of provision for purchase commitments	-	-	101.637.544	-
Other	(444.817.639)	(115.808.673)	(206.979.786)	(16.846.345)
	<u>(3.692.235.214)</u>	<u>(1.216.641.794)</u>	<u>(3.604.964.642)</u>	<u>(1.334.688.690)</u>

(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

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

	<u>1 January – 30 September 2010</u>	<u>1 July – 30 September 2010</u>	<u>1 January – 30 September 2009</u>	<u>1 July – 30 September 2009</u>
Marketing, sales and distribution expenses (-)	(42.814.345)	(16.233.886)	(51.494.064)	(14.644.042)
General administrative expenses (-)	(84.170.886)	(27.476.024)	(83.853.255)	(28.582.715)
Research and development expenses (-)	(2.010.003)	(703.629)	(1.728.397)	(712.743)
	<u>(128.995.234)</u>	<u>(44.413.539)</u>	<u>(137.075.716)</u>	<u>(43.939.500)</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 September 2010 and 1 January – 30 September 2009 is as follows:

	<u>1 January – 30 September 2010</u>	<u>1 July – 30 September 2010</u>	<u>1 January – 30 September 2009</u>	<u>1 July – 30 September 2009</u>
Payroll expense (-)	(5.267.475)	(1.854.885)	(5.494.177)	(1.571.163)
Depreciation and amortization (-)	(71.179)	(22.413)	(92.773)	(27.737)
Other (-)	(37.475.691)	(14.356.588)	(45.907.114)	(13.045.142)
	<u>(42.814.345)</u>	<u>(16.233.886)</u>	<u>(51.494.064)</u>	<u>(14.644.042)</u>

(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

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

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

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
Payroll expense (-)	(39.075.999)	(11.466.684)	(40.754.179)	(11.901.368)
Depreciation and amortization (-)	(8.122.404)	(2.606.981)	(8.752.908)	(3.433.965)
Other (-)	(36.972.483)	(13.402.359)	(34.346.168)	(13.247.382)
	<u>(84.170.886)</u>	<u>(27.476.024)</u>	<u>(83.853.255)</u>	<u>(28.582.715)</u>

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

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
Payroll expense (-)	(812.028)	(251.604)	(896.389)	(256.233)
Depreciation and amortization (-)	(2.669)	(929)	(2.609)	(869)
Other (-)	(1.195.306)	(451.096)	(829.399)	(455.641)
	<u>(2.010.003)</u>	<u>(703.629)</u>	<u>(1.728.397)</u>	<u>(712.743)</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**NOTE 24 – OTHER OPERATING INCOME/(EXPENSE)**

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
<u>Other operating income</u>				
Provisions released	13.805.598	6.523.001	17.692.086	4.709.888
Insurance indemnity income	3.386.896	214.980	600.840	132.637
Rent income	3.198.766	1.067.953	2.731.054	919.698
Service income	3.748.916	1.801.041	2.305.416	1.008.268
Indemnity and penalty detention income	1.794.477	566.571	4.759.692	330.828
Maintenance and repair income	1.687.052	561.495	2.167.573	586.693
Client deposits income	1.001.284	178.391	1.000.121	188.466
Gain on disposal of tangible and intangible assets	29.502	1.785	1.179.353	178.143
Other income and gains	13.788.310	5.601.655	5.206.900	732.870
	<u>42.440.801</u>	<u>16.516.872</u>	<u>37.643.035</u>	<u>8.787.491</u>
	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
<u>Other operating expenses (-)</u>				
Provision expenses	(40.946.443)	(12.280.794)	(29.313.002)	(276.036)
Lawsuit compensation expenses	(13.160.923)	(4.664.095)	(6.662.104)	(2.409.879)
Penalty expenses	(12.919.131)	(1.833.622)	(4.760.852)	(685.106)
Loss on write off of tangible and intangible assets	(8.966.509)	(8.582.253)	(386.196)	(1.753)
Service expenses	(6.263.433)	(3.394.498)	(3.824.022)	(1.337.998)
Rent expense	(1.425.986)	(701.793)	(358.671)	(165.741)
Loss on sale of tangible and intangible assets	(70.947)	-	(672.834)	(219.007)
Other expenses and losses	(14.551.679)	(2.229.201)	(11.234.295)	(3.764.449)
	<u>(98.305.051)</u>	<u>(33.686.256)</u>	<u>(57.211.976)</u>	<u>(8.859.969)</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**NOTE 25 – FINANCE INCOME**

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
Foreign exchange gains from financial liabilities	189.256.868	189.256.868	36.729.698	36.729.698
Interest income	69.824.343	38.785.800	46.038.561	15.827.430
Interest income from sales on account	18.236.107	3.787.813	48.021.802	13.804.272
Discount income	1.490.497	(104.445)	3.844.296	934.999
Foreign exchange gains from trade receivables and payables	-	(22.222.812)	-	-
Foreign exchange gains from bank deposits	-	-	-	(17.447.368)
Other financial income	104.970	14.014	5.204.857	3.778.167
	<u>278.912.785</u>	<u>209.517.238</u>	<u>139.839.214</u>	<u>53.627.198</u>

**NOTE 26 – FINANCE EXPENSES**

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
Interest expenses from financial liabilities (-)	(155.760.992)	(72.329.875)	(149.644.236)	(56.275.517)
Foreign exchange loss from bank deposits (-)	(106.930.078)	(107.861.260)	(24.210.090)	(24.210.090)
Foreign exchange loss from trade receivables and payables (-)	(19.390.295)	(19.390.295)	(13.917.287)	(12.237.147)
Fair value differences of derivative financial instruments (-)	(14.874.140)	11.779.231	(124.346.100)	(34.088.776)
Interest expense from related parties (-)	-	-	(25.854.723)	-
Foreign exchange loss from borrowings (-)	-	24.981.994	-	32.315.152
Other financial expenses (-)	(8.869.873)	(1.526.398)	(3.878.925)	(1.385.381)
	<u>(305.825.378)</u>	<u>(164.346.603)</u>	<u>(341.851.361)</u>	<u>(95.881.759)</u>

During the period, TRY (7.040.672) of financial income related to foreign currency translation gains and TRY 2.772.474 of interest expenses in total TRY (4.268.198), have been capitalized as part of the Group’s property, plant and equipment (1 January – 30 September 2009: the foreign currency translation losses of TRY 17.328.102, the interest expenses of TRY 5.265.037, in total TRY 22.593.139 has been capitalized).



(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

#### NOTE 27 –NON CURRENT ASSETS HELD FOR SALE

Company	Ratio %	30 September 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>

(\*) 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.

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 September, 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.

(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**NOTE 28 –TAX ASSETS AND LIABILITIES**

	30 September 2010	31 December 2009		
<u>Corporate tax payable:</u>				
Current corporate tax provision	20.661.215	16.464.319		
Prepaid taxes and funds (-)	(13.771.753)	(14.078.568)		
	<u>6.889.462</u>	<u>2.385.751</u>		
	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
<u>Tax expense:</u>				
Current corporate tax expense	20.661.215	6.903.092	14.789.710	4.152.957
Deferred tax expense/(income)	133.459.166	33.254.890	(80.302.589)	(27.117.693)
	<u>154.120.381</u>	<u>40.157.982</u>	<u>(65.512.879)</u>	<u>(22.964.736)</u>

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

---

#### **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 September 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 16.157.504 (30 September 2009: TRY 12.351.874).

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 1April - 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 2006by 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

However, with the decision numbered 2006/95, which was taken during the meeting of the Constitutional Court on 15October 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

---

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

Investment allowance application (cont’d)

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69<sup>th</sup> article in Income Tax Regulation using the regulation numbered 6009 and dated 23/07/2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made. (2010: 20%)

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

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

Deferred tax (cont’d)

	30 September 2010	31 December 2009
<u>Deferred tax assets:</u>		
Unused tax losses carry forward (*)	(110.736.134)	(248.555.949)
Provision for raw material price difference	(50.743.238)	-
Provision for employee termination benefits	(28.586.329)	(24.358.517)
Property, plant, equipment and intangible assets	(19.722.501)	(12.638.949)
Inventories	(10.738.712)	(6.153.079)
Fair values of the derivative financial instruments	(9.728.037)	(21.194.170)
Provision for unused vacations	(9.071.911)	(7.961.004)
Investment allowance	(7.826.974)	(7.459.235)
Provision for lawsuits	(6.625.380)	(4.855.800)
Provision for other doubtful receivables	(5.232.547)	(5.315.665)
Amortized cost adjustment on loans	(3.016.820)	(10.315.636)
Prepaid expenses of the coming years	(1.850.824)	(2.115.284)
Other	(4.206.703)	(2.582.616)
	<u>(268.086.110)</u>	<u>(353.505.904)</u>
<u>Deferred tax liabilities:</u>		
Property, plant, equipment and intangible assets	159.443.583	121.141.420
Amortized cost adjustment on loans	14.408.430	23.671.943
Inventories	14.145.120	37.835
Insurance expenses	2.059.311	2.276.625
Land and parcels	776.937	776.937
Other	2.740.874	2.701.702
	<u>193.574.255</u>	<u>150.606.462</u>
	<u>(74.511.855)</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’s Management recorded deferred tax asset for the carry forward tax losses of the portion which is projected to be used within the future taxable income.

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 September 2010	31 December 2009
<u>Presentation of deferred tax (asset)/ liabilities:</u>		
Deferred tax (assets)	(156.974.384)	(353.505.904)
Deferred tax liabilities	82.462.529	150.606.462
	<u>(74.511.855)</u>	<u>(202.899.442)</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

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

Deferred tax (cont’d)

<u>Deferred tax (asset)/ liability movements:</u>	<u>1 January – 30 September 2010</u>	<u>1 January – 30 September 2009</u>
Opening balance	(202.899.442)	(129.845.457)
Deferred tax expense/(income)	133.459.166	(80.302.589)
The amount netted under equity	(4.959.840)	(1.761.756)
Translation difference	(111.739)	(28.229)
Closing balance	<u>(74.511.855)</u>	<u>(211.938.031)</u>

<u>Reconciliation of tax provision:</u>	<u>1 January – 30 September 2010</u>	<u>1 January – 30 September 2009</u>
Profit/ (loss) before tax	807.827.281	(356.247.227)
Effective tax rate	20%	20%
Calculated tax	161.565.456	(71.249.445)
Reconciliation between the tax provision and calculated tax:		
- Non-deductible expenses	4.040.487	11.337.948
- Non-taxable income	(3.246.828)	(10.880.392)
- Effect of adjustments	(11.466.240)	5.723.874
- Effect of unused deferred tax asset	5.001.271	-
- Effect of the different tax rates due to foreign subsidiary	(902.431)	(586.681)
- Other	(871.334)	141.817
Tax expense/(income) in income statement	<u>154.120.381</u>	<u>(65.512.879)</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

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

As of 1 January - 30 September 2010 and 1 January - 30 September 2009, the details of the tax gains / (losses) of the other comprehensive income/(expense) are as follows:

	1 January – 30 September 2010			1 July – 30 September 2010		
	Amount before tax	Tax income/(expense)	Amount after tax	Amount before tax	Tax income/(expense)	Amount after tax
<u>Other comprehensive income in the current period</u>						
Change in revaluation reserves of tangible assets	(906.006)	-	(906.006)	403.129	-	403.129
Change in revaluation reserves of financial assets	14.674.497	-	14.674.497	-	-	-
Change in cash flow hedge reserves	(24.799.196)	4.959.840	(19.839.356)	(16.482.120)	3.296.424	(13.185.696)
Change in currency translation reserves	538.323	-	538.323	(239.637)	-	(239.637)
	<u>(10.492.382)</u>	<u>4.959.840</u>	<u>(5.532.542)</u>	<u>(16.318.628)</u>	<u>3.296.424</u>	<u>(13.022.204)</u>
	1 January – 30 September 2009			1 July – 30 September 2009		
	Amount before tax	Tax income/(expense)	Amount after tax	Amount before tax	Tax income/(expense)	Amount after tax
<u>Other comprehensive income in the previous period</u>						
Change in revaluation reserves of tangible assets	(376.495)	-	(376.495)	135.183	-	135.183
Change in cash flow hedge reserves	(8.808.776)	1.761.756	(7.047.020)	(1.280.735)	256.151	(1.024.584)
Change in currency translation reserves	707.169	-	707.169	944.664	-	944.664
	<u>(8.478.102)</u>	<u>1.761.756</u>	<u>(6.716.346)</u>	<u>(200.888)</u>	<u>256.151</u>	<u>55.263</u>

**NOTE 29 – EARNINGS/ (LOSS) PER SHARE**

	1 January – 30 September 2010	1 July – 30 September 2010	1 January – 30 September 2009	1 July – 30 September 2009
<u>Number of shares outstanding</u>	160.000.000.000	160.000.000.000	160.000.000.000	160.000.000.000
Net profit/(loss) attributable to equity holders – TRY	627.772.893	223.637.310	(288.034.943)	(90.662.104)
Profit/(loss) per share with 1 TRY nominal value TRY %	0,3924/% 39,24	0,1398/% 13,98	(0,1800)/(% 18,00)	(0,0567)/(% 5,67)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**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 September 2010	31 December 2009
<u>Trade receivables due from related parties (short term)</u>		
ArcelorMittal Amb. Çel. San. ve Tic. A.Ş. <sup>(1)</sup>	65.154.104	61.746.999
Borçelik Çelik Sanayii Ticaret A.Ş. <sup>(2)</sup>	7.639.834	-
Oyak Renault Otomobil Fab. A.Ş. <sup>(3)</sup>	4.853.920	1.241.900
Ünye Çimento Sanayi ve Ticaret A.Ş. <sup>(3)</sup>	141.827	-
Oyak Beton A.Ş. <sup>(3)</sup>	-	250.680
Adana Çimento Sanayi T.A.Ş. <sup>(3)</sup>	-	783.325
Other	95.399	1.350
	<u>77.885.084</u>	<u>64.024.254</u>
<u>Trade payables due to related parties (short term)</u>		
Adana Çimento Sanayi T.A.Ş. <sup>(3)</sup>	3.429.690	-
Omsan Logistica SRL <sup>(3)</sup>	1.057.419	493.637
Omsan Lojistik A.Ş. <sup>(3)</sup>	206.930	1.750.319
Oyak Beton A.Ş. <sup>(3)</sup>	137.608	-
Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(3)</sup>	67.914	1.069.752
Borçelik Çelik Sanayii Ticaret A.Ş. <sup>(2)</sup>	-	80.588
Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(3)</sup>	-	434.747
Other	150.508	1.318.768
	<u>5.050.069</u>	<u>5.147.811</u>
<u>Non trade payables due to related parties (short term)</u>		
Payables to shareholders <sup>(4)</sup>	1.724.874	1.789.615
Other	989.019	81.750
	<u>2.713.893</u>	<u>1.871.365</u>

<sup>(1)</sup> Affiliates

<sup>(2)</sup> Financial assets

<sup>(3)</sup> Subsidiaries of the parent company

<sup>(4)</sup> Payables to shareholders are the liabilities for dividend distributions outstanding.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**NOTE 30 – RELATED PARTY TRANSACTIONS (cont’d)**

	1 January – 30 September 2010	1 January – 30 September 2009
<u>Major sales to related parties</u>		
ArcelorMittal Amb.Çel. San. ve Tic. A.Ş. <sup>(1)</sup>	80.169.016	65.072.347
Borçelik Çelik San. Tic. A.Ş. <sup>(2)</sup>	60.164.695	63.444.692
Oyak Renault Otomobil Fab. A.Ş. <sup>(3)</sup>	17.958.242	-
Adana Çimento Sanayi T.A.Ş. <sup>(3)</sup>	10.344.233	16.000.634
Ünye Çimento Sanayi ve Ticaret A.Ş. <sup>(3)</sup>	1.517.013	1.283.705
Oytaş İç ve Dış Ticaret A.Ş. <sup>(3)</sup>	1.376.702	1.240.172
Bolu Çimento Sanayi A.Ş. <sup>(3)</sup>	803.783	951.243
Lafarge Ereğli Çimento A.Ş. <sup>(3)</sup>	574.664	-
Omsan Logistica SRL <sup>(3)</sup>	-	6.338.276
	<u>172.908.348</u>	<u>154.331.069</u>

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

	1 January – 30 September 2010	1 January – 30 September 2009
<u>Major purchases from related parties</u>		
Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(3)</sup>	4.595.967	5.301.536
Omsan Logistica SRL <sup>(3)</sup>	5.675.298	-
Omsan Lojistik A.Ş. <sup>(3)</sup>	3.206.218	3.416.823
Innovation Resources B.V. <sup>(3)</sup>	2.877.283	-
Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(3)</sup>	2.210.746	3.118.475
Oyak Telekomünikasyon A.Ş. <sup>(3)</sup>	1.098.277	-
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. <sup>(3)</sup>	531.554	1.592.065
Other	738.273	690.353
	<u>20.933.616</u>	<u>14.119.252</u>

<sup>(1)</sup> Affiliates

<sup>(2)</sup> Financial assets

<sup>(3)</sup> Subsidiaries of the parent company

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

For the period ended 30 September 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 5.372.627 (30 September 2009: TRY 5.695.576).

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010

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

#### 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 September 2010 and 31 December 2009 the net debt/equity ratio is as follows:

	Note	30 September 2010	31 December 2009
Total financial liabilities	6	5.428.219.553	4.166.022.813
Less: Cash and cash equivalents	4	2.146.337.441	1.065.737.367
Net debt		3.281.882.112	3.100.285.446
Total adjusted equity (*)		6.587.160.833	5.925.953.753
Total resources		9.869.042.945	9.026.239.199
Net debt/Total adjusted equity ratio	20	%50	%52
Distribution of net debt/ total adjusted equity		33/67	34/66

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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)**

(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 takes action in pricing instantaneously.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)**

(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**

	<b>Receivables</b>				<b>Bank deposits</b>	<b>Derivative financial instruments</b>
	<b>Trade receivables</b>		<b>Other receivables</b>			
	<b>Related party</b>	<b>Third party</b>	<b>Related party</b>	<b>Third party</b>		
<b>30 September 2010</b>						
Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)	77.885.084	628.581.914	-	26.484.136	2.146.313.759	-
- Secured part of the maximum credit risk exposure via collateral etc.	72.793.938	508.549.295	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	77.885.084	622.020.985	-	321.401	2.146.313.759	-
B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired	-	413.192	-	-	-	-
C. Net book value of financial assets that are overdue but not impaired	-	6.147.737	-	26.162.735	-	-
- Secured part via collateral etc.	-	3.241.564	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
- Overdue (gross carrying amount)	-	42.235.755	-	31.431.543	-	-
- Impairment (-)	-	(42.235.755)	-	(31.431.543)	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
- Not overdue (gross carrying amount)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Secured part via collateral etc.	-	-	-	-	-	-
E. Off-balance sheet financial assets exposed to credit risk	-	-	-	-	-	-

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

(Convenience Translation into English of Consolidated 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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)**

(e) Credit risk management (cont’d)

**Credit risk of financial instruments**

	<b>Receivables</b>				<b>Bank deposits</b>	<b>Derivative financial instruments(**)</b>
	<b>Trade receivables</b>		<b>Other receivables</b>			
	<b>Related party</b>	<b>Third party</b>	<b>Related party</b>	<b>Third party</b>		
<b>31 December 2009</b>						
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.

(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)**

(e) Credit risk management (cont’d)

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

30 September 2010	<u>Receivables</u>		<u>Bank deposits</u>	<u>Derivative financial instruments</u>	<u>Other</u>	<u>Total</u>
	<u>Trade receivables</u>	<u>Other receivables</u>				
Overdue 1-30 days	2.965.421	-	-	-	-	2.965.421
Overdue 1-3 months	276.143	-	-	-	-	276.143
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	2.906.173	-	-	-	-	2.906.173
Overdue 5 years or more	-	26.162.735	-	-	-	26.162.735
Total overdue assets	6.147.737	26.162.735	-	-	-	32.310.472
Secured part via collateral etc.	3.241.564	-	-	-	-	3.241.564

(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)**

(e) Credit risk management (cont’d)

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

31 December 2009	<u>Receivables</u>		<u>Bank deposits</u>	<u>Derivative financial instruments</u>	<u>Other</u>	<u>Total</u>
	<u>Trade receivables</u>	<u>Other receivables</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	-	-	-	-	-	-

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

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

	30 September 2010				
	TRY (Functional Currency)	USD (Original Currency)	EUR (Original Currency)	JPY (Original Currency)	GBP (Original Currency)
1. Trade Receivables	549.083.622	363.216.305	11.128.946	-	-
2a. Monetary financial assets	932.788.224	626.214.479	12.149.074	118.713	10.652
2b. Non- monetary financial assets	-	-	-	-	-
3. Other	58.545.446	39.976.860	242.510	2.999.997	-
<b>4. Current assets (1+2+3)</b>	<b>1.540.417.292</b>	<b>1.029.407.644</b>	<b>23.520.530</b>	<b>3.118.710</b>	<b>10.652</b>
5. Trade receivables	-	-	-	-	-
6a. Monetary trade receivables	-	-	-	-	-
6b. Non-monetary trade receivables	-	-	-	-	-
7. Other	6.655.578	3.035.367	1.139.341	-	-
<b>8. Non-current assets (5+6+7)</b>	<b>6.655.578</b>	<b>3.035.367</b>	<b>1.139.341</b>	-	-
<b>9. Total assets (4+8)</b>	<b>1.547.072.870</b>	<b>1.032.443.011</b>	<b>24.659.871</b>	<b>3.118.710</b>	<b>10.652</b>
10. Trade payables	251.552.628	157.654.812	5.414.555	696.007.300	4.544
11. Financial liabilities	1.125.400.864	698.039.357	45.006.783	1.356.485.262	-
12a. Other monetary financial liabilities	11.012.208	7.580.613	5.681	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>1.387.965.700</b>	<b>863.274.782</b>	<b>50.427.019</b>	<b>2.052.492.562</b>	<b>4.544</b>
14. Trade payables	-	-	-	-	-
15. Financial liabilities	2.346.033.381	1.221.682.039	220.308.302	7.961.867.102	-
16a. Other monetary financial liabilities	798.380	550.152	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>2.346.831.761</b>	<b>1.222.232.191</b>	<b>220.308.302</b>	<b>7.961.867.102</b>	-
<b>18. Total liabilities (13+17)</b>	<b>3.734.797.461</b>	<b>2.085.506.973</b>	<b>270.735.321</b>	<b>10.014.359.664</b>	<b>4.544</b>
<b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>	<b>528.448.100</b>	<b>222.104.601</b>	<b>104.348.438</b>	-	-
19.a Off-balance sheet foreign currency derivative financial assets	528.448.100	222.104.601	104.348.438	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(1.659.276.491)</b>	<b>(830.959.361)</b>	<b>(141.727.012)</b>	<b>(10.011.240.954)</b>	<b>6.108</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(2.252.925.615)</b>	<b>(1.096.076.189)</b>	<b>(247.457.301)</b>	<b>(10.014.240.951)</b>	<b>6.108</b>
22. Fair value of derivative financial instruments used in foreign currency hedge	(37.110.277)	(3.223.167)	(16.418.354)	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	528.448.100	222.104.601	104.348.438	-	-
25. Exports	564.995.415	274.057.073	75.403.877	-	-
26. Imports	2.839.529.845	1.843.689.242	24.826.834	-	-



**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)**

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	-
<b>4. Current assets (1+2+3)</b>	<b>1.280.412.531</b>	<b>796.331.555</b>	<b>37.255.139</b>	<b>53.249.717</b>	<b>10.780</b>
5. Trade receivables	-	-	-	-	-
6a. Monetary trade receivables	-	-	-	-	-
6b. Non-monetary trade receivables	-	-	-	-	-
7. Other	16.755.725	10.561.360	395.077	-	-
<b>8. Non-current assets (5+6+7)</b>	<b>16.755.725</b>	<b>10.561.360</b>	<b>395.077</b>	-	-
<b>9. Total assets (4+8)</b>	<b>1.297.168.256</b>	<b>806.892.915</b>	<b>37.650.216</b>	<b>53.249.717</b>	<b>10.780</b>
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	-	-	-	-	-
<b>13. Current liabilities (10+11+12)</b>	<b>1.046.351.947</b>	<b>579.088.385</b>	<b>68.005.975</b>	<b>1.683.799.523</b>	<b>23.422</b>
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	-	-	-	-	-
<b>17. Non-current liabilities (14+15+16)</b>	<b>2.473.057.784</b>	<b>1.204.855.512</b>	<b>240.910.369</b>	<b>8.493.937.469</b>	-
<b>18. Total liabilities (13+17)</b>	<b>3.519.409.731</b>	<b>1.783.943.897</b>	<b>308.916.344</b>	<b>10.177.736.992</b>	<b>23.422</b>
<b>19. Net asset/liability position of off balance sheet derivative financial instruments (19a-19b)</b>	<b>402.021.900</b>	<b>267.000.000</b>	-	-	-
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	-	-	-	-	-
<b>20. Net foreign currency asset/liability position (9-18+19)</b>	<b>(1.820.219.575)</b>	<b>(710.050.982)</b>	<b>(271.266.128)</b>	<b>(10.124.487.275)</b>	<b>(12.642)</b>
<b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b>	<b>(2.241.131.333)</b>	<b>(988.465.782)</b>	<b>(271.662.833)</b>	<b>(10.176.357.775)</b>	<b>(12.642)</b>
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	-	-	-

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)

*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 September 2010	31 December 2009
Foreign Currency Position Parametric VaR	26.096.951	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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)

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 September 2010 asset and liability balances are translated by using the following exchange rates: TRY 1,4512 = US \$ 1, TRY 1,9754 = EUR 1 and TRY 0,0173 = JPY 1 (31 December 2009: TRY 1,5057 = US \$ 1, TRY 2,1603 = EUR 1 and TRY 0,0163 = JPY 1)

30 September 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	(152.820.643)	152.820.643
2- Hedged portion from USD risk (-)	32.231.820	(32.231.820)
3- Effect of capitalization (-)	25.385.664	(25.385.664)
4- USD net effect (1+2+3)	(95.203.159)	95.203.159
5- EUR net asset/liability	(48.609.745)	48.609.745
6- Hedged portion from EUR risk (-)	20.612.990	(20.612.990)
7- Effect of capitalization (-)	-	-
8- EUR net effect (5+6+7)	(27.996.755)	27.996.755
9- JPY net asset/liability	(17.343.474)	17.343.474
10- Hedged portion from JPY risk (-)	-	-
11- Effect of capitalization (-)	1.465.813	(1.465.813)
12- JPY net effect (9+10+11)	(15.877.661)	15.877.661
13- Other currencies net asset/liability	1.401	(1.401)
14- Hedged portion from other currency risk (-)	-	-
15- Effect of capitalization (-)	-	-
16- Other currencies net effect (13+14+15)	1.401	(1.401)
<b>TOTAL (4+8+12+16)</b>	<b>(139.076.174)</b>	<b>139.076.174</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 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)

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
<b>TOTAL (4+8+12+16)</b>	<b>(150.740.275)</b>	<b>150.740.275</b>

(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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 September 2010 the details of the cross currency and interest rate swap agreements are provided in the table below:

<b>30 September 2010</b>	<b>Average agreement exchange rate</b>	<b>Sales with original currency</b>	<b>Purchases with original currency</b>	<b>Original currency (TRY equivalent)</b>	<b>Agreement value (TRY equivalent)</b>	<b>Fair value</b>
<b>Cross currency and interest rate swap agreements:</b>						
TRY sale/ USD purchase	1,4568	116.822.029	80.193.602	116.822.029	119.105.048	(2.283.018)
TRY sale/ EUR purchase	2,0820	217.303.950	104.348.438	217.303.950	249.736.766	(32.432.816)
More than 5 years						<b>(34.715.834)</b>

As of 30 September 2010 and 31 December 2009 the details of the forward agreements of the Group are provided in the table below:

<b>30 September 2010</b>	<b>Average agreement exchange rate</b>	<b>Sales with original currency</b>	<b>Purchases with original currency</b>	<b>Original currency (TRY equivalent)</b>	<b>Agreement value (TRY equivalent)</b>	<b>Fair value</b>
<b>Forward agreements:</b>						
EUR sale/ USD purchase	1,3382	50.000.000	66.911.000	98.770.000	99.951.979	(1.715.288)
Less than 3 months						
TRY sale/ USD purchase	1,4827	111.202.500	75.000.000	111.202.500	111.670.495	(679.154)
Between 3-6 months						<b>(2.394.442)</b>
<b>31 December 2009</b>						
<b>Forward agreements:</b>						
TRY sale/ USD purchase	1,8673	498.582.400	267.000.000	498.582.400	594.811.104	(96.228.704)
Less than 3 months						<b>(96.228.704)</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)**

(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 September 2010	31 December 2009
<b>Floating interest rate financial instruments</b>		
Financial liabilities	3.471.243.079	3.498.154.479

In addition to these, as of 30 September 2010, the amount of the Group’s financial loans is TRY 827.946.310 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 14.898.599 (30 September 2009: TRY 13.297.542).

**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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)****(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 September 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 3 months	1,84%	72.560.000	(422.886)
Between 1-5 years	2,55%	399.857.429	(8.787.340)
More than 5 years	2,39%	63.497.915	(2.319.683)
		<u>535.915.344</u>	<u>(11.529.909)</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 535.915.344 (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 (8.749.062) (31 December 2009: TRY (7.259.727)).

*Cross currency and interest rate swap agreements*

30 September 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>
<b>TRY sale/ EUR purchase</b>			
More than 5 years	10,65%	217.303.950	(32.432.816)
<b>TRY sale/ USD purchase</b>			
More than 5 years	7,22%	116.822.029	(2.283.018)
		<u>334.125.979</u>	<u>(34.715.834)</u>

(\*) 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 334.125.979 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 17.103.940).

**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 September 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>
<b>Non derivative financial liabilities</b>						
Borrowings from banks	5.428.219.553	5.630.009.248	869.902.069	1.779.185.808	2.140.603.188	840.318.183
Trade payables	368.154.559	369.072.799	212.575.865	156.496.934	-	-
Other financial liabilities (*)	137.658.268	137.658.268	102.496.802	35.161.466	-	-
<b>Total liabilities</b>	<b>5.934.032.380</b>	<b>6.136.740.315</b>	<b>1.184.974.736</b>	<b>1.970.844.208</b>	<b>2.140.603.188</b>	<b>840.318.183</b>

**30 September 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>
<b>Derivative financial liabilities</b>						
Derivative cash inflows (**)	-	555.974.918	124.716.272	137.246.506	243.162.604	50.849.536
Derivative cash outflows (**)	(48.640.185)	(702.639.977)	(141.440.558)	(158.323.602)	(344.419.538)	(58.456.279)

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

(\*\*) This balance is presented under other financial liabilities with its net value.



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

(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>
<b>Non derivative financial liabilities</b>						
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 (*)	87.466.087	87.466.087	45.460.001	42.006.086	-	-
<b>Total liabilities</b>	<b>4.608.493.243</b>	<b>4.836.293.433</b>	<b>385.388.360</b>	<b>905.872.022</b>	<b>3.139.056.417</b>	<b>405.976.634</b>

**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>
<b>Derivative financial liabilities</b>	<b>(105.970.853)</b>	<b>(106.811.528)</b>	<b>(97.314.299)</b>	<b>(6.104.016)</b>	<b>(3.393.213)</b>	-
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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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
<b>30 September 2010</b>									
<u>Financial Assets</u>									
Cash and cash equivalents	2.146.337.441	-	-	-	-	-	-	2.146.337.441	4
Trade receivables	-	706.466.998	-	-	-	-	-	706.466.998	8
Financial investments	-	-	54.602	-	-	-	-	54.602	5
Other financial assets	-	26.484.136	-	-	-	-	-	26.484.136	9
Derivative financial instruments	-	-	-	-	-	-	-	-	7
<u>Financial Liabilities</u>									
Financial payables	-	-	-	-	5.428.219.553	-	-	5.428.219.553	6
Trade payables	-	-	-	-	368.154.559	-	-	368.154.559	8
Other liabilities	-	-	-	-	137.658.268	-	-	137.658.268	9/19
Derivative financial instruments	-	-	-	-	-	46.245.743	2.394.442	48.640.185	7
<b>31 December 2009</b>									
<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	-	-	-	-	87.466.087	-	-	87.466.087	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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

**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)

**Financial asset and liabilities at fair  
value**

	30 September 2010	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
<b>Financial assets and liabilities at fair value through profit/loss</b>				
Financial assets held for trading	-	-	-	-
Derivative financial assets (*)	-	-	-	-
Derivative financial liabilities (*)	(2.394.442)	-	(2.394.442)-	-

**Financial assets and liabilities at fair  
value through other comprehensive  
income/expense**

Derivative financial assets (*)	-	-	-	-
Derivative financial liabilities (*)	(46.245.743)	-	(46.245.743)	-
Total	(48.640.185)	-	(48.640.185)	-

**Financial asset and liabilities at fair  
value**

	31 December 2009	Fair value level as of reporting date		
		Level 1	Level 2	Level 3
<b>Financial assets and liabilities at fair value through profit/loss</b>				
Financial assets held for trading	22.588	22.588	-	-
Derivative financial assets (*)	-	-	-	-
Derivative financial liabilities (*)	(96.228.704)	-	(96.228.704)	-

**Financial assets and liabilities at fair  
value through other comprehensive  
income/expense**

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2010**

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

**NOTE 33 – SUBSEQUENT EVENTS**

None.

**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 September 2010	1 January – 30 September 2009
Current trade receivables	(33.255.847)	46.011.179
Inventories	(984.834.853)	1.736.994.723
Other receivables / current assets	75.227.612	(109.057.116)
Noncurrent trade receivables	97.358	(249.629)
Other long term receivables / noncurrent assets	16.598.980	21.412.697
Current trade payables	(170.114.812)	(106.217.309)
Other short term payables / liabilities	(170.370.224)	(101.597.094)
Other noncurrent trade payables/ liabilities	37.206.688	10.536.581
	<u>(1.229.445.098)</u>	<u>1.497.834.032</u>

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

Account Name	(Previously reported) 1 January – 30 September 2009	(Restated) 1 January – 30 September 2009	Difference
Revenues <sup>(3) (6)</sup>	3.607.017.169	3.608.017.211	1.000.042
Cost of sales (-) <sup>(1) (2) (3) (4) (5) (6) (7) (9)</sup>	(3.598.831.994)	(3.604.964.642)	(6.132.648)
General administrative expenses (-) <sup>(4)</sup>	(84.450.200)	(83.853.255)	596.945
Other operating income <sup>(1) (5) (8) (9)</sup>	40.097.029	37.643.035	(2.453.994)
Other operating expense (-) <sup>(1) (2) (5) (7) (8)</sup>	(64.201.631)	(57.211.976)	6.989.655
Financial income <sup>(10)</sup>	139.860.369	139.839.214	(21.155)
Financial expense (-) <sup>(10)</sup>	(341.872.516)	(341.851.361)	21.155
Total			<u>-</u>

- (1) Train ferry expense of TRY 1.433.726 which is previously reported under “Other operating expense (-)” and train ferry income of TRY 190.139 which is previously reported in “Other operating income” are reclassified to “Cost of sales (-)”.
- (2) Cost of electricity sales of TRY 108.447 which is previously reported in “Other operating expense (-)” is reclassified to “Cost of sales (-)”.
- (3) Income from electricity sales of TRY 1.675.255 which is previously netted off under “Cost of sales (-)” is reclassified to “Revenues”.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD  
ENDED 30 SEPTEMBER 2010**

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

---

**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):**

- (4) Laboratory service expense of TRY 596.945 which is previously reported in “General administrative expenses (-)” is reclassified to “Cost of sales (-)”.
- (5) Dispatch income of TRY 99.531 which is previously netted off under “Cost of sales (-)” is reclassified to “Other Operating Income” and demurrage expense of TRY 3.534.845 which is previously reported in “Cost of sales (-)” is reclassified to “Other operating expenses (-)”.
- (6) Excess scrap and raw material sales income of TRY 675.213 which is previously reported in “Revenues” is reclassified to “Cost of sales (-)”.
- (7) Company housing expenses of TRY 8.790.839 which is previously reported in “Other operating expenses (-)” is reclassified to “Cost of sales (-)”.
- (8) Delivery warehouse income of TRY 191.488 which is previously reported in “Other Operating income” is netted off under “Other operating expense”.
- (9) Raw material sales revenue of TRY 2.171.898 which is previously reported in “Other Operating income” is reclassified to “Cost of sales (-)”.
- (10) Raw material foreign exchange gain of TRY 21.155 which was previously reported in “Financial income” is netted from “Financial expenses (-)”

**Convenience translation to English:**

The effect of differences between the Financial Reporting Standards published by the Capital Market Board in Turkey and accounting principles generally accepted in countries in which the 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.