

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

1. Period of the Report

01.01.2011 - 30.09.2011

2. Title of the Association

EREGLI IRON AND STEEL WORKS, INC.

3. Members of the Board of Directors and Auditors

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

The active members of the Board of Directors as of 30.09.2011:

Board of Directors	Title	Effective from
Fatih Osman TAR	Chairman – Executive Director (1 year)	22.02.2010
Nihat KARADAĞ	Deputy Chairman – Executive Director (1 year)	30.09.2009
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 30.09.2011:

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

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	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

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, who had been conducting ERDEMİR Group Procurement Coordinatorship's businesses by proxy since 23.03.2011, has been commissioned as ERDEMİR Group Procurement Coordinator as of 15.08.2011.

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 – 30.09.2011. 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;

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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;

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;

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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;

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.

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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 Kurus) 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 Kurus) 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").

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 Kurus in accordance with the Law No. 5274 on Amendment to the Turkish Commercial Code, and then to 1 Kurus since the word "New" was removed from the words "New Turkish Lira" and "New Kurus" 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) Kurus 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

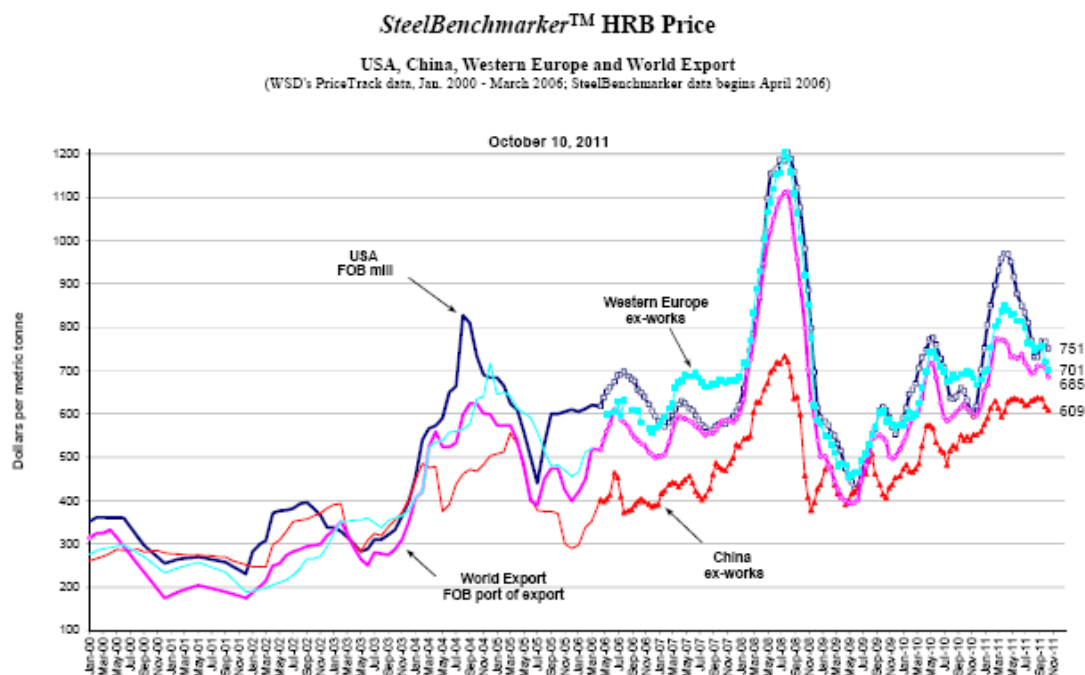
No significant changes occurred in the environment the company operates in.

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9. Information about the sector

Crude steel production in September rose to 124 million tonnes which was 9.7% more than last September and it took total output for the year so far to 1,134mt, up 8.2% from January-September 2010. In the first nine months of 2011, Asia produced 728.3 mmt of crude steel, an increase of 9.5% compared to the same period of 2010. The EU produced 135.7 mmt of crude steel in the first three quarters of 2011, up by 4.3% compared to the same period of 2010. Among the region's main steel-producing countries, in the first three quarters of 2011, output rose by 3,6% in Germany, 11% in Italy and 2,54% in France, but fell by 2% in UK. North America's crude steel production in the first nine months of 2011 was 89.3 mmt, 6.1% higher than the first nine months of 2010. China's crude steel production for September 2011 was 56.7 mmt, an increase of 16.5% compared to September 2010. Elsewhere in Asia, Japan produced 8.9 mmt of crude steel in September 2011, a decrease of -3.8% compared to the same month last year. South Korea's crude steel production for September 2011 was 5.5 mmt, 17.7% up compared to September 2010. In the CIS production was barely ahead of last year, as a dip in Ukraine was offset by gains in Russia, Kazakhstan and Belarus. The world crude steel capacity utilization ratio of the 64 countries in September 2011 rebounded slightly to 79.1%, 1.8 percentage points higher than in August 2011. Compared to September 2010, the utilization ratio in September 2011 increased by 3.5 percentage points.

World hot product price changes are given below:



Turkish crude steel output in September was at 2.997 million tons, with a 16.9% rise year-on-year. In the first nine months of 2011, crude steel production was 25.058 million tons, 18.9% higher than the same period in 2010, and almost 34 up on the first nine months of 2009. Turkey has produced 2.997 million tons of crude steel in September 2011 consisting of 2.175 and 0.821 million tons produced in integrated plants and electrical arc furnaces respectively.

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Based on the report published by worldsteel, in 2010 with a 7,1 million tons crude steel production, Erdemir Group became 31th globally, 11th in Europe and 6th within EU-27. In the third quarter of 2011, the crude steel production in Ereğli Plant has decreased by 6,6% year-on-year and went down to 2.481.715 tons. On the other hand crude steel production in İskenderun went up to 3.107.220 tons with a 18,4% increase.

11. Research and Development Activities

Homologation studies and industrial trial tests continued in accordance with the demands of leading companies of automobile industry within the period in Ereğli Iron and Steel Works Inc.. After getting good results from homologation and trial tests special steel qualities were developed for the companies and presented to the market.

12. Investment Activities

Operating with modern plants and a state-of-the-art production technology, Erdemir Group produces competitive products globally and continues 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 Automation Modernization Project' activities have been completed. Modernization activities aiming replacement of 'Combined Rolling Mills at Hot Strip Rolling Plant No.1' and the 'Blast Furnace No.2 Reline' project have currently been in progress. 'Ereğli Steel Service Center' project main agreement has been signed and its site activities started. Tender studies related to '4. Coke Battery', 'Air Separation Plant No.7', 'Blast Furnace Top Pressure Recovery Turbines' and 'TinCal Line Automation Modernization' projects have currently been in progress. 'New Turbo Blower' project's contract for the main facility was signed; engineering and construction works were initiated. Preliminary procedures were continued in 'Yarımca Logistics Facility Project'. 'Advanced Plant Planning and Scheduling Project' has been completely commissioned in Erdemir. Sinter Plant No.2 actualized its first production in İskenderun Plant. 'Blast Furnace No.4' project has been completely commissioned in İsdemir on 19.08.2011. 'Modernization of the Coke Battery No.4', 'Automation System of Existing Boilers' and 'Expansion of Finished Product Stock Yards' projects have been in progress. 'Desulfurization Modernization' project contract was signed and studies were initiated. 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 30 September 2011 amount to USD 111.425.318 (30 September 2010: USD 90.621.994).

Major part of legal authorizations required were obtained for the "Iron Ore Dressing and Pelletizing Plant" planned to be constructed by Ermaden, the tender process will be initiated after completion of tests to be carried out for the plant. Moreover, underground operation investment of the iron ore mineral has been in progress in scope of the program.

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13. Products

The main products of Erdemir Group are as follows:

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

14. Production Plants and Productivity

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

	1 January- 30 September 2011	1 January- 30 September 2010
	C.U.P. (%)	C.U.P. (%)
Tinplate	90	100
Galvanized	111	75
Cold Rolled	82	71
Hot Rolled	73	68
Plate	75	7

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

	1 January- 30 September 2011	1 January- 30 September 2010
	C.U.P. (%)	C.U.P. (%)
Billet	8	58
Wire Rod	88	86
Hot Rolled	70	54

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15. Production (quantity)

Final Products (000 Tons)	01 January - 30 September 2011	01 January - 30 September 2010
Erdemir	2.788	2.476
Isdemir	2.377	2.475
Ermaden	2.102	2.013

16. Sales (quantity)

Final Products (000 Tons)	1 January - 30 September 2011	1 January - 30 September 2010
Erdemir	2.703	2.338
Isdemir	2.330	2.256
Ermaden*	2.201	2.160

(*) 2.024 thousand tons of Ermaden's sales are to Group Companies as of 30 September 2011. (30 September 2010: 1.989 thousand tons).

17. Indicators and Ratios

Financial statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and have not been reviewed as of 30 September 2010 and 30 September 2011.

Summary of Balance Sheet

	(Not Reviewed)	(Audited)
	Current Period	Previous Period
(TRY)	30 September 2011	31 December 2010
Current Assets	6.144.645.562	6.324.667.258
Non-current Assets	7.343.082.532	7.216.305.378
Total Assets	13.487.728.094	13.540.972.636
Current Liabilities	2.449.856.461	3.763.668.823
Non-current Liabilities	3.952.388.638	3.086.059.488
Shareholders' Equity	7.085.482.995	6.691.244.325
Total Liabilities	13.487.728.094	13.540.972.636

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Summary of Income Statement

	(Not Reviewed)	(Not Reviewed)
	Current Period	Previous Period
(TRY)	1 January- 30 September 2011	1 January- 30 September 2010
Sales Revenue	6.664.784.165	4.713.200.644
Operating Profit	1.445.985.222	834.739.874
Profit Before Taxation	1.068.926.482	807.827.281
Profit for the Period (*)	860.231.975	653.706.900
EBITDA	1.674.638.388	1.051.408.450
Earnings Per Share	38,72%	29,20%

(*) Shareholder's share in the net profit for the period is TRY832.509.668 in September 2011 (September 2010: TRY627.772.893).

Key Ratios

(%)	30 September 2011	30 September 2010
Operating Profit Margin	21,7	17,7
Profit Margin	12,5	13,3
EBITDA Margin	25,1	22,3

18. Collective Labor Agreement Applications and the Benefits

23rd Period Collective Labor Agreement, which will be valid between 01.09.2010 - 31.08.2012, has been signed on May 5, 2011 between the Turkish Employers' Association of Metal Industries (MESS) on behalf of our company and the Turkish Metalworkers Union as the collective bargaining agency. Negotiations on our subsidiary Iskenderun Iron and Steel Works Company's Collective Labor Agreement for the 24rd Term, between Steel-Business Syndicate have ended with agreement as of 29.06.2011. Signed Collective Labor Agreement will be in force between 01.01.2011 and 31.12.2012, for 2 years.

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

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

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The number of the personnel on 30 September 2011 and 31 December 2010 are as follows:

	30 September 2011	31 December 2010
Monthly paid personnel (A)	3.347	3.378
Hourly paid personnel (B)	7.970	7.859
Candidate worker (C)	1.991	2.173
Contractual personnel (D)	21	18
Contractual personnel (Contractor)	111	125
TOTAL	13.440	13.553

19. Shareholding and Capital Structure

Authorized Capital : TRY 5.000.000.000

Paid-in Capital: TRY 2.150.000.000

Shareholders	Shares (TRY)	%
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
Total	2.150.000.000	100,00

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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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.

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

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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 %	2010 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel	92,91	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00	100,00
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100,00	100,00
Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. (*)	Turkey	Iron and Steel	-	100,00

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.

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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.

24. Information for Shareholders

None.
