

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

**1. Period of the Report**

01.01.2011 - 31.03.2011

**2. Title of the Association**

EREĞLİ IRON AND STEEL WORKS, INC.

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

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors and Auditors are executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership or in Auditors' Board within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next regular general assembly to be approved. The company's 2010 Regular General Assembly has been executed on 31.03.2011.

The active members of the Board of Directors as of 31.03.2011:

<b>Board of Directors</b>	<b>Title</b>	<b>Effective from</b>
Fatih Osman TAR	Chairman – Executive Director (1 year)	22.02.2010
Nihat KARADAĞ	Deputy Chairman – Executive Director (1 year)	30.09.2009
Arzu Hatice ATİK	Board Member (1 year)	26.02.2008
Dinç KIZILDEMİR	Board Member – Executive Director (1 year)	27.02.2006
Ertuğrul AYDIN	Board Member (1 year)	31.03.2008
Fatma CANLI	Board Member (1 year)	09.03.2010
Oğuz Nuri ÖZGEN	Board Member (1 year)	17.07.2006

The active members of the Board of Auditors as of 31.03.2011:

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

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

General Assembly has elected Ünal TAYYAN to the Board of Auditors for 1 year on its regular meeting dated 09.03.2010, as a substitution for Ali Güner TEKİN who completed his term of office.

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

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

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#### 4. Executive Management

Executive Management	Title	Effective from
Oğuz Nuri ÖZGEN	President and Chief Executive Officer	13.07.2006
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006
Ahmet Samim ŞAYLAN	Executive Vice President (Human Resources and Admin. Affairs)	13.07.2006
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011
Mustafa Ayhan KALMUKOĞLU (by proxy)	ERDEMİR Group Marketing and Sales Coordinator	12.07.2010
Şafak ÇAPAR (by proxy)	ERDEMİR Group Procurement Coordinator	23.03.2011
Ahmet Samim ŞAYLAN (by proxy)	Executive Vice President (Procurement)	23.03.2011
Mehmet Müçteba BEKCAN	Executive Vice President (Technical Services and Investments)	14.07.2010
Öner SONGÜL (by proxy)	ERDEMİR Group Information Technologies Coordinator	12.08.2010
Muammer Alp ARSLAN	Long Products Marketing and Sales Coordinator	01.11.2010

Mr. Mehmet Müçteba BEKCAN, who has been conducting the Executive Vice Presidency for Technical Services and Investments' businesses by proxy, has been commissioned as Executive Vice President for Technical Services and Investments as of 14.03.2011.

Mr. Şafak ÇAPAR has been appointed to previously established ERDEMİR Group Procurement Coordinatorship as of 23.03.2011.

Mr. Ahmet Samim SAYLAN has substituted Mr. Ozan BEKÇİ as Proxy Executive Vice President for Procurement for ERDEMİR.

ERDEMİR Group Financial Affairs Coordinatorship has been established and Mr. Bülent BEYDÜZ, who was ERDEMİR's Executive Vice President for Financial Affairs previously, has been commissioned as Group Financial Affairs Coordinator, and Mr. Sami Nezih TUNALITOSUNOĞLU has been appointed as the new Executive Vice President for Financial Affairs of ERDEMİR.

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

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity report for the year ending 2010 were met during the period 01.01.2011 – 31.03.2011. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been charged according to the CMB Communiqué Serial IV No: 41.

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

On the General Assembly Meeting of the Shareholders held on 31.03.2011, Articles No. 4, 7 and 13 titled "Purpose and Scope", "Capital" and "Powers of the Executive Board" accordingly have been amended as follows:

"Article 4- Purpose and Scope:

A. to purchase, lease or otherwise acquire real estate directly or indirectly relating to the objectives and subject-matter of the Company together with all rights thereon in connection of use thereof including establishing any lien thereon and renting out the same, and to sell any redundant real estates;

B. to construct, purchase and operate all facilities and equipment inland and abroad whether by itself or by establishing partnerships to that end, which are necessary or relating to the manufacture of any type, nature and size of iron and steel rolling products, alloyed or pure iron, steel and pig cast iron, cast and press products as well as inputs and byproducts necessary for the manufacture thereof;

C. to purchase, lease or otherwise acquire other raw materials, derivatives as well as any type and nature of mineral ores that are directly or indirectly necessary for the manufacture and production of the products as indicated in the subparagraph (C) above, and to discover, explore, extract, process and produce mines;

D. to purchase, construct, establish and operate any facilities and equipment that are directly or indirectly necessary for the further process and use of the byproducts, wastes, and scraps obtained at any process or stage of the products or processes as indicated in subparagraphs (B) and (C) above;

E. to establish generating plants and generate electric and heat energy, mainly for the purpose of meeting its own needs for electric and heat energy within the auto producer license, in accordance with the legislations relating to the Electricity Market and, in case of surplus generation, to sell generated electric and heat energy and/or capacity to other legal entities having the pertinent license and free consumers within the framework of the said legislations, and to engage in such activities relating to obtain all equipment and fuels necessary for the electric generating plants, provided that such activities shall not be of commercial nature;

F. to establish Research Centers, and to provide national and international laboratory services of any kind as well as training and consultancy services;

G. to operate ports and piers by constructing, purchasing and landing them for the purpose of shipping the products and supplying the inputs inland and abroad, and to provide pilotage, marine towing, storage and transportation services by letting other individuals and companies use such ports and piers, and to engage in land and sea transport activities inland and abroad or to establish separate companies and/or partnerships to that end;

H. to perform any kind of financial, commercial and industrial procedures directly or indirectly relating to the foregoing including but without limited to the below mentioned authorities;

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I. to carry out borrowing, financing and cash management procedures and use any kind of risk management instruments by means of using any kind of money and capital market instruments in terms of Turkish Lira and/or foreign currencies inland or abroad without being limited to certain amounts for or in connection with any of the subject of the activity of the Company, provided that the Company shall not act as a intermediary and/or a portfolio manager;

J. save for all rights vested to the Group A by virtue of article 22 hereof, to lend and receive deeds and/or bank letters of guarantee as security in connection with any subject of activity of the Company, provided that this shall not be contrary to the legislations relating to lending procedures; to establish current accounts; to provide pecuniary, non-cash or personal guarantees for the financial liabilities of third parties, provided that the Company shall make necessary disclosures in accordance with the procedures set forth by the Capital Market Board;

K. to carry out all procedures relating to its own interests in accordance with provisions of article 329 of the Turkish Commercial Code;

L. to participate and purchase domestic or foreign companies which engage in the production or consumption of iron and steel products or which directly or indirectly provided services in respect thereof inland and abroad, or to establish new companies to that end, provided that the last article 15 of the Capital Market Law shall be reserved;

M. to provide its personnel with training both in Turkey and foreign countries so that they have technical knowledge and skills in various specialization areas of the iron and steel industry; to establish training facilities and provide training and consultancy services;

N. to make license, know-how and similar agreements with domestic and foreign companies; to participate in tenders and commitments in respect of establishment of factories, and to purchase or sell information and technology;

O. to construct/cause to be constructed pipe lines and facilities for the purpose of purchasing, selling, storing and distributing natural gas;

P. to perform any kind of corporate activities and procedures both in Turkey and foreign countries, which are directly or indirectly relating to the subjects of activity of the Company, in accordance with the pertinent laws;

R. to act and to grant rights others to act as a representative office, agency, distributor, authorized dealer; and to receive and give commission, in connection with its objectives and subject-matter;

S. to acquire, use, lease, rent out, transfer and sell authorizations, permits, patents, patent rights, trademark rights, licenses and royalties as well as any kind of industrial and/or intellectual property rights in connection with its objectives and subject-matter, and to take and give mortgages thereon;

T. to purchase, lease, take over and transfer and dispose of any kind of land, air and sea transport vehicles in order to achieve its objectives and subject-matter, and to sell the surplus quantity thereof;

to engage in any kind of activity directly or indirectly relating to the objectives and subjects of activity as set forth herein above;

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U. to carry out Engineering and Architectural activities for any kind of studies, calculations, designs and technical drawings relating to the projects for which the Company may be in need in relation with its subjects of activity; and to follow up the implementation thereof;

V. save for all rights vested to the Group A by virtue of article 22 hereof, in case other than those set forth herein above, the Company wishes to engage in such activities that may be deemed useful and necessary, then this shall be submitted to the General Meeting of Shareholders for approval upon the proposal of the Board of Directors, and the Company will be able to engage in such activities after a relation is adopted to that end, and the amendment to the articles of association is registered with the trade registry office. For the enforcement of such resolution considered an amendment to the articles of association, necessary permits will be obtained from appropriate authorities and offices in accordance with the pertinent legislations.

Capital:

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

The upper limit of the registered capital of the Company is TL 5,000,000,000.00 (five billion Turkish Liras). The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kuruş) up to the amount of the registered capital, between the years 2008 and 2012, in accordance with the requirements as set forth herein.

The permission granted by the Capital Markets Board in respect of the upper limit of the registered capital is valid for the years between 2008 and 2012 (5 years). Even if the upper limit of the registered capital as permitted is not reached by the end of the year 2012, in order to adopt a resolution for increasing the capital after 2012, the board of directors shall be required to obtain authority from the general meeting of shareholders for a new period by means of gaining permission from the Capital Markets Board for the upper limit previously permitted or a new upper limit. In case of the failure to obtain such authority, the Company shall be deemed to have quit the registered capital system.

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

Each share has 1 voting right.

The Issued Capital of the Company is TL 2,150,000,000.00 (two billion one hundred and fifty million Turkish Liras), all of which is paid. This capital is composed of 215,000,000,000 (two hundred and fifteen billion) shares each with a nominal value of 1 Kuruş (One Kuruş).

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

This capital is divided into Group A and B shares. Out of such shares, 1 (one) registered share corresponding to the capital in the amount of 1 Kr (one Kuruş) shall constitute the Group A, and 214,999,999,999 (two hundred and fourteen billion nine hundred and ninety-nine million nine hundred and ninety-nine thousand nine hundred and ninety-nine) shares corresponding to the capital in the amount of TL 2,149,999,999.99 (two billion one hundred and forty-nine million nine hundred and ninety-nine thousand nine hundred and ninety-nine Turkish Liras, ninety-nine Kuruş) shall constitute the Group B.

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

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Powers of the Board of Directors:

Article 13 – the Board of Directors shall manage and represent the Company.

Except for the managing and representing rights as determined by the Resolution of the Board of Directors in respect of the appointment of a managing director or directors in accordance with the last sentence of subparagraph 1 of article 12 of the Articles of Association, no documents to be issued and no agreements to be made by the Company shall be valid unless signed by at least two persons authorized to represent and bind the Company, which signatures shall be affixed below the corporate name of the Company.

The term of office of the general manager, assistant general managers, managers and other employees authorized to sign on behalf of the Company shall not be limited to the term of office of the Members of the Board of Directors.

The Board of Directors shall determine, register and announce the persons who are to be authorized to sign on behalf of the Company, and how they affix their signatures on behalf of the Company.”

and the following article has been inserted to the Articles of Association:

“Provisional Article 2 – While the nominal value of the shares was TL 500, it first changed to 1 New Kuruş in accordance with the Law No. 5274 on Amendment to the Turkish Commercial Code, and then to 1 Kuruş since the word “New” was removed from the words “New Turkish Lira” and “New Kuruş” on 1 January 2009, in accordance with the Decree of the Council of Ministers no. 2007/11963 dated 4 April 2007. For the reason of such change, the number of total shares was reduced, and a share with nominal value of 1 (New) Kuruş was given in consideration of 20 shares with a value of TL 500. The rights of the shareholders arising from the shares held by them shall be reserved in respect of the said change.

The words “Turkish Liras” contained herein are the words changed by the above mentioned Decree of the Council of Ministers.”

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

In accordance with the decision of the Board of Directors dated 25.01.2011 and numbered 9071, it was decided to raise the paid up capital from TRY1.600.000.000,- to TRY2.150.000.000,- by an increase of TRY550.000.000,- consisting 34,375% of the paid up capital. The procedures for the increase in capital have been completed with the registration and publication of the Capital Market Board document dated 28.02.2011 and numbered 16/178.

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

No significant changes occurred in the environment the company operates in.

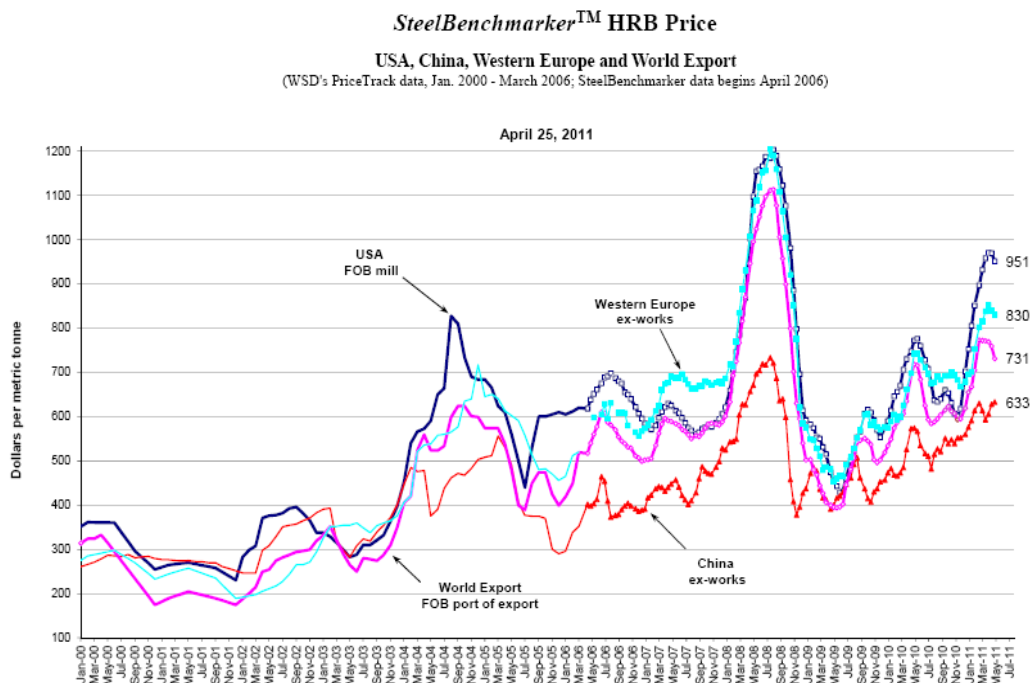
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**9. Information about the sector**

The latest crude steel statistics from the World Steel Association put global output in March at 129,3 million tons, a rise of %10,2 month-on-month. Chinese production expanded by 9,4% m-o-m to 59,4 million tons, and its share of global output strengthened to almost 46%. Year-on-year, global output in March showed a 7,0% rise, while China's production was up 9,0%. In the first quarter of 2011, crude steel production was 372 million tons, 8,8% higher than the same period in 2010, and almost 40,3% up on Q1 2009. In the first quarter of 2011, in Europe and North America, production was 6,9% and 6,0% respectively up on 2010, whilst Asian output was 9,1% higher.

Steel prices fluctuated sometime but they continued to increase. World hot product price changes are given below:



Turkish crude steel output in March at 2,734 million tons, a rise of %11,1 month-on-month and a 24,9% rise year-on-year. In the first quarter of 2011, crude steel production was 7,935 million tons, 31% higher than the same period in 2010, and almost 40,6 up on Q1 2009. With its crude steel production performance in the first quarter of 2011, our country reached the peak among 15 major countries on the rate of increase compared to previous year, while South Korea took the second place with 20,9% increase rate. Turkey has produced 2,734 million tons of crude steel in March 2011 consisting of 0,734 and 2,0 million tons produced in electrical arc furnaces and in integrated plants.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
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Based on the report published by worldsteel, in 2009 with a 6,5 million tons crude steel production, Erdemir Group became the 30th globally, 10th in Europe and 5th within EU-27. Our Group's production in 2010 expanded by 10% y-o-y to 7,1 million tons. In the first quarter of 2011, the crude steel production in Ereğli Plant has decreased by 10% and went down to 796.341 tons. On the other hand crude steel production in İskenderun went up to 993.366 tons with a 4% increase.

**11. Research and Development Activities**

Homologation activities were started following requests of leading companies of automobile industry and accordingly, samples were collected in various qualities and industrial test operations were continued within the period in Ereğli Iron and Steel Works Inc.. In order to develop a new, lower cost alternative to Erdemir 1335 quality galvanized sheet the production studies continued according to previously prepared trial procedure. The trial coils are performed by the customers and the properties of new designed material was found appropriate for their applications.

**12. Investment Activities**

Operating with modern plants and a state-of-the-art production technology, Erdemir Group produces competitive products globally and continue its investments aligned to continuous development strategy. In Ereğli Plant, the assembly works and preparations for commissioning at 'Cold Roll. No.2 Continuous Prickling' – 'Tandem Line (CPLTCM) Automation Modernization Project', modernization activities aiming replacement of 'Combined Rolling Mills at Hot Strip Rolling Plant No.1', the 'Blast Furnace No.2 Reline' project and further works on complementary investments for this project, which include investments to be made on Steel Mill and Other Plants Depending on Reline Position, have currently been in progress. '4. Coke Battery', 'Air Separation Plant No.7', 'Blast Furnace Top Pressure Recovery Turbines (TRT)', 'New Turbo Blower (Steam Turbine – Blower No.5)', and 'Ereğli Steel Service Center' projects were approved by the Board of Directors within 2010 and kicked off. Preliminary procedures including authorizations from relevant bodies and required leases were continued in 'Yarımca Logistics Facility Project' covering construction of ports and logistics facilities on the land in İzmit – Yarımca. Advanced Plant Planning and Scheduling Project, which is a software enabling a detailed planning to ensure most efficient and productive operation of production capacities of Ereğli and İskenderun Plants, and presentation of future estimations, is being commissioned in stages. Commissioning activities for the Sinter Plant No.2 with the capacity of 3,2 million tons and construction and assembly activities of the Blast Furnace No.4 with the capacity of 2,2 million tons and a work volume of 2.500 m<sup>3</sup>, modernization of the Coke Battery No.4 and Automation System of Existing Boilers have been in progress. In addition to environmental investments in scope of MTI, new environmental investments consisting of 10 parts are continuing. For the year 2011, total investments in Ereğli and İskenderun plants as of 31 March 2011 amount to USD 32.501.417 (31 March 2010: USD 28.306.364).

Major part of legal authorizations required were obtained by mining plant for the "Iron Ore Dressing and Pelletizing Plant", which is planned to be installed in Hasançelebi town; the tender process will be initiated after completion of detailed laboratory tests to be carried out for the plant. Moreover, underground operation investment of the iron ore mineral in Ekinbaşı town, Divriği district, Sivas has been in progress in scope of the program.

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**13. Products**

The main products of Erdemir Group are as follows:

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

**14. Production Plants and Productivity**

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

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
	<b>C.U.P. (%)</b>	<b>C.U.P. (%)</b>
Tinplate	96	75
Galvanized	119	65
Cold Rolled	84	67
Hot Rolled	68	74
Plate	46	7

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

	<b>1 January- 31 March 2011</b>	<b>1 January- 31 March 2010</b>
	<b>C.U.P. (%)</b>	<b>C.U.P. (%)</b>
Billet	11	42
Wire Rod	92	102
Hot Rolled	72	48

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**15. Production (quantity)**

Final Products (000 Tons)	01 January - 31 March 2011	01 January - 31 March 2010
Erdemir	854	890
Isdemir	960	930
Ermaden	505	453

**16. Sales (quantity)**

Final Products (000 Tons)	1 January - 31 March 2011	1 January - 31 March 2010
Erdemir	872	830
Isdemir	931	863
Ermaden*	783	753

(\*) 719 thousand tons of Ermaden's sales are to Group Companies as of 31 March 2011. (31 March 2010: 668 thousand tons).

**17. Indicators and Ratios**

Financial statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and haven't been audited as of 31 March 2010 and 31 March 2011.

**Summary of Balance Sheet**

	(Unaudited) Current Period	(Audited) Previous Period
(TRY)	31 March 2011	31 December 2010
Current Assets	5.441.810.313	6.324.667.258
Non-current Assets	7.218.568.568	7.216.305.378
Total Assets	12.660.378.881	13.540.972.636
Current Liabilities	2.999.414.926	3.763.668.823
Non-current Liabilities	3.148.770.376	3.086.059.488
Shareholders' Equity	6.512.193.579	6.691.244.325
Total Liabilities	12.660.378.881	13.540.972.636

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**Summary of Income Statement**

(TRY)	(Unaudited)	
	Current Period	Previous Period
	1 January- 31 March 2011	1 January- 31 March 2010
Sales Revenue	2.027.880.495	1.581.871.303
Operating Profit	362.258.381	218.075.990
Profit Before Taxation	338.466.525	198.328.770
Profit for the Period (*)	271.288.375	166.984.665
EBITDA	440.602.002	289.875.437
Earnings Per Share	12,11%	10,03%

(\*) Shareholder's share in the net profit for the period is TRY 260.422.828 in March 2011 (March 2010: TRY 160.405.362).

**Key Ratios**

(%)	31 March 2011	31 March 2010
Operating Profit Margin	17,9	13,8
Profit Margin	13,4	10,5
EBITDA Margin	21,7	18,3

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

22nd Period Collective Labor Agreement, which was valid between 01.09.2008-31.08.2010, expired. Signature Procedure for the New Collective Labor Agreement is still in progress and as the parties failed to negotiate an agreement, a dispute protocol was signed with Turkish Metal Union on February 1, 2011. The official arbitrator started working on the dispute, yet failing to negotiate an agreement as well, and thus submitting his report on March 14, 2011. Under these circumstances, on March 30, 2011, Turkish Metal Union made a decision to go on a strike, which was followed by a decision to lockout from Turkish Employers' Association of Metal Industries (MESS) on behalf of our company on April 4, 2011.

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

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.

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The number of the personnel on 31 March 2011 and 31 December 2010 are as follows:

	<b>31 March 2011</b>	<b>31 December 2010</b>
Monthly paid personnel (A)	3.401	3.378
Hourly paid personnel (B)	7.827	7.859
Candidate worker (C)	2.249	2.173
Contractual personnel (D)	21	18
Contractual personnel (Contractor)	111	125
<b>TOTAL</b>	<b>13.609</b>	<b>13.553</b>

### 19. Shareholding and Capital Structure

Authorized Capital : TRY 5.000.000.000

Paid-in Capital: TRY 2.150.000.000

<b>Shareholders</b>	<b>Shares (TRY)</b>	<b>%</b>
Ataer Holding A.Ş.	1.059.632.159	49,29
Publicly Held	1.024.125.203	47,63
Erdemir's Own Shares	66.242.638	3,08
<b>Total</b>	<b>2.150.000.000</b>	<b>100,00</b>

### 20. Dividend Distribution Policy

Erdemir Groups' Dividend Distribution Policy is as follows:

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

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

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

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## 22. Risk Management Policy

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

Value at Risk method (VaR) is used to measure the market risk and the maximum loss, which might occur from changes in currency rates, is calculated weekly within %99 probability ratio and one day retain interval. The calculation results are compared with the predefined limits and necessary actions are taken if limits are exceeded.

Additionally, stress test and scenario analysis are executed for the current foreign currency position of the Group. The compatibility of VaR model is measured using back-testing method periodically.

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

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

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

## 23. The Information About Affiliates Subject to Consolidation

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

Name of the Company	Country of Operation	Operation	2011 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100,00

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

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, it is decided to merge the two entities. As of 31 March 2011, the merger activities have been concluded. That merger does not have an impact on the consolidated financial statements.

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

**Subsidiaries**

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

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

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

When the Group purchases a company, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. The amount of the non-controlling interest shares is obtained by the calculation of the fair values of assets and liabilities with respect to the proportion of the non-controlling interest. The operational results of subsidiaries are included or excluded from consolidation according to their effective dates of acquisition and disposal, respectively.

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

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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.

Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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.

**24. Information for Shareholders**

22nd Period Collective Labor Agreement, which was valid between 01.09.2008-31.08.2010, expired. Signature Procedure for the New Collective Labor Agreement is still in progress and as the parties failed to negotiate an agreement, a dispute protocol was signed with Turkish Metal Union on February 1, 2011. The official arbitrator started working on the dispute, yet failing to negotiate an agreement as well, and thus submitting his report on March 14, 2011. Under these circumstances, on March 30, 2011, Turkish Metal Union made a decision to go on a strike, which was followed by a decision to lockout from Turkish Employers' Association of Metal Industries (MESS) on behalf of our company on April 4, 2011.

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