

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

**1. Period of the Report**

01/01/2009-31/03/2009

**2. Title of the Association**

EREĞLİ IRON AND STEEL WORKS, INC.

**3. Members of the Board of Directors and Auditors**

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

Members of the Board of Directors as of 31.03.2009:

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

**Changes in the Board of Directors within the Period**

None.

Members of the Board of Auditors as of 31.03.2009:

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

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**Changes in the Board of Auditors within the Period**

None.

**Members of the Board of Directors' and Auditors' Authorities and Limits**

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

**4. Executive Management**

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

**Changes in the Executive Management within the Period**

None.

**5. Compliance With The Corporate Governance Principles**

Corporate Governance Principles; published by Capital Markets Board (CMB) and noted in 2008 Annual Activity Report were complied and applied also in between 01/01/2009 - 31/03/2009. As a result, personnel with the required qualifications have been appointed as required by CMB Communiqué Serial:IV No:41 in order to strengthen the level of compliance with the CMB regulations.

**6. Amendments in The Articles of Association**

None.

**7. The Nature and Amount of Issued Capital Market Instruments**

None.

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None.

**9. Information on the Business Sector of the Enterprise**

The world has maintained its high supply and demand levels until September 2008. The boost in raw material costs led to a rise in steel prices, thus record high increases continued up until the mid of September. However, the outbreak of the economic crisis in USA has spread globally. It induced a monetary pressure on steel manufacturers and caused production cuts which increased stocks and resulted in record-low price declines. Cutbacks in production beginning from the third quarter of 2008 have continued throughout the first quarter of 2009 globally. Several measures have been enforced such as closure of plants, lay offs, reduction of salaries or flexible working hours. Consequently, in the first quarter of 2009, the world crude steel production has fallen down to 264 million tons; indicating a 22,8 % decrease on y-o-y basis.

Throughout the first quarter of 2009, China has preserved her foremost place in crude steel production by 127 million tons, however there has been a 1,6% decrease y-o-y. In the same period, Turkey has produced 5.474 thousand tons of crude steel which indicates a 20,6% decline y-o-y. Among Turkey's production of 5,5 million tons, 3,7 and 1,8 million tons were produced in electrical arc furnaces and in integrated plants respectively.

**10. Emphasis of the Enterprise within the Sector**

In 2008, Erdemir Group has produced 6 million tons of crude steel. By doing so, it has taken 50<sup>th</sup> place globally and 14<sup>th</sup> Europe-wide along with 7<sup>th</sup> position within EU-27. In the first quarter of 2009, the crude steel production at Ereğli Plants has been 896.216 tons which indicates an increase of 13,1% y-o-y. Regarding the İskenderun Plants, crude steel output has been 659.652 tons which indicates a decrease of 8,2 % y-o-y.

In spite of the global economic crisis that emerged from the financial sector which had adversely affected all indicators and consequently impacted the real sector; Erdemir has performed thriving outcomes in terms of management. This achievement is due to Erdemir's dynamic administrative approach and rapid reaction in the sense of implementation. Such an attitude has immensely to do with accurate analyses of market conditions as well as taking appropriate steps and measures.

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**11. Research and Development Activities**

Research and Development Activities within the period are as follows:

- The production of X-80 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process (TÜBİTAK-TEYDEB Project)
- The production of X-70 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process (TÜBİTAK-TEYDEB Project)
- The production and development of alternative DC04 ED enameling steel grade according to DIN EN 10209 standards, having improved aging properties
- The production and development of electric steel grades having high silicon content
- The development and production of steel grades S355JO, S355K2, S355J2W (resistant to the atmospheric corrosion) produced in the concern of DIN EN 10025 standard due to the requirement of structural construction companies
- Development of DIN EN 10149 grade S700MC for Mercedes
- Improvement of DIN EN 10149 grade S500MC
- The production of plates with TCR rolling up to API X-60 steel grades.

**12. Investment Activities**

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

Ereğli Plants;

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

İskenderun Plants;

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

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

	01 January-31 March 2009		
	Capacity* (tons)	Production (tons)	C.U.P. (%)
Coke Plant	250.000	235.089	94,0
Sinter Plant	500.000	407.115	81,4
Blast Furnaces	850.000	808.116	95,1
BOF	875.000	932.842	106,6
Casters	850.000	896.356	105,5
Hot Strip Mill.1	287.500	279.442	97,2
Hot Strip Mill.2	912.500	741.939	81,3
Plate Mill	75.000	9.158	12,2
Cold Mill.1	112.500	26.737	23,8
Cold Mill.2	387.500	291.019	75,1
Galvanizing Line	75.000	33.455	44,6
Electrolytic Tinning Line	62.500	12.706	20,3
General C.U.P %			89,2

\* Actual capacity for the 1st quarter.

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

	01 January-31 March 2009		
	Capacity* (tons)	Production (tons)	C.U.P. (%)
Coke Plant**	537.500	393.766	73,3
Sinter Plant***	750.000	595.031	79,3
Blast Furnaces	950.000	649.245	68,3
BOF	875.000	673.378	77,0
Billet Casting	625.000	569.458	91,1
Slab Casting	1.250.000	90.193	7,2
Wire Rod Mill	125.000	130.371	104,3
General C.U.P %			60,7

\* Actual capacity for the 1st quarter.

\*\* Coke Plant: Total capacity of 2.150.000 tons (Met. Coke) /year in dry base.

\*\*\* Sinter: Total capacity of the plant is 3.000.000 tons skip sinter/year.

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**14. Products**

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

**15. Productivity**

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

	<b>01 January-31 March 2009</b>			<b>01 January-31 March 2008</b>			<b>01 January-31 March 2007</b>		
	<b>Capacity* (tons)</b>	<b>Production (tons)</b>	<b>C.U.P. (%)</b>	<b>Capacity* (tons)</b>	<b>Produc. (tons)</b>	<b>C.U.P. (%)</b>	<b>Capacity* (tons)</b>	<b>Produc. (tons)</b>	<b>C.U.P. (%)</b>
Coke Plant	250.000	235.089	94,0	259.750	248.936	95,8	259.750	253.183	97,5
Sinter Plant	500.000	407.115	81,4	500.000	509.860	102,0	500.000	516.870	103,4
Blast Furnaces	850.000	808.116	95,1	675.000	699.335	103,6	675.000	718.204	106,4
BOF	875.000	932.842	106,6	750.000	815.297	108,7	750.000	830.288	110,7
Casters	850.000	896.356	105,5	725.000	791.918	109,2	725.000	808.447	111,5
Hot Strip Mill.1	287.500	279.442	97,2	287.500	268.856	93,5	287.500	257.383	89,5
Hot Strip Mill.2	912.500	741.939	81,3	912.500	820.403	89,9	893.750	619.134	69,3
Plate Mill	75.000	9.158	12,2	125.000	70.412	56,3	125.000	44.413	35,5
Cold Mill.1	112.500	26.737	23,8	125.000	88.460	70,8	125.000	78.270	62,6
Cold Mill.2	387.500	291.019	75,1	375.000	356.781	95,1	375.000	313.830	83,7
Galvanizing Line	75.000	33.455	44,6	75.000	96.285	128,4	75.000	67.652	90,2
Elect. Tinning Line	62.500	12.706	20,3	62.500	70.954	113,5	62.500	46.454	74,3
General C.U.P %			89,2			99,3			93,8

\* Actual capacity for the 1st quarter.

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

	01 January-31 March 2009			01 January-31 March 2008			01 January-31 March 2007		
	Capacity* (tons)	Production (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)
Coke Plant**	537.500	393.766	73,3	537.500	481.127	89,5	435.000	322.034	74,0
Sinter Plant***	750.000	595.031	79,3	630.000	609.517	96,7	630.000	547.977	87,0
Blast Furnaces	950.000	649.245	68,3	950.000	723.611	76,2	900.000	586.516	65,2
BOF	875.000	673.378	77,0	875.000	728.234	83,2	550.000	543.496	98,8
Billet Casting	625.000	569.458	91,1	625.000	506.583	81,1	625.000	513.908	82,2
Slab Casting	1.250.000	90.193	7,2	1.250.000	207.178	16,6	625.000	20.465	3,3
Wire Rod Mill	125.000	130.371	104,3	125.000	133.413	106,7	125.000	124.410	99,5
General C.U.P %			60,7			67,9			68,3

\* Actual capacity for the 1st quarter.

\*\* Coke Plant: Total capacity of 2.150.000 tons (Met. Coke) /year in dry base (2008-2009).

\*\*\* Sinter: Total capacity of the plant is 3.000.000 tons skip sinter/year (2009).

#### 16. Production (quantity)

Final Products (000 Tons)	01 Jan. - 31 March 2009	01 Jan. - 31 March 2008	01 Jan. - 31 March 2007
Erdemir	1.005	1.126	863
İsdemir	748	738	585
Ermaden	402	397	414

#### 17. Sales (quantity)

Final Products (000 Tons)	01 Jan. - 31 March 2009	01 Jan. - 31 March 2008	01 Jan. - 31 March 2007
Erdemir	1.030	1.107	997
İsdemir	718	692	558
Ermaden	452	492	522

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**18. Indicators and Ratios**

Financial Statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29, have not been audited as of 31/03/2009.

**Selected Balance Sheet Items (TL)**

(TL)	31/03/2009	31/12/2008
Current Assets	4.000.911.468	4.649.284.426
Non-current Assets	7.465.471.376	7.285.155.391
Total Assets	11.466.382.844	11.934.439.817
Current Liabilities	2.990.773.655	3.355.971.032
Non-current Liabilities	2.527.972.083	2.474.840.646
Shareholders' Equity	5.947.637.106	6.103.628.139
Total Liabilities	11.466.382.844	11.934.439.817

**Selected Income Statement Items (TL)**

(TL)	31/03/2009	31/03/2008
Net Sales	1.063.923.071	1.417.579.517
Operating Profit	63.806.329	211.086.549
Profit / (Loss) for the Period	(184.993.418)	259.526.117
Net Profit / (Loss) for the Period*	(146.473.886)	226.627.059
Earnings / (Loss) Per Share	(0,1193)	0,1904

\* Parent company's share in the net profit/(loss) for the period is (137.005.339)TL in March 2009.(March 2008: 218.790.616 TL)

**Key Ratios**

(%)	31/03/2009	31/03/2008
Operating Profit Margin	6,0	14,9
Net Profit Margin	-13,8	16,0
EBITDA Margin	12,8	29,9

**19. Collective Labor Agreement Applications and the Benefits**

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

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



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decease is caused by work accident, in the case member dies because of a work accident (his/her legal successors will receive), military service allowance, children allowance, educational allowance for each child (primary school, secondary school, higher education), meal allowance, and transportation allowance. **Vacations;** paid annual leaves, family leaves for medical purposes, leaves of absence with excuse, unpaid leaves, and other paid leaves consisting marital leaves, bereavement leaves, maternity leaves, nursing leaves and leaves in case of a natural catastrophe.

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

The number of the Group's personnel as at 31 March 2009:

	31 March 2009	31 December 2008
Monthly paid personnel (A)	3.356	3.551
Hourly paid personnel (B)	8.436	9.063
Candidate worker (C)	1.797	1.797
Contractual personnel (D)	17	17
Contractual personnel (Contractor)	107	209
<b>TOTAL</b>	<b>13.713</b>	<b>14.637</b>

## 20. Shareholding and Capital Structure

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

<b>Shareholders</b>	<b>Shares (TL)</b>	<b>%</b>
Ataer Holding A.Ş.	566.194.739	49,29
Publicly Held	547.222.231	47,63
Erdemir's Own Shares	35.395.530	3,08
<b>Total</b>	<b>1.148.812.500</b>	<b>100,00</b>

## 21. Dividend Distribution Policy

The Company's Dividend Distribution Policy:

"Our Company's dividend distribution policy is covered by the 37<sup>th</sup> topic of the Articles of Association. In compliance with current provisions and the relevant item of the Articles of Association and as dictated by Corporate Governance Principles, a consistent balance is sought between the interests of shareholders and the Company's resource requirements in determining the ratio of net profit that is to be distributed to shareholders in the form of cash and/or bonus shares. In compliance with Corporate Governance Principles, the policy at issue is given place in the annual activity report, also it's being made public within the framework of the disclosure policy by material disclosure." described as such.

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Erdemir has full access to all national and international financial sources with its market making force based on high trading volume in money markets. New funding alternatives according to changing market conditions are continuously analyzed and offers are evaluated. Debt policy of Erdemir is developed on capability of cash generation and strong capital structure. Hedging methods and amounts used against financial risks in global crisis environment are developed based on a frame of systematic model. Within risk tolerances forward, futures, swap and options reflecting market conditions are implemented, if necessary. Sales price and terms are improved against liquidity risk. Sales prices are re-regulated in parallel with international prices and means of increasing sales are developed.

**23. Risk Management Policy**

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

Value at Risk method (VaR) is used to measure the market risk and the maximum loss which might occur from changes in currency rate is calculated periodically within a definite probability ratio and definite time interval. If the calculated VaR passes predefined limits, the most suitable hedging instrument is exercised. VaR results are monitored weekly by Group Risk Committee.

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

Duration is calculated based on credit portfolio and cash flow projections in order to manage interest rate risks the Group is exposed to and the amount of gain / loss which may arise in possible interest rate changes is measured by sensitivity analysis.

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

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**24. The Information About Affiliates Subject to Consolidation**

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

<b>Name of the Company</b>	<b>Operation</b>	<b>2009 Share %</b>
İskenderun Demir ve Çelik A.Ş.	Iron and Steel	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Iron Ore and Pellet	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Iron and Steel	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Management and Consultancy	100,00
Erdemir Romania S.R.L.	Iron and Steel	100,00
Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş.	Iron and Steel	100,00
Erdemir Lojistik A.Ş.	Logistics Services	100,00
ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. (**)	Steel for Packaging	25,00

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

(\*\*) ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş.'s financial statements are consolidated using the equity pick-up method.

(\*\*\*) Group's participation rate in Borçelik as of 31 March 2009 is 9,34%.

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

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

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

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

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

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**25. Information for Shareholders**

- In order to minimize the effects of considerable losses due to the ever expanding global economic crisis impacting the iron and steel industry in Turkey, Turkish Metal Union and employers of Erdemir and İsdemir agreed on revising some sections of the current labor agreement for 16 months, taking into consideration the views and comments of the employees. According to the agreement that reflects the mutual trust, respect and compromise of the both parts, which is an alternative to the dismissal of many employees and is assessed as the first and the biggest agreement ever made in our country in this respect, salaries and other benefits related to the salaries will be reduced by thirty five percent except for monetary and non-monetary social rights.

The conditions of this agreement will be applied to all other personnel that is not under the scope of the labor agreement, including top executive officers.

This application will be revised depending on circumstances and the achievement of permanent improvements.

- Starting from 1 January 2009, the Group has revised the depreciation method of Erdemir and İsdemir's land improvements, machinery, equipment and some of the vehicles, from straight line to the units of production method regarding these assets future economic benefits in order to reflect the expected consumption model according to the report of Hatch Associated Limited prepared as of 31 December 2008 and dated 12 May 2009.

After 1 January 2009, the total effect of depreciation rates applied in Erdemir and İsdemir on the attached financial statements is shown below:

	New rates applied after 1 January 2009 (*)
01.01.2009-31.03.2009 decrease in depreciation expense	<u>10.080.252</u>

(\*) Net effect of the decrease in the depreciation expenses to the income statement after the stock effect is TL 4.268.914.

The effects of the change in the depreciation method of the fixed assets on financial statements for the next five years are given below:

Decrease in depreciation expense	New rates applied after 1 January 2009 (*)
2010 whole year	39.289.770
2011 whole year	36.022.350
2012 whole year	34.188.337
2013 whole year	25.075.457
2014 whole year	24.235.429

(\*) The first three month production level of 2009 is adapted for twelve months calculation.

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- According to the expertise reports regarding the Group's investment properties amounting to TL 46.577.264, the total of the fair value of these properties as of 31 March 2009, is TL 202.345.131. (31 December 2008: TL 82.350.255). The fair value of the investment properties has been assessed by the independent expertise firms. Çelen Kurumsal Değerleme ve Danışmanlık A.Ş. and Harmoni Gayrimenkul Değerleme ve Danışmanlık A.Ş. are the independent expertise companies authorized by the CMB. The valuation is determined by using the market transaction values of similar properties as reference.

The group's total investment properties consist of land.

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