

(CONVENIENCE TRANSLATION OF  
CONSOLIDATED FINANCIAL STATEMENTS  
ORIGINALLY ISSUED IN TURKISH- SEE NOTE 33)

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

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 MARCH 2011

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

**CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2011**

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

|                                  |             | <b>(Unaudited)</b>           | <b>(Audited)</b>             |
|----------------------------------|-------------|------------------------------|------------------------------|
|                                  |             | <b>Current Period</b>        | <b>Previous Period</b>       |
|                                  |             | <b>31 March</b>              | <b>31 December</b>           |
|                                  | <b>Note</b> | <b>2011</b>                  | <b>2010</b>                  |
| <b>ASSETS</b>                    |             |                              |                              |
| <b>Current Assets</b>            |             | <b>5.441.810.313</b>         | <b>6.324.667.258</b>         |
| Cash and Cash Equivalents        | 4           | 1.988.378.032                | 2.877.790.271                |
| Financial Investments            | 5           | -                            | 5.010.226                    |
| Trade Receivables                | 8           | 755.350.358                  | 715.838.070                  |
| <i>Due From Related Parties</i>  | 29          | 9.347.173                    | 78.337.709                   |
| <i>Other Trade Receivables</i>   | 8           | 746.003.185                  | 637.500.361                  |
| Other Receivables                | 9           | 17.242.968                   | 34.197.110                   |
| Inventories                      | 10          | 2.528.281.148                | 2.502.954.372                |
| Other Current Assets             | 18          | 152.557.807                  | 177.378.552                  |
|                                  |             | <u>5.441.810.313</u>         | <u>6.313.168.601</u>         |
| Non Current Assets Held for Sale | 26          | -                            | 11.498.657                   |
| <b>Non Current Assets</b>        |             | <b>7.218.568.568</b>         | <b>7.216.305.378</b>         |
| Trade Receivables                | 8           | 1.810.932                    | 2.621.888                    |
| <i>Due From Related Parties</i>  | 29          | 1.810.932                    | 1.141.524                    |
| <i>Other Trade Receivables</i>   | 8           | -                            | 1.480.364                    |
| Other Receivables                | 9           | 26.033.356                   | 26.105.907                   |
| Financial Investments            | 5           | 2.073.784                    | 1.427.186                    |
| Investment Properties            | 11          | 46.577.264                   | 46.577.264                   |
| Property, Plant and Equipment    | 12          | 6.789.401.309                | 6.779.994.776                |
| Intangible Assets                | 13          | 141.289.269                  | 143.656.814                  |
| Deferred Tax Assets              | 27          | 132.843.952                  | 150.892.360                  |
| Other Non Current Assets         | 18          | 78.538.702                   | 65.029.183                   |
| <b>TOTAL ASSETS</b>              |             | <b><u>12.660.378.881</u></b> | <b><u>13.540.972.636</u></b> |

**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEET AS OF 31 MARCH 2011**

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

|  |             | <b>(Unaudited)</b>    | <b>(Audited)</b>       |
|--|-------------|-----------------------|------------------------|
|  |             | <b>Current Period</b> | <b>Previous Period</b> |
|  |             | <b>31 March</b>       | <b>31 December</b>     |
|  | <b>Note</b> | <b>2011</b>           | <b>2010</b>            |
| <b>LIABILITIES</b>   |             |                       |                        |
| <b>Current Liabilities</b>                                 |             | <b>2.999.414.926</b>  | <b>3.763.668.823</b>   |
| Financial Liabilities                                      | 6           | 1.820.203.817         | 3.053.838.952          |
| Other Current Financial Liabilities                        | 7           | 2.817.052             | 4.793.603              |
| Trade Payables   | 8           | 368.598.449           | 359.941.902            |
| <i>Due to Related Parties</i>                              | 29          | 8.553.698             | 9.911.442              |
| <i>Other Trade Payables</i>                                | 8           | 360.044.751           | 350.030.460            |
| Other Payables   | 9           | 489.803.315           | 40.320.600             |
| <i>Due to Related Parties</i>                              | 29          | 443.071.447           | 1.715.000              |
| <i>Other Payables</i>                                      | 9           | 46.731.868            | 38.605.600             |
| Current Tax Liabilities                                    | 27          | 41.386.615            | 7.115.721              |
| Provisions   | 15          | 82.737.982            | 70.677.783             |
| Other Current Liabilities                                  | 18          | 193.867.696           | 226.980.262            |
| <b>Non Current Liabilities</b>                             |             | <b>3.148.770.376</b>  | <b>3.086.059.488</b>   |
| Financial Liabilities                                      | 6           | 2.859.050.545         | 2.797.402.328          |
| Other Non Current Financial Liabilities                    | 7           | 10.947.495            | 26.468.954             |
| Provisions for Employment Benefits                         | 17          | 176.701.030           | 168.289.071            |
| Deferred Tax Liabilities                                   | 27          | 101.403.151           | 93.065.154             |
| Other Non Current Liabilities                              | 18          | 668.155               | 833.981                |
| <b>EQUITY</b>  | <b>19</b>   | <b>6.512.193.579</b>  | <b>6.691.244.325</b>   |
| <b>Equity attributable to equity holders of the parent</b> |             | <b>6.334.550.865</b>  | <b>6.511.030.270</b>   |
| Share Capital  |             | 2.150.000.000         | 1.600.000.000          |
| Inflation Adjustment to Capital                            |             | 731.967.735           | 731.967.735            |
| Treasury Share Adjustment (-)                              |             | (74.637.969)          | (57.692.172)           |
| Share Issue Premium  |             | 231.020.042           | 231.020.042            |
| Revaluation Reserves of Fixed Assets                       |             | 26.217.738            | 25.241.672             |
| Cash Flow Hedging Reserves                                 |             | (20.850.646)          | (24.396.817)           |
| Foreign Currency Translation Reserves                      |             | (443.819)             | 4.845.393              |
| Restricted Reserves Assorted from Profit                   |             | 1.757.470.693         | 1.696.170.542          |
| Retained Earnings  |             | 1.273.384.263         | 1.537.874.215          |
| Net Profit for the Period                                  |             | 260.422.828           | 765.999.660            |
| <b>Non-controlling Interests</b>                           |             | <b>177.642.714</b>    | <b>180.214.055</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        |             | <b>12.660.378.881</b> | <b>13.540.972.636</b>  |

The accompanying notes form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF INCOME  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

|  |             | <b>(Unaudited)</b>    | <b>(Unaudited)</b>     |
|--|-------------|-----------------------|------------------------|
|  |             | <b>Current Period</b> | <b>Previous Period</b> |
|  |             | <b>1 January-</b>     | <b>1 January-</b>      |
|  | <b>Note</b> | <b>31 March 2011</b>  | <b>31 March 2010</b>   |
| <b>OPERATING INCOME</b>                        |             |                       |                        |
| Revenue  | 20          | 2.027.880.495         | 1.583.127.624          |
| Cost of Sales (-)                              | 20          | (1.606.233.439)       | (1.274.719.022)        |
| <b>GROSS PROFIT</b>                            |             | <b>421.647.056</b>    | <b>308.408.602</b>     |
| Marketing, Sales and Distribution Expenses (-) | 21          | (20.915.480)          | (13.145.542)           |
| General Administrative Expenses (-)            | 21          | (39.205.697)          | (26.320.967)           |
| Research and Development Expenses (-)          | 21          | (78.035)              | (77.866)               |
| Other Operating Income                         | 23          | 19.660.459            | 8.940.200              |
| Other Operating Expenses (-)                   | 23          | (18.849.922)          | (59.728.437)           |
| <b>OPERATING PROFIT</b>                        |             | <b>362.258.381</b>    | <b>218.075.990</b>     |
| Finance Income                                 | 24          | 87.431.530            | 35.159.902             |
| Finance Expense (-)                            | 25          | (111.223.386)         | (54.907.122)           |
| <b>PROFIT BEFORE TAX</b>                       |             | <b>338.466.525</b>    | <b>198.328.770</b>     |
| Tax Expense                                    | 27          | (67.178.150)          | (31.344.105)           |
| - Current Corporate Tax Expense                |             | (42.066.925)          | (6.171.636)            |
| - Deferred Tax Expense                         |             | (25.111.225)          | (25.172.469)           |
| <b>PROFIT FOR THE PERIOD</b>                   |             | <b>271.288.375</b>    | <b>166.984.665</b>     |
| - Non-Controlling Interests                    |             | 10.865.547            | 6.579.303              |
| - Equity Holders of the Parent                 |             | 260.422.828           | 160.405.362            |
| <b>EARNINGS PER SHARE</b>                      |             |                       |                        |
| (TRY 1 Nominal value per share)                | 28          | 0,1211                | 0,0746                 |

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

|   |             | <b>(Unaudited)</b>    | <b>(Unaudited)</b>     |
|---|-------------|-----------------------|------------------------|
|   |             | <b>Current Period</b> | <b>Previous Period</b> |
|   |             | <b>1 January-</b>     | <b>1 January-</b>      |
|   | <b>Note</b> | <b>31 March 2011</b>  | <b>31 March 2010</b>   |
| <b>PROFIT FOR THE PERIOD</b>                                  |             | <b>271.288.375</b>    | <b>166.984.665</b>     |
| <b>Other Comprehensive Income/(Expense):</b>                  |             |                       |                        |
| Change in Revaluation Reserves                                |             |                       |                        |
| of Fixed Assets   |             | 976.066               | (132.778)              |
| Change in Cash Flow Hedging Reserves                          |             | 3.823.333             | (3.743.546)            |
| Change in Foreign Currency Translation Reserves               |             | (5.289.212)           | 78.625                 |
| <b>OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD (AFTER TAX)</b> | 27          | <b>(489.813)</b>      | <b>(3.797.699)</b>     |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>              |             | <b>270.798.562</b>    | <b>163.186.966</b>     |
| <b>Distribution of Total Comprehensive Income</b>             |             |                       |                        |
| - Non-controlling Interests                                   |             | 11.142.709            | 6.295.304              |
| - Equity Holders of the Parent                                |             | 259.655.853           | 156.891.662            |

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

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

|                                    | Note      | Share Capital        | Inflation Adjustment to Capital | Treasury Share Adjustment (-) | Share Issue Premium | Revaluation Reserves of Fixed Assets | Cash Flow Hedging Reserves | Foreign Currency Translation Reserves | Restricted Reserves Assorted from Profit | Retained Earnings    | Equity Attributable to the Parent | Non-controlling Interests | Total Shareholders' Equity |
|------------------------------------|-----------|----------------------|---------------------------------|-------------------------------|---------------------|--------------------------------------|----------------------------|---------------------------------------|--|----------------------|-----------------------------------|---------------------------|----------------------------|
| (Unaudited)                        |           |                      |                                 |                               |                     |                                      |                            |                                       |  |                      |                                   |                           |                            |
| <b>1 January 2011</b>              |           | <b>1.600.000.000</b> | <b>731.967.735</b>              | <b>(57.692.172)</b>           | <b>231.020.042</b>  | <b>25.241.672</b>                    | <b>(24.396.817)</b>        | <b>4.845.393</b>                      | <b>1.696.170.542</b>                     | <b>2.303.873.875</b> | <b>6.511.030.270</b>              | <b>180.214.055</b>        | <b>6.691.244.325</b>       |
| Net profit for the period          |           | -                    | -                               | -                             | -                   | -                                    | -                          | -                                     | -  | 260.422.828          | <b>260.422.828</b>                | 10.865.547                | <b>271.288.375</b>         |
| Other comprehensive income/ (loss) |           | -                    | -                               | -                             | -                   | 976.066                              | 3.546.171                  | (5.289.212)                           | -  | -                    | <b>(766.975)</b>                  | 277.162                   | <b>(489.813)</b>           |
| Total comprehensive income/ (loss) |           | -                    | -                               | -                             | -                   | 976.066                              | 3.546.171                  | (5.289.212)                           | -  | 260.422.828          | <b>259.655.853</b>                | 11.142.709                | <b>270.798.562</b>         |
| Dividends to be paid (*)           |           | -                    | -                               | -                             | -                   | -                                    | -                          | -                                     | -  | (436.135.258)        | <b>(436.135.258)</b>              | (13.714.050)              | <b>(449.849.308)</b>       |
| Transfers from retained earnings   | 19        | 550.000.000          | -                               | (16.945.797)                  | -                   | -                                    | -                          | -                                     | 61.300.151                               | (594.354.354)        | -                                 | -                         | -                          |
| <b>31 March 2011</b>               | <b>19</b> | <b>2.150.000.000</b> | <b>731.967.735</b>              | <b>(74.637.969)</b>           | <b>231.020.042</b>  | <b>26.217.738</b>                    | <b>(20.850.646)</b>        | <b>(443.819)</b>                      | <b>1.757.470.693</b>                     | <b>1.533.807.091</b> | <b>6.334.550.865</b>              | <b>177.642.714</b>        | <b>6.512.193.579</b>       |
| (Unaudited)                        |           |                      |                                 |                               |                     |                                      |                            |                                       |  |                      |                                   |                           |                            |
| <b>1 January 2010</b>              |           | <b>1.600.000.000</b> | <b>731.967.735</b>              | <b>(57.692.172)</b>           | <b>231.020.042</b>  | <b>25.869.903</b>                    | <b>(7.259.727)</b>         | <b>4.108.212</b>                      | <b>1.688.196.335</b>                     | <b>1.545.848.422</b> | <b>5.762.058.750</b>              | <b>156.635.276</b>        | <b>5.918.694.026</b>       |
| Net profit for the period          |           | -                    | -                               | -                             | -                   | -                                    | -                          | -                                     | -  | 160.405.362          | <b>160.405.362</b>                | 6.579.303                 | <b>166.984.665</b>         |
| Other comprehensive income/ (loss) |           | -                    | -                               | -                             | -                   | (132.778)                            | (3.459.547)                | 78.625                                | -  | -                    | <b>(3.513.700)</b>                | (283.999)                 | <b>(3.797.699)</b>         |
| Total comprehensive income/ (loss) |           | -                    | -                               | -                             | -                   | (132.778)                            | (3.459.547)                | 78.625                                | -  | 160.405.362          | <b>156.891.662</b>                | 6.295.304                 | <b>163.186.966</b>         |
| Dividends paid                     |           | -                    | -                               | -                             | -                   | -                                    | -                          | -                                     | -  | -                    | -                                 | (5.560.553)               | <b>(5.560.553)</b>         |
| Transfers from retained earnings   | 19        | -                    | -                               | -                             | -                   | -                                    | -                          | -                                     | 7.974.207                                | (7.974.207)          | -                                 | -                         | -                          |
| <b>31 March 2010</b>               | <b>19</b> | <b>1.600.000.000</b> | <b>731.967.735</b>              | <b>(57.692.172)</b>           | <b>231.020.042</b>  | <b>25.737.125</b>                    | <b>(10.719.274)</b>        | <b>4.186.837</b>                      | <b>1.696.170.542</b>                     | <b>1.698.279.577</b> | <b>5.918.950.412</b>              | <b>157.370.027</b>        | <b>6.076.320.439</b>       |

(\*) On the Regular General Assembly dated 31 March 2011, dividend distribution amounting to TRY 450.000.000 from 2010 net profit was approved. As the Company holds 3,08% of its shares with a nominal value of TRY 66.242.638 as of 31 March 2011, dividends per its own shares are netted off under dividends to be paid. The dividend distribution will be completed till 31 May 2011.

The accompanying notes form an integral part of these consolidated financial statements.

**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

|   | <b>(Unaudited)</b>                  | <b>(Unaudited)</b>                  |
|---|-------------------------------------|-------------------------------------|
|   | <b>Current Period</b>               | <b>Previous Period</b>              |
|   | <b>1 January-<br/>31 March 2011</b> | <b>1 January-<br/>31 March 2010</b> |
| <b>Note</b>   |                                     |                                     |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>  |                                     |                                     |
| Profit before tax and non-controlling interests   | 338.466.525                         | 198.328.770                         |
| <b>Adjustments to reconcile net profit before tax to net cash provided by operating activities:</b> |                                     |                                     |
| Depreciation and amortization expenses  | 20/22 78.343.621                    | 71.799.448                          |
| Provision for employee termination benefits   | 17 8.391.149                        | 8.135.289                           |
| Provision for seniority incentive premium   | 17 1.393.950                        | 914.881                             |
| (Gain)/loss on sale of property plant and equipment   | 23 (430.562)                        | 54.960                              |
| Income from sale of financial assets  | 23 (7.962.073)                      | -                                   |
| Loss on write off of property plant and equipment   | 23 4.038.679                        | -                                   |
| (Decrease)/increase in provision for doubtful receivables   | 8/9 (352.867)                       | 27.511.677                          |
| Decrease in the allowance for inventories   | 10 (2.090.163)                      | (3.159.864)                         |
| Increase in provision for unpaid vacations  | 18 258.097                          | 186.645                             |
| Increase in provision for pending claims and lawsuits   | 15 1.804.665                        | 2.579.122                           |
| (Decrease)/increase in penalty provision for obligatory employment shortage of disabled people      | 15 (104.682)                        | 172.176                             |
| Increase in other provisions  | 15 11.538.321                       | -                                   |
| Increase in provisions for tax related contingencies  | 15 -                                | 791.869                             |
| Increase in provision for state right on mining activities  | 15 503.793                          | -                                   |
| Interest expenses   | 25 69.417.814                       | 45.214.865                          |
| Interest income   | 24 (46.047.783)                     | (23.565.508)                        |
| Unrealized foreign currency translation loss of financial liabilities                               | 32.765.502                          | 2.262.012                           |
| (Gain)/loss on fair value changes of derivative financial instruments                               | 24 (16.143.804)                     | 2.583.212                           |
| <b>Net cash provided by operating activities before changes in working capital</b>                  | <b>473.790.182</b>                  | <b>333.809.554</b>                  |
| Changes in working capital  | 33 (63.745.073)                     | (180.081.682)                       |
| Interest paid   | (46.779.570)                        | (19.113.175)                        |
| Interest received   | 49.184.596                          | 24.291.953                          |
| Lawsuits paid   | 15 (685.838)                        | (1.975.867)                         |
| Penalty paid for the employment shortage of disabled people   | 15 (996.060)                        | -                                   |
| Taxes paid  | 27 (7.796.031)                      | (3.830.724)                         |
| Employee termination benefits paid  | 17 (1.373.140)                      | (3.107.524)                         |
| <b>Net cash provided by operating activities</b>  | <b>401.599.066</b>                  | <b>149.992.535</b>                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                     |                                     |
| Changes in marketable securities held for trading   | 5 -                                 | 22.588                              |
| Changes in financial assets held as available for sale  | 5 (2.061)                           | (8.729)                             |
| Proceeds from sale of financial assets  | 34.143.200                          | -                                   |
| Cash used in the purchase of tangible assets  | 12 (82.345.476)                     | (49.771.237)                        |
| Cash used in the purchase of intangible assets  | 13 (1.790.879)                      | (172.734)                           |
| Cash provided by fixed asset sales  | 12/13/23 460.628                    | 276.489                             |
| <b>Net cash used in investing activities</b>  | <b>(49.534.588)</b>                 | <b>(49.653.623)</b>                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                     |                                     |
| Proceeds from borrowings  | 552.980.258                         | 42.047.144                          |
| Repayment of borrowings   | (1.781.573.886)                     | (236.558.751)                       |
| Dividends paid to non-controlling interest  | (8.485.012)                         | (5.560.553)                         |
| <b>Net cash used in financing activities</b>  | <b>(1.237.078.640)</b>              | <b>(200.072.160)</b>                |
| <b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>   | <b>(885.014.162)</b>                | <b>(99.733.248)</b>                 |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>                                     | <b>2.866.694.086</b>                | <b>1.063.284.367</b>                |
| Currency translation difference, net  | (1.261.264)                         | 257.114                             |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>   | <b>1.980.418.660</b>                | <b>963.808.233</b>                  |
| Accrued interest income   | 4 7.959.372                         | 1.726.555                           |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME</b>         | <b>1.988.378.032</b>                | <b>965.534.788</b>                  |

The accompanying notes form an integral part of these consolidated financial statements.



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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

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

#### NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS

Erdemir Grubu (“Group”), is composed of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (“Erdemir” or “the Company”), and its subsidiaries which it owns the majority of their shares or has a significant influence on their management structure.

The immediate parent and ultimate controlling party of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu, respectively.

Ordu Yardımlaşma Kurumu (OYAK/Armed Forces Pension Fund) was incorporated on 1 March 1961 under the Act No. 205 as a private entity under its own law subject to Turkish civil and commercial codes and autonomous in financial and administrative matters. OYAK, being an “aid and retirement fund” for Turkish Armed Forces’ members, provides various services and benefits within the framework of social security concept anticipated by Turkish Constitution. OYAK has more than fifty direct and indirect subsidiaries in industry, finance and service sectors. The detailed information about OYAK can be found on its official website ([www.oyak.com.tr](http://www.oyak.com.tr)).

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

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

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

| Name of the Company                            | Country of Operation | Operation                  | 2011 Share % | 2010 Share % |
|--|----------------------|----------------------------|--------------|--------------|
| İskenderun Demir ve Çelik A.Ş. (“İSDEMİR”)     | Turkey               | Iron and Steel             | 92,91        | 92,91        |
| Erdemir Madencilik San. ve Tic. A.Ş.           | Turkey               | Iron Ore and Pellet        | 90,00        | 90,00        |
| Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. | Turkey               | Iron and Steel             | 100,00       | 100,00       |
| Ereco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.      | Turkey               | Management and Consultancy | 100,00       | 100,00       |
| Erdemir Romania S.R.L.                         | Romania              | Iron and Steel             | 100,00       | 100,00       |
| Erdemir Lojistik A.Ş.                          | Turkey               | Logistics Services         | 100,00       | 100,00       |

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 two entities. As of 31 March 2011, the merger activities have been concluded. The merger does not have an impact on the consolidated financial statements.

Erdemir Gaz San. ve Tic. A.Ş. as disclosed in non current financial investments is excluded from consolidation, as it has been dormant since its establishment and it does not significantly affect the consolidated financial statements of the Group (Note 5).

The Company’s trade registry address is Uzunkum No:7 Karadeniz Ereğli.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

**NOTE 1 – GROUP’S ORGANIZATION AND NATURE OF OPERATIONS (cont’d)**

The number of the personnel employed by the Group as at 31 March 2011 and 31 December 2010 are as follows:

|                            | 31 March 2011<br>Personnel | 31 December 2010<br>Personnel |
|----------------------------|----------------------------|-------------------------------|
| 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 (SZ) | 111                        | 125                           |
| Total                      | <u>13.609</u>              | <u>13.553</u>                 |

**NOTE 2 – BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.1 Basis of Presentation**

The Company and all its subsidiaries in Turkey maintain their legal books of account and prepare their statutory financial statements (“Statutory Financial Statements”) in accordance with accounting principles issued by the Turkish Commercial Code (“TCC”) and tax legislation. The subsidiary which operates abroad maintain its books of account and prepare its statutory financial statements denominated in the currency of the foreign country and in compliance with the legislation of the foreign country. The consolidated financial statements include the adjustments and reclassifications applied on the Group’s legal books in accordance with the Generally Accepted Accounting Principles issued by Capital Market Board (“CMB”).

CMB, in accordance with Communiqué Serial: XI, No: 29 on “Communiqué on Financial Reporting in the Capital Markets”, regulates the comprehensive set of principles, procedures and basis of preparation, presentation and announcement of financial statements prepared by the entities. This communiqué is effective for the periods from the first interim financial statements prepared subsequent to 1 January 2008 and supersedes the Communiqué Serial XI, No: 25 “Accounting Standards in Capital Markets”. According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards (“IAS/IFRS”) endorsed by the European Union (EU). However, IAS/IFRS issued by the IASB shall be applied until the differences between IAS/IFRS that are endorsed by the European Union and the standards issued by the International Accounting Standards Board (“IASB”) are announced by Turkish Accounting Standards Board (“TASB”). Accordingly, Turkish Accounting Standards/ Turkish Financial Reporting Standards (“TAS/TFRS”) issued by the TASB which are in line with the aforementioned standards are essential.

Until the differences between IAS/IFRS that are endorsed by the European Union and the ones issued by the IASB are announced by TASB, the consolidated financial statements are prepared within the framework of Communiqué XI, No:29. The consolidated financial statements and the related notes are presented in accordance with the formats required by the CMB, with the announcements dated 17 April 2008 and 9 January 2009, including all compulsory disclosures.

The Group prepares its consolidated financial statements as of 31 December 2005 and after in accordance with IFRS based on the permission of the CMB’s Statement No:017/83-3483, dated 7 March 2006, stating that: “...As explained in your letter, if the disclosure of the financial statements prepared in accordance with IFRS, instead of the CMB’s Communiqué Serial: XI, No: 25 is needed, the 2005 financial statements prepared in accordance with IFRS should be revised according to the accounting standards announced by our Board. Hence, these financial statements may be issued to public if only the necessary restatement adjustments in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies” are eliminated and the necessary adjustments in the comparative financial statements are made”.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

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

##### **2.1 Basis of Presentation (cont’d)**

###### Functional and Reporting Currency

TRY is accepted as the functional and reporting currency of the Company’s subsidiaries and affiliates operating in Turkey.

###### *Functional and reporting currency for the subsidiary abroad*

The financial statements of the subsidiary operating in Romania have been prepared in accordance with the legislation in force within the country, and are arranged reflecting the necessary adjustments and reclassifications in conformity with IFRS. The assets and liabilities of the foreign subsidiary in terms of Romanian Lei have been translated into Turkish Lira using the foreign exchange rate at the balance sheet date. Income and expenses and cash flows have been translated into Turkish Lira using the average foreign exchange rate for the period.

As a result, the differences between closing and average foreign exchange rates and due to the deviation arising from differences between the value of the equity accounts of the consolidated partnership and the subsidiary are followed under the foreign currency translation reserves in equity. The functional and national currency of the subsidiary established in Romania is Romanian Lei.

The foreign subsidiary has been established as a foreign legal entity.

###### Approval of the consolidated financial statements

The consolidated financial statements have been approved and authorized to be published on 5 May 2011 by the Board of Directors. The General Assembly has the authority to revise the financial statements.

##### **2.2 The Adjustment of the Financial Statements in Hyperinflationary Periods**

In accordance with the decision made on 17 March 2005, by CMB, as effective from 1 January 2005, the inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements due to the accounting standards of CMB. Since the date of the decision, the preparation and publication of the financial statements in accordance with IAS 29, “Financial Reporting in Hyperinflationary Economies”, issued by the IASB, have ceased.

##### **2.3 Changes in Accounting Estimates and Errors**

The changes in accounting estimates affecting the current period are recognized in the current period, the changes in accounting estimates affecting both in the current and future periods, prospectively.

##### **2.4 Basis of Consolidation**

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

###### Subsidiaries

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

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

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

##### **2.4 Basis of Consolidation (cont’d)**

###### Subsidiaries (cont’d)

Subsidiaries are consolidated from the date on which control is transferred to the Group and ceased 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.

###### Investments in Associates

An associate is an entity over which the Group has a significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the authority to control the financial or operational policies of the investee or has the authority to participate without a joint control.

The results of operations, assets and liabilities of the associates that are incorporated in the consolidated financial statements are accounted for via the equity method, except 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 not recognized.

Unrealized gains resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate, unrealized losses are eliminated except the case when the transferred asset is impaired.

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.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

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

##### **2.5 Comparative Information and Restatement of Consolidated Financial Statements with Prior Periods**

The Group’s consolidated financial statements are presented in comparison with the previous period in order to allow for the determination of the financial position and performance trends. The comparative information is reclassified when necessary in order to be aligned with the current period consolidated financial statements. The detailed information about these restatements are presented in Note 33.

##### **2.6 Significant Judgments and Estimates of the Group on Application of Accounting Policies**

The Group makes estimates and assumptions prospectively while preparing its consolidated financial statements. These accounting estimates are rarely identical to the actual results. The estimates and assumptions that may cause significant adjustments to the carrying values of assets and liabilities in the following reporting periods are listed below:

###### **2.6.1 Useful lives of property, plant and equipments and intangible assets**

The Group calculates depreciation for the fixed assets by taking into account their useful lives that are stated in Note 2.9.3 and 2.9.4 (Note 12, Note 13).

###### **2.6.2 Deferred tax assets**

The Group recognizes deferred tax on the temporary timing differences between the carrying amounts of assets and liabilities in the financial statements prepared in accordance with IFRS and statutory financial statements which is used in the computation of taxable profit. The related differences are generally due to the timing difference of the tax base of some income and expense items between statutory and IFRS financial statements. The Group has deferred tax assets resulting from tax loss carry-forwards and deductible temporary differences, which could reduce taxable income in the future periods. All or partial amounts of the realizable deferred tax assets are estimated in current circumstances. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring, the carry-forward period associated with the deferred tax assets, future reversals of existing taxable temporary differences that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset (Note 27).

###### **2.6.3 Fair values of derivative financial instruments**

The Group values its derivative financial instruments by using the foreign exchange and interest rate estimations and based on the valuation estimates of the market values as of the balance sheet date (Note 5, Note 7, Note 30).

###### **2.6.4 Provision for doubtful receivables**

Allowance for doubtful receivables reflect the future loss that the Group anticipates to incur from the trade receivables as of the balance sheet date which are subject to collection risk considering the current economical conditions. During the impairment test for the receivables, the debtors are assessed with their prior year performances, their credit risk in the current market, their performance after the balance sheet date up to the issuing date of the financial statements; and also the renegotiation conditions with these debtors are considered. The provision for doubtful receivables is presented in Note 8 and Note 9.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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(Amounts are expressed as Turkish Lira (“TRY”) unless otherwise indicated.)

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

**2.6 Significant Judgments and Estimates of the Group on Application of Accounting Policies (cont’d)**

**2.6.5 Provision for inventories**

During the assessment of the provision for inventory the following are considered; analyzing the inventories physically and historically, considering the employment and usefulness of the inventories respecting to the technical personnel view. Sales prices listed, average discount rates given for sale and expected cost incurred to sell are used to determine the net realizable value of the inventories. As a result of this, the provision for inventories with the net realizable values below the costs and the slow moving inventories are presented in Note 10.

**2.6.6 Provisions for employee benefits**

Discount rates are determined using actuarial valuations which involve making assumptions about future salary increases and employee turnover rates. The details related with the defined benefit plans are stated in Note 17.

**2.7 Offsetting**

Financial assets and liabilities are offset and the net amounts are reported with their net values in the balance sheet where either there is a legally enforceable right to offset the recognized amounts or there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**2.8 Adoption of New and Revised International Financial Reporting Standards**

The accounting policies adopted in the preparation of the consolidated financial statements as at 31 March 2011 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards and IFRIC interpretations summarized below. These standards and interpretations have no effect on the Group’s financial position and performance.

The new standards, amendments and interpretations which are effective as at 1 January 2011 are as follows:

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)

IAS 32 Classification on Rights Issues (Amended)

IAS 24 Related Party Disclosures (Revised)

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

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

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

In May 2010, International Accounting Standards Board (IASB) made 11 changes in 7 standards. These changes have no impact on the financial performance of the Group. The revised standards are as below. This improvement project has not been endorsed by the EU yet.

IFRS 3: Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised standard

IFRS 3: Measurement of non-controlling interests

IFRS 3: Un-replaced and voluntarily replaced share-based payment awards

IFRS 7: Clarification of disclosures

IAS 1: Clarification of statement of changes in equity

IAS 27: Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements

IAS 34: Significant events and transactions

IFRIC 13: Fair value of award credits

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective for the current reporting period and which the Group has not early adopted, as follows.

New and amended standards and interpretations issued but not effective and not early adopted by the Group as of the date the consolidated financial statements approved are as follows:

IFRS 9 ‘Financial Instruments: Classification and measurement’ (Effective for the periods 1 January 2013 and after): The Group is assessing the effects of the amendment. The standard has not been endorsed by EU yet.

IAS 24 (Revised) ‘Related Party Disclosures’ (Effective for periods beginning on or after 1 January 2011): The Group will apply the amendment in the notes to the consolidated financial statements for the periods beginning on and after 1 January 2011.

IAS 32 (Amendment) ‘Classification of Rights Issues’ (Effective for annual periods beginning on or after 1 February 2010): The amendment does not have an impact on Group’s financial performance.

IFRIC 14 (Amendment) ‘Prepayments of a Minimum Funding Requirement’ (Effective for periods beginning on or after 1 January 2011, with earlier application permitted): The amendment does not have an impact on Group’s financial performance.

IFRIC 19 ‘Extinguishing Financial Liabilities with Equity Instruments’ (Effective for periods beginning on or after 1 July 2010, with earlier application permitted). The amendment does not have an impact on Group’s financial performance.

UFRS 7 (Amended) ‘Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities’ (Effective for annual periods beginning or after 1 July 2011). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

IAS 12 (Amendment) ‘Deferred Tax: Recovery of Underlying Assets’ (Mandatory for annual periods beginning or after 1 January 2012). This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

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

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

**2.9 Valuation Principles Applied / Significant Accounting Policies**

Valuation principles and accounting policies used in the preparation of the consolidated financial statements are as follows:

**2.9.1 Revenue recognition**

Revenue is measured at the fair value of the received or receivable amount. The estimated customer returns, rebates, and other similar allowances are deducted from this amount.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group transfers the significant risks and benefits of the ownership of the goods to the buyer;
- The Group retains neither a continuing managerial involvement usually associated with ownership nor effective control over the goods sold;
- The amount of revenue is measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred due to the transaction are measured reliably.

Dividend and interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Dividend revenue from investments is recognized when the shareholders’ rights to receive payment have been established.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease.

**2.9.2 Inventories**

Inventories are valued at the lower of cost or net realizable value. The costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority valued by using the monthly weighted moving average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.



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

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

**2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

**2.9.3 Property, plant and equipment**

Property, plant and equipment purchased before 1 January 2005 are disclosed in the financial statements at their indexed historical cost for inflation effects as at 31 December 2004, on the other hand the purchases made in 2005 and in later periods are presented at their historical cost, less depreciation and impairment loss. Except for land and construction in progress, other tangible assets are depreciated according to straight-line basis or units of production method basis using the expected useful lives of the assets.

The Group’s tangible fixed assets operating in the production of iron ore, flat steel, long steel, seamless steel tube and high silicon flat steel are stated in the balance sheet at their revalued amounts, which is the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any increase arising from the revaluation of the existing assets is recorded under the revaluation reserve, in the shareholders’ equity. Increase arising from the revaluation is recorded to the extent that it reverses a revaluation decrease previously recognized in the consolidated income statement. A decrease in carrying amount arising on the revaluation of assets is charged to the consolidated income statement to the extent that it exceeds the balance in the revaluation reserve that is related to the previous revaluation.

Depreciation on revalued tangible fixed assets is disclosed in the consolidated income statement. Due to a subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. Any transfer from revaluation reserve to the retained earnings cannot be made unless the asset is disposed.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

In assessing the value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated income statement.

The rates that are used to depreciate the fixed assets are as follows:

|                             | Rates                               |
|-----------------------------|-------------------------------------|
| Buildings                   | 2-16%                               |
| Land improvements           | 2-33% and units of production level |
| Machinery and equipments    | 3-50% and units of production level |
| Vehicles                    | 5-25% and units of production level |
| Furniture and fixtures      | 5-33%                               |
| Other tangible fixed assets | 5-25%                               |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

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

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

##### 2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)

##### 2.9.4 Intangible assets

###### Purchased intangible assets

Intangible assets purchased before 1 January 2005 are recognized at their acquisition cost indexed for inflation effects as of 31 December 2004, on the other hand the purchases made in and after 1 January 2005 are recognized at acquisition cost less any amortization and impairment loss. Intangible assets are amortized principally on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and any changes in the estimate is accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

|   | <u>Rates</u>                  |
|---|-------------------------------|
| Rights  | 2-33%                         |
| Exploration costs and other intangible fixed assets with special useful lives | 5-10% and units of production |
| Other intangible fixed assets   | 20-33%                        |

##### 2.9.5 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization or depreciation and are tested annually for impairment. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets ( for the cash-generating unit). Non-financial assets that are impaired are evaluated for reversal of impairment amount at each reporting date.

##### 2.9.6 Leases

###### The Group as lessee:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating lease.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the Group is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. By this way, interest is calculated over the remaining principle of the liability.

Finance expenses are recognized immediately in the consolidated income statement, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s general policy on borrowing costs detailed in Note 2.9.7. Rent payments related to operating leases is recognized on a straight-line basis over the term of the relevant lease.

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

##### **2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

###### **2.9.6 Leases (cont’d)**

###### The Group as lessor:

The Group presents assets subject to operating leases in the consolidated balance sheets according to their nature. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Operating leases are amortized based on their cost after deducting their residual values.

###### **2.9.7 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, one that takes a substantial period of time to get ready for use or sale, are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. Investment revenues arising from the temporary utilization of the unused portion of facility loans are netted off from the costs eligible for capitalization.

All other borrowing costs are recognized directly in the consolidated income statement of the period in which they are incurred.

###### **2.9.8 Financial instruments**

Financial assets and financial liabilities are recognized in the Group’s consolidated balance sheet when the Group becomes a legal party for the contractual provisions of the financial instrument.

###### Financial assets

Financial assets, are initially measured at fair value, less transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market.

Financial assets are classified into the following specified categories: financial assets as ‘at fair value through profit or loss’, ‘held-to-maturity investments’, ‘available-for-sale’ financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

###### *Effective interest method*

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the ratio exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net present value of the financial asset or in a shorter period where appropriate.

Incomes related to the debt instruments that are held to maturity and are available for sale, and financial assets that are classified as loans and receivables are calculated according to the effective interest rate method.

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

**2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

**2.9.8 Financial instruments (cont’d)**

Financial assets (cont’d)

*Available for sale financial assets*

Some of the shares and long term marketable securities held by the Group are classified as available for sale and recognized at their fair values.

The financial assets, which are not priced in an active market and the fair value cannot be recognized accurately, are recognized at cost less accumulated impairments.

Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognized directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in the consolidated income statement for the period.

Dividends associated with the available for sale equity instruments are recognized in consolidated income statement when the Group has the right to receive the related payments.

*Receivables*

Trade receivables and other receivables are initially recognized at their fair value. Subsequently, receivables are measured at amortized cost using the effective interest method.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For receivables, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

**2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

**2.9.8 Financial instruments (cont’d)**

Financial assets (cont’d)

*Impairment of financial assets (cont’d)*

In respect of available for sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in the consolidated statement of comprehensive income.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three-months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities.

*Other financial liabilities*

Other financial liabilities are initially accounted at fair value, net of transaction costs.

Subsequently other financial liabilities are accounted at amortized cost using the effective interest method, with interest expense recognized on an effective interest rate basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense to the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount.

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

##### **2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

##### **2.9.8. Financial instruments (cont’d)**

###### Financial liabilities (cont’d)

###### Derivative financial instruments and hedge accounting

Derivatives are initially recognized at cost of acquisition and are subsequently accounted to their fair value at the end of each reporting period. The method of recognizing the result of gain or loss is dependent on the nature of the item being hedged.

On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge from changes that could affect the statement of income due to a specific risk in cash flow of a forecasted transaction (cash flow hedge).

Changes in the fair value of the derivatives that are designated and qualified as cash flow hedges and that are highly effective, are recognized in equity as hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of acquisition of the asset or liability. Otherwise, amounts booked under equity are transferred to the consolidated statement of income and classified as revenue or expense in the period in which the hedged item affects the statement of income.

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedged transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

The Group evaluates the derivative financial instruments held for fair value hedge purpose with their fair values and associates them with profit or loss.

##### **2.9.9 The effects of foreign exchange rate changes**

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are converted at the exchange rates prevailing on the balance sheet date. Exchange differences are recognized in the consolidated income statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are expressed in TRY using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as consolidated statement of other comprehensive income and transferred to the Group’s translation reserves. Such exchange differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed of.

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

**2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

**2.9.10 Earnings per share**

Earnings per share, disclosed in the consolidated income statement, are determined by dividing the net income attributable to equity holders of the parent by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by distributing “bonus shares” to shareholders from retained earnings. In computing earnings per share, such “bonus share” distributions are assessed as issued shares. Accordingly, the weighted-average number of shares are computed by taking into consideration of the retrospective effects of the share distributions.

**2.9.11 Subsequent events**

Subsequent events include all events that take place between the balance sheet date and the date of authorization for the release of the balance sheet, although the events occurred after the announcements related to the net profit/loss or even after the public disclosure of other selective financial information.

In the case that events requiring an adjustment, the Group adjusts the amounts recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date.

**2.9.12 Provisions, contingent liabilities and contingent assets**

Provisions are recognized when the Group has a present obligation as a result of a past event, where it is probable that the Group will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation. Contingent liabilities are assessed continuously to determine the probability of outflow of the economically beneficial assets. For contingent liabilities, when an outflow of resources embodying economic benefits are probable, provision is recognized for this contingent liability in the period when the probability has changed, except for the cases where a reliable estimate cannot be made.

When the Group’s contingent liabilities’ availability is possible but the amount of resources containing the economic benefits cannot be measured reliably, then the Group discloses this fact in the notes.

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

##### **2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

###### **2.9.13 Related parties**

In the presence of one of the following criteria, parties are considered as related to the Group;

- (a) directly, or indirectly through one or more intermediaries, the party:
- (i) controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the Company that gives it significant influence over the Company; or
- (iii) has joint control over the Company;
- (b) the party is an associate of the Company;
- (c) the party is a joint venture in which the Company is a venture;
- (d) the party is member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);
- (g) the party has a defined benefit plan for the employees of the Company or a related party of the Company.

Related party transactions are transfer of resources or obligations between related parties, regardless of whether a price is charged.

###### **2.9.14 Investment properties**

Investment properties, which are held to earn rental income and/or for capital appreciation are measured initially at cost less accumulated depreciation and any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

###### **2.9.15 Taxation and deferred income taxes**

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the current tax and deferred tax.

###### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in future and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.



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

**2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

**2.9.15 Taxation and deferred income taxes (cont’d)**

Deferred tax

Deferred tax is determined by calculating the temporary differences between the carrying amounts of assets/liabilities in the financial statements and the corresponding tax bases, used in the computation of the taxable profit, using currently enacted tax rates. Deferred tax liabilities are generally recognized for all taxable temporary differences where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized if it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the consolidated income statement, except when they relate to the items credited or debited directly to the equity (in this case the deferred tax related to these items is also recognized directly in the equity), or where they arise from the initial accounting of a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

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

**2.9 Valuation Principles Applied / Significant Accounting Policies (cont’d)**

**2.9.16 Provisions for employment benefits**

According to the Turkish and Romanian law and union agreements, employee termination payments are made to employees in the case of retiring or involuntarily leaving. Such payments are considered as a part of defined retirement benefit plan in accordance with IAS19 (revised) “Employee Benefits” (“IAS 19”).

In accordance with the termination indemnities accounted in the balance sheet and the union agreements in force, severance payment liabilities represent the present value of the residual obligation. Actuarial gains and losses, on the other hand, are recognized in the consolidated statement of income.

The Group companies operating in Turkey, are required to pay social insurance premiums to the Social Security Agency. As long as it pays these insurance premiums, the Group does not have any further obligation. These premiums are reflected in the payroll expenses incurred in the period.

**2.9.17 Statement of cash flows**

Cash flows during the period are classified and reported as operating, investing and financing activities in the consolidated statement of cash flows.

Cash flows arising from operating activities represent the cash flows that are used in or provided by the Group’s steel products and metal sales activities.

Cash flows arising from investment activities represent the cash flows that are used in or provided by the investing activities (direct investments and financial investments) of the Group.

Cash flows arising from financing activities represent the cash proceeds from the financing activities of the Group and the repayments of these funds.

Cash and cash equivalents comprises of the cash on hand, the demand deposits and highly liquid other short-term investments which their maturities are three months or less from the date of acquisition, are readily convertible to cash and are not subject to a significant risk of changes in value.

**2.9.18 Share capital and dividends**

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period which they are approved and declared.

**2.9.19 Treasury shares**

Article IV-K of Articles of Association “According to Turkish Commercial Code Article 329, transactions of an entity’s own shares” allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 31 March 2011, the Company holds its own shares with a nominal value of TRY 66.242.638 (31 December 2010: TRY 49.296.859). The Company’s own shares have been reclassified with its indexed value in the consolidated balance sheet as a deduction under equity.

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**NOTE 3 – OPERATING SEGMENTS**

The operations of the Group in İskenderun and Ereğli have been defined as geographical segments. However, the segments with similar economic characteristics have been combined into a single operating segment considering the nature of the products and the production processes, methods to allocate the products and the type of customers or to provide services.

**NOTE 4 – CASH AND CASH EQUIVALENTS**

The detail of cash and cash equivalents as of 31 March 2011 and 31 December 2010 is as follows:

|   | 31 March<br>2011     | 31 December<br>2010  |
|---|----------------------|----------------------|
| Cash  | 48.918               | 31.355               |
| Banks – demand deposits                               | 52.938.548           | 24.553.743           |
| Banks – time deposits                                 | 1.935.390.566        | 2.853.205.173        |
|   | <u>1.988.378.032</u> | <u>2.877.790.271</u> |
| Time deposit interest accruals (-)                    | (7.959.372)          | (11.096.185)         |
| Cash and cash equivalents excluding interest accruals | <u>1.980.418.660</u> | <u>2.866.694.086</u> |

The breakdown of demand deposits is presented below:

|              | 31 March<br>2011  | 31 December<br>2010 |
|--------------|-------------------|---------------------|
| TRY          | 25.057.605        | 7.020.913           |
| US Dollars   | 22.429.056        | 6.936.301           |
| EURO         | 4.241.034         | 9.669.081           |
| Romanian Lei | 1.189.788         | 907.542             |
| GB Pound     | 20.792            | 19.624              |
| Japanese Yen | 273               | 282                 |
|              | <u>52.938.548</u> | <u>24.553.743</u>   |

The breakdown of time deposits is presented below:

|              | 31 March<br>2011     | 31 December<br>2010  |
|--------------|----------------------|----------------------|
| TRY          | 1.017.582.167        | 1.703.861.484        |
| US Dollars   | 869.197.715          | 1.130.764.952        |
| EURO         | 48.610.684           | 18.023.995           |
| Romanian Lei | -                    | 554.742              |
|              | <u>1.935.390.566</u> | <u>2.853.205.173</u> |

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**NOTE 5 – FINANCIAL INVESTMENTS**

Current financial investments:

|   | 31 March<br>2011 | 31 December<br>2010 |
|---|------------------|---------------------|
| Derivative financial assets at fair value through profit/loss (*) | -                | 5.010.226           |
| Total   | -                | 5.010.226           |

Non-current financial investments:

|  | 31 March<br>2011 | 31 December<br>2010 |
|--|------------------|---------------------|
| Available for sale financial assets:   | 58.742           | 56.681              |
| Derivative financial assets at fair value through other comprehensive income/expense (*) | 2.015.042        | 1.370.505           |
| Total  | 2.073.784        | 1.427.186           |

(\*) As explained in Note 30, the derivative financial assets comprise of forward agreements and cross currency and interest rate swap agreements.

As of 31 March 2011 and 31 December 2010 the Group’s subsidiaries, their percentage shares and amounts of the ownership interest are as follows:

| <u>Company</u>                    | <u>Rate %</u> | <u>31 March<br/>2011</u> | <u>Rate %</u> | <u>31 December<br/>2010</u> |
|-----------------------------------|---------------|--------------------------|---------------|-----------------------------|
| Erdemir Gaz San. ve Tic. A.Ş. (*) | 100           | 58.742                   | 100           | 56.681                      |

(\*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 2.115 and has been dormant since its establishment, are not consolidated as their effects on the consolidated financial statements are immaterial and disclosed at cost. There are no off balance sheet liabilities and contingencies given between the Group companies and Erdemir Gaz in favor of each other.

**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 6 – FINANCIAL LIABILITIES**

Breakdown of financial liabilities is as follows:

|  | 31 March<br>2011     | 31 December<br>2010  |
|--|----------------------|----------------------|
| Short term financial liabilities                   | 95.261.359           | 939.424.278          |
| Current portion of long term financial liabilities | 1.724.942.458        | 2.114.414.674        |
| Total short term financial liabilities             | 1.820.203.817        | 3.053.838.952        |
| Long term financial liabilities                    | 2.859.050.545        | 2.797.402.328        |
| Total long term financial liabilities              | 2.859.050.545        | 2.797.402.328        |
|  | <u>4.679.254.362</u> | <u>5.851.241.280</u> |

As of 31 March 2011, the breakdown of the Group’s loans with their original currency and their weighted average interest rates, is presented as follows:

| Interest Type | Type of Currency | Weighted Average Rate of Interest (%) | Short Term Portion   | Long Term Portion    | 31 March 2011        |
|---------------|------------------|---------------------------------------|----------------------|----------------------|----------------------|
| No interest   | TRY              | -                                     | 20.273.114           | -                    | 20.273.114           |
| Fixed         | TRY              | 10,78                                 | 9.952.871            | 450.000.000          | 459.952.871          |
| Floating      | TRY              | TR Libor+1,82                         | 928.637.502          | -                    | 928.637.502          |
| Fixed         | US Dollars       | 2,28                                  | 348.642.092          | 23.224.500           | 371.866.592          |
| Floating      | US Dollars       | Libor+2,25                            | 401.377.844          | 1.797.769.463        | 2.199.147.307        |
| Floating      | EURO             | Euribor+0,32                          | 88.594.822           | 452.872.481          | 541.467.303          |
| Floating      | Jap. Yen         | JPY Libor+0,22                        | 22.725.572           | 135.184.101          | 157.909.673          |
|               |                  |                                       | <u>1.820.203.817</u> | <u>2.859.050.545</u> | <u>4.679.254.362</u> |

As of 31 December 2010, the breakdown of the Group’s loans with their original currency and their weighted average interest rates, is presented as follows:

| Interest Type | Type of Currency | Weighted Average Rate of Interest (%) | Short Term Portion   | Long Term Portion    | 31 December 2010     |
|---------------|------------------|---------------------------------------|----------------------|----------------------|----------------------|
| No interest   | TRY              | -                                     | 28.018.364           | -                    | 28.018.364           |
| Fixed rate    | TRY              | 8,84                                  | 801.299.040          | 450.000.000          | 1.251.299.040        |
| Floating      | TRY              | TR Libor+1,77                         | 909.932.197          | -                    | 909.932.197          |
| Fixed rate    | US Dollars       | 2,01                                  | 282.614.009          | 5.101.800            | 287.715.809          |
| Floating      | US Dollars       | Libor+2,39                            | 931.650.491          | 1.785.717.211        | 2.717.367.702        |
| Floating      | EURO             | Euribor+0,27                          | 77.399.320           | 419.233.684          | 496.633.004          |
| Floating      | Jap. Yen         | JPY Libor+0,22                        | 22.925.531           | 137.349.633          | 160.275.164          |
|               |                  |                                       | <u>3.053.838.952</u> | <u>2.797.402.328</u> | <u>5.851.241.280</u> |

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

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

As of 31 March 2011, according to their type of original currency and interest rates, the breakdown of the fixed-interest loans by using financial hedge agreements, is as follows:

| Type of<br>Currency | Fixed rate of<br>interest (%) | Short Term<br>Portion | Long Term<br>Portion | 31 March 2011      |
|---------------------|-------------------------------|-----------------------|----------------------|--------------------|
| US Dollars          | 2,38                          | 20.777.419            | 72.259.814           | 93.037.233         |
| US Dollars          | 3,29                          | 10.573.151            | 46.840.351           | 57.413.502         |
| US Dollars (*)      | 7,22                          | 14.866.123            | 93.772.092           | 108.638.215        |
| US Dollars          | 4,30                          | 31.187.123            | -                    | 31.187.123         |
| US Dollars          | 4,32                          | 15.589.672            | -                    | 15.589.672         |
| US Dollars          | 4,65                          | 58.443.924            | -                    | 58.443.924         |
| US Dollars          | 2,40                          | 62.257.648            | -                    | 62.257.648         |
| US Dollars          | 3,28                          | 22.057.707            | 21.971.968           | 44.029.675         |
| EURO (**)           | 10,65                         | 28.794.848            | 167.908.628          | 196.703.476        |
|                     |                               | <u>264.547.615</u>    | <u>402.752.853</u>   | <u>667.300.468</u> |

As of 31 December 2010, according to their type of original currency and interest rates, the breakdown of the fixed-interest loans by using financial hedge agreements, is as follows:

| Type of<br>Currency | Fixed rate of<br>interest (%) | Short Term<br>Portion | Long Term<br>Portion | 31 December 2010   |
|---------------------|-------------------------------|-----------------------|----------------------|--------------------|
| US Dollars          | 2,38                          | 20.555.923            | 71.726.449           | 92.282.372         |
| US Dollars          | 3,29                          | 10.346.016            | 46.534.827           | 56.880.843         |
| US Dollars (*)      | 7,22                          | 14.576.847            | 93.330.665           | 107.907.512        |
| US Dollars          | 4,30                          | 31.031.414            | -                    | 31.031.414         |
| US Dollars          | 4,32                          | 15.508.324            | -                    | 15.508.324         |
| US Dollars          | 4,65                          | 58.139.143            | -                    | 58.139.143         |
| US Dollars          | 2,40                          | 61.878.166            | -                    | 61.878.166         |
| US Dollars          | 3,34                          | 78.073.281            | -                    | 78.073.281         |
| US Dollars          | 3,28                          | 22.335.495            | 32.940.081           | 55.275.576         |
| EURO (**)           | 10,65                         | 26.161.469            | 156.234.666          | 182.396.135        |
|                     |                               | <u>338.606.078</u>    | <u>400.766.688</u>   | <u>739.372.766</u> |

(\*) As described in Note 30 (f) and Note 30 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of USD. The maturity of the cross currency swap contract is 3 October 2016. The amount represents TRY equivalent of the portion of the loan amount of USD 92.531.078, with maturity of 3 April 2018, that is hedged till 2016.

(\*\*) As described in Note 30 (f) and Note 30 (g), it is the interest rate of the TRY valued cross currency swap contract resulted from the sale of TRY and purchase of Euro.

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

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

|                    | 31 March<br>2011     | 31 December<br>2010  |
|--------------------|----------------------|----------------------|
| Within 1 year      | 1.820.203.817        | 3.053.838.952        |
| Between 1-2 years  | 561.676.021          | 521.002.564          |
| Between 2-3 years  | 565.300.837          | 568.846.604          |
| Between 3-4 years  | 541.936.692          | 522.902.322          |
| Between 4-5 years  | 491.374.954          | 475.092.682          |
| Five years or more | 698.762.041          | 709.558.156          |
|                    | <u>4.679.254.362</u> | <u>5.851.241.280</u> |

**NOTE 7 - OTHER FINANCIAL LIABILITIES**

|  | 31 March<br>2011  | 31 December<br>2010 |
|--|-------------------|---------------------|
| <u>Other current financial liabilities</u>   |                   |                     |
| Derivative financial liabilities at fair value<br>through other comprehensive income/loss(*) | 2.597.084         | 2.955.109           |
| Derivative financial liabilities at fair value<br>through profit/loss (*)                    | 219.968           | 1.838.494           |
|  | <u>2.817.052</u>  | <u>4.793.603</u>    |
| <u>Other non-current financial liabilities</u>   |                   |                     |
| Derivative financial liabilities at fair value<br>through other comprehensive income/loss(*) | 10.947.495        | 26.468.954          |
|  | <u>10.947.495</u> | <u>26.468.954</u>   |

(\*) As explained in Note 30, the derivative financial liabilities comprise of forward agreements, interest rate swap agreements and cross currency and interest rate swap agreements.

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**NOTE 8 – TRADE RECEIVABLES AND PAYABLES**

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

|  | 31 March<br>2011   | 31 December<br>2010 |
|--|--------------------|---------------------|
| <u>Short term trade receivables</u>          |                    |                     |
| Trade receivables                            | 770.656.909        | 663.335.351         |
| Due from related parties (Not 29)            | 9.347.173          | 78.337.709          |
| Notes receivables                            | 2.769.735          | 1.871.477           |
| Other trade receivables                      | 15.055.420         | 14.347.574          |
| Discount on receivables (-)                  | (1.178.203)        | (959.830)           |
| Provision for doubtful trade receivables (-) | (41.300.676)       | (41.094.211)        |
|  | <u>755.350.358</u> | <u>715.838.070</u>  |

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

|                                    | 1 January –<br>31 March<br>2011 | 1 January –<br>31 March<br>2010 |
|------------------------------------|---------------------------------|---------------------------------|
| Opening balance                    | 41.094.211                      | 26.949.521                      |
| Provision for the period           | 12.158                          | 27.358.673                      |
| Doubtful receivables collected (-) | (1.696.200)                     | -                               |
| Provision released (-)             | (365.025)                       | (53.725)                        |
| Translation loss/(gain)            | 2.255.532                       | (7.920)                         |
| Closing balance                    | <u>41.300.676</u>               | <u>54.246.549</u>               |

|  | 31 March<br>2011 | 31 December<br>2010 |
|--|------------------|---------------------|
| <u>Long term trade receivables</u>           |                  |                     |
| Trade receivables                            | 1.619.793        | 3.402.087           |
| Due from related parties (Note 29)           | 1.810.932        | 1.141.524           |
| Discount on receivables (-)                  | -                | (301.930)           |
| Provision for doubtful trade receivables (-) | (1.619.793)      | (1.619.793)         |
|  | <u>1.810.932</u> | <u>2.621.888</u>    |

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

|                 | 1 January –<br>31 March<br>2011 | 1 January –<br>31 March<br>2010 |
|-----------------|---------------------------------|---------------------------------|
| Opening balance | 1.619.793                       | 1.619.793                       |
| Closing balance | <u>1.619.793</u>                | <u>1.619.793</u>                |



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

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

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

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

Other explanatory notes related to the credit risk of the Group are disclosed in Note 30.

The Group provides a specific amount of provision according to the balances of all unsecured receivables under legal follow up.

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

|                                  | 31 March<br>2011   | 31 December<br>2010 |
|----------------------------------|--------------------|---------------------|
| <u>Short term trade payables</u> |                    |                     |
| Trade payables                   | 361.331.065        | 350.708.057         |
| Due to related parties (Note 29) | 8.553.698          | 9.911.442           |
| Discount on trade payables (-)   | (1.286.314)        | (677.597)           |
|                                  | <u>368.598.449</u> | <u>359.941.902</u>  |

**NOTE 9 – OTHER RECEIVABLES AND PAYABLES**

Other current receivables

|  | 31 March<br>2011  | 31 December<br>2010 |
|--|-------------------|---------------------|
| Receivable from sale of financial assets (Note 26) | 17.031.300        | 34.012.000          |
| Deposits and guarantees given                      | 211.668           | 185.110             |
|  | <u>17.242.968</u> | <u>34.197.110</u>   |

Other non-current receivables

|  | 31 March<br>2011  | 31 December<br>2010 |
|--|-------------------|---------------------|
| Receivables from Privatization Authority     | 51.708.110        | 51.708.110          |
| Deposits and guarantees given                | 179.301           | 251.852             |
| Provision for other doubtful receivables (-) | (25.854.055)      | (25.854.055)        |
|  | <u>26.033.356</u> | <u>26.105.907</u>   |

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**NOTE 9 – OTHER RECEIVABLES AND PAYABLES (cont’d)**

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

|                          | 1 January-<br>31 March<br>2011 | 1 January-<br>31 March<br>2010 |
|--------------------------|--------------------------------|--------------------------------|
| Opening balance          | 25.854.055                     | 26.578.327                     |
| Provision for the period | -                              | 206.729                        |
| Closing balance          | 25.854.055                     | 26.785.056                     |

Other current payables

|  | 31 March<br>2011 | 31 December<br>2010 |
|--|------------------|---------------------|
| Non trade payables to related parties (Note 29)        | 443.071.447      | 1.715.000           |
| Taxes and funds payable                                | 20.354.453       | 16.191.374          |
| Social security deductions payable                     | 17.202.539       | 16.851.054          |
| Deposits and guarantees received                       | 5.449.717        | 5.049.640           |
| Deferred and installed payables to public institutions | 3.725.159        | 513.532             |
|  | 489.803.315      | 40.320.600          |

**NOTE 10 – INVENTORIES**

|   | 31 March<br>2011 | 31 December<br>2010 |
|---|------------------|---------------------|
| Raw materials                               | 691.185.504      | 673.659.216         |
| Work in progress                            | 351.419.423      | 366.919.092         |
| Finished goods                              | 575.922.770      | 536.598.546         |
| Spare parts                                 | 335.033.055      | 314.505.754         |
| Goods in transit                            | 456.963.472      | 507.020.136         |
| Other inventories                           | 154.447.807      | 143.032.674         |
| Allowance for impairment on inventories (-) | (36.690.883)     | (38.781.046)        |
|   | 2.528.281.148    | 2.502.954.372       |

The movement of the allowance for impairment on inventories:

|                                    | 1 January –<br>31 March<br>2011 | 1 January –<br>31 March<br>2010 |
|------------------------------------|---------------------------------|---------------------------------|
| Opening balance                    | 38.781.046                      | 12.242.813                      |
| Provision for the period (Note 20) | 965.368                         | 368.003                         |
| Provision released (-) (Note 20)   | (3.055.531)                     | (3.527.867)                     |
| Closing balance                    | 36.690.883                      | 9.082.949                       |

The Group has provided an allowance for the impairment on the inventories of finished goods, work in progress and raw materials in the cases when their net realizable values are lower than their costs or when they are classified as slow moving inventories. The provision released has been recognised under cost of sales (Note 20).

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**NOTE 11 – INVESTMENT PROPERTIES**

|                   | 1 January –<br>31 March<br>2011 | 1 January –<br>31 March<br>2010 |
|-------------------|---------------------------------|---------------------------------|
| <u>Cost</u>       |                                 |                                 |
| As of 1 January   | 46.577.264                      | 46.577.264                      |
| As of 31 March    | 46.577.264                      | 46.577.264                      |
| <u>Book value</u> | 46.577.264                      | 46.577.264                      |

According to the valuation reports dated December 2009, the fair value of the Group’s investment properties is TRY 203.749.000. The fair value of the investment properties has been determined in reference to the valuation of an independent valuation firm. Harmoni Gayrimenkul Değerleme ve Danışmanlık A.Ş. is the independent valuation firm that is authorized by the CMB. The valuation is undertaken predominantly by using the precedent values of similar properties as references.

The Group’s all investment properties consist of land parcels.

For three months period ended 31 March 2011, the Group recognized rent income amounting to TRY 20.878 (31 March 2010: TRY 20.075) under other operating income.

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**NOTE 12 – PROPERTY, PLANT AND EQUIPMENT**

|                                       | Land       | Land improvements | Buildings       | Machinery and equipment | Vehicles      | Furniture and fixtures | Other property, plant and equipment | Construction in progress (CIP) | Total           |
|---------------------------------------|------------|-------------------|-----------------|-------------------------|---------------|------------------------|-------------------------------------|--------------------------------|-----------------|
| <b>Cost</b>                           |            |                   |                 |                         |               |                        |                                     |                                |                 |
| Opening balance as of 1 January 2011  | 94.744.073 | 1.453.704.231     | 2.110.488.192   | 9.333.046.763           | 657.405.179   | 310.281.131            | 14.806.588                          | 842.035.068                    | 14.816.511.225  |
| Translation difference                | 686.047    | -                 | 850.314         | 2.024.043               | 78.755        | -                      | 173.109                             | 190.135                        | 4.002.403       |
| Additions (*)                         | 3.707.705  | 1.110.764         | 1.034.496       | 15.078.008              | 3.142.535     | 571.398                | 1.222.442                           | 57.681.092                     | 83.548.440      |
| Disposals                             | -          | (729.995)         | -               | (15.601.064)            | (283.947)     | (709.485)              | (31.881)                            | -                              | (17.356.372)    |
| Transfers from CIP (**)               | -          | 83.576            | -               | 16.824.056              | -             | 2.669                  | 25.225                              | (16.998.161)                   | (62.635)        |
| Closing balance as of 31 March 2011   | 99.137.825 | 1.454.168.576     | 2.112.373.002   | 9.351.371.806           | 660.342.522   | 310.145.713            | 16.195.483                          | 882.908.134                    | 14.886.643.061  |
| <b>Accumulated Depreciation</b>       |            |                   |                 |                         |               |                        |                                     |                                |                 |
| Opening balance as of 1 January 2011  | -          | (992.566.781)     | (1.501.610.257) | (5.048.615.511)         | (337.081.439) | (143.268.011)          | (13.374.450)                        | -                              | (8.036.516.449) |
| Translation difference                | -          | -                 | (266.027)       | (1.370.267)             | (42.784)      | -                      | (109.942)                           | -                              | (1.789.020)     |
| Charge for the period                 | -          | (5.710.451)       | (10.341.780)    | (46.688.342)            | (4.740.089)   | (3.461.040)            | (1.282.208)                         | -                              | (72.223.910)    |
| Disposals                             | -          | 728.453           | -               | 11.611.725              | 283.947       | 633.393                | 30.109                              | -                              | 13.287.627      |
| Closing balance as of 31 March 2011   | -          | (997.548.779)     | (1.512.218.064) | (5.085.062.395)         | (341.580.365) | (146.095.658)          | (14.736.491)                        | -                              | (8.097.241.752) |
| Net book value as of 31 December 2010 | 94.744.073 | 461.137.450       | 608.877.935     | 4.284.431.252           | 320.323.740   | 167.013.120            | 1.432.138                           | 842.035.068                    | 6.779.994.776   |
| Net book value as of 31 March 2011    | 99.137.825 | 456.619.797       | 600.154.938     | 4.266.309.411           | 318.762.157   | 164.050.055            | 1.458.992                           | 882.908.134                    | 6.789.401.309   |

(\*) The amount of capitalized financial expense is TRY 1.202.964 for the current period (The capitalized financial expenses for the three months period ended 31 March 2010 is: TRY 8.460.809).

(\*\*) TRY 62.635 is transferred to intangible assets (Note 13).

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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**NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (cont’d)**

|                                       | Land       | Land improvements | Buildings       | Machinery and equipment | Vehicles      | Furniture and fixtures | Other property, plant and equipment | Construction in progress (CIP) | Total           |
|---------------------------------------|------------|-------------------|-----------------|-------------------------|---------------|------------------------|-------------------------------------|--------------------------------|-----------------|
| <b>Cost</b>                           |            |                   |                 |                         |               |                        |                                     |                                |                 |
| Opening balance as of 1 January 2010  | 95.165.072 | 1.458.251.499     | 2.358.203.767   | 9.277.136.660           | 656.431.800   | 309.769.657            | 14.646.852                          | 623.238.544                    | 14.792.843.851  |
| Translation difference                | (92.727)   | -                 | (114.932)       | (263.573)               | (9.621)       | (23.394)               | -                                   | (20.915)                       | (525.162)       |
| Additions                             | -          | 12.249            | -               | 1.859.122               | 101.664       | 606.798                | 32.199                              | 55.620.014                     | 58.232.046      |
| Disposals                             | -          | (141.017)         | -               | (1.151.265)             | -             | (195.209)              | (175.852)                           | (142.405)                      | (1.805.748)     |
| Transfer from CIP                     | -          | -                 | -               | 5.609.553               | -             | -                      | -                                   | (5.609.553)                    | -               |
| Closing balance as of 31 March 2010   | 95.072.345 | 1.458.122.731     | 2.358.088.835   | 9.283.190.497           | 656.523.843   | 310.157.852            | 14.503.199                          | 673.085.685                    | 14.848.744.987  |
| <b>Accumulated Depreciation</b>       |            |                   |                 |                         |               |                        |                                     |                                |                 |
| Opening balance as of 1 January 2010  | -          | (978.573.598)     | (1.678.082.627) | (4.870.606.725)         | (322.161.994) | (135.320.203)          | (12.775.414)                        | -                              | (7.997.520.561) |
| Translation difference                | -          | -                 | 31.194          | 169.688                 | 6.088         | 13.867                 | 723                                 | -                              | 221.560         |
| Charge for the period                 | -          | (5.543.561)       | (18.761.035)    | (46.489.496)            | (4.372.199)   | (3.499.146)            | (119.917)                           | -                              | (78.785.354)    |
| Disposals                             | -          | 13.990            | -               | 1.100.077               | -             | 194.270                | 165.962                             | -                              | 1.474.299       |
| Closing balance as of 31 March 2010   | -          | (984.103.169)     | (1.696.812.468) | (4.915.826.456)         | (326.528.105) | (138.611.212)          | (12.728.646)                        | -                              | (8.074.610.056) |
| Net book value as of 31 December 2009 | 95.165.072 | 479.677.901       | 680.121.140     | 4.406.529.935           | 334.269.806   | 174.449.454            | 1.871.438                           | 623.238.544                    | 6.795.323.290   |
| Net book value as of 31 March 2010    | 95.072.345 | 474.019.562       | 661.276.367     | 4.367.364.041           | 329.995.738   | 171.546.640            | 1.774.553                           | 673.085.685                    | 6.774.134.931   |

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**NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (cont’d)**

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

|  | 31 March 2011     | 31 March 2010     |
|--|-------------------|-------------------|
| Cost of sales                              | 35.939.398        | 50.283.345        |
| Capitalized on inventories                 | 32.444.026        | 25.519.492        |
| General administration expenses            | 2.141.575         | 1.265.228         |
| Marketing, sales and distribution expenses | 1.698.911         | 1.717.289         |
|  | <u>72.223.910</u> | <u>78.785.354</u> |

**NOTE 13 – INTANGIBLE ASSETS**

|                                       | Rights              | Exploration costs and other assets with specific useful life | Other intangible assets | Total               |
|---------------------------------------|---------------------|--|-------------------------|---------------------|
| <u>Cost</u>                           |                     |  |                         |                     |
| Opening balance as of 1 January 2011  | 167.280.421         | 61.593.885   | 5.123.670               | 233.997.976         |
| Translation difference                | 29.885              | -  | 108.588                 | 138.473             |
| Additions                             | 1.616.239           | -  | 174.640                 | 1.790.879           |
| Transfers from CIP                    | 62.635              | -  | -                       | 62.635              |
| Closing balance as of 31 March 2011   | <u>168.989.180</u>  | <u>61.593.885</u>  | <u>5.406.898</u>        | <u>235.989.963</u>  |
| <u>Accumulated amortization</u>       |                     |  |                         |                     |
| Opening balance as of 1 January 2011  | (47.821.557)        | (38.665.482)   | (3.854.123)             | (90.341.162)        |
| Translation difference                | (17.210)            | -  | (51.169)                | (68.379)            |
| Charge for the period                 | (3.362.371)         | (675.483)  | (253.299)               | (4.291.153)         |
| Closing balance as of 31 March 2011   | <u>(51.201.138)</u> | <u>(39.340.965)</u>  | <u>(4.158.591)</u>      | <u>(94.700.694)</u> |
| Net book value as of 31 December 2010 | <u>119.458.864</u>  | <u>22.928.403</u>  | <u>1.269.547</u>        | <u>143.656.814</u>  |
| Closing balance as of 31 March 2011   | <u>117.788.042</u>  | <u>22.252.920</u>  | <u>1.248.307</u>        | <u>141.289.269</u>  |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

**NOTE 13 – INTANGIBLE ASSETS (cont’d)**

|                                       | Rights       | Exploration costs and other assets with specific useful life | Other intangible assets | Total        |
|---------------------------------------|--------------|--|-------------------------|--------------|
| <u>Cost</u>                           |              |  |                         |              |
| Opening balance as of 1 January 2010  | 150.893.966  | 61.949.696   | 4.073.415               | 216.917.077  |
| Translation difference                | (4.039)      | -  | (14.643)                | (18.682)     |
| Additions                             | 86.525       | -  | 86.209                  | 172.734      |
| Closing balance as of 31 March 2010   | 150.976.452  | 61.949.696   | 4.144.981               | 217.071.129  |
| <u>Accumulated amortization</u>       |              |  |                         |              |
| Opening balance as of 1 January 2010  | (37.560.044) | (36.049.539)   | (3.031.870)             | (76.641.453) |
| Translation difference                | 1.064        | -  | 2.033                   | 3.097        |
| Charge for the period                 | (2.499.371)  | (693.273)  | (215.349)               | (3.407.993)  |
| Closing balance as of 31 March 2010   | (40.058.351) | (36.742.812)   | (3.245.186)             | (80.046.349) |
| Net book value as of 31 December 2009 | 113.333.922  | 25.900.157   | 1.041.545               | 140.275.624  |
| Net book value as of 31 March 2010    | 110.918.101  | 25.206.884   | 899.795                 | 137.024.780  |

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

|  | 31 March 2011 | 31 March 2010 |
|--|---------------|---------------|
| Cost of sales                              | 3.520.612     | 2.638.338     |
| Capitalized on inventories                 | 543.116       | 517.969       |
| General administration expenses            | 221.838       | 251.605       |
| Marketing, sales and distribution expenses | 5.587         | 81            |
|  | 4.291.153     | 3.407.993     |

**NOTE 14 – GOVERNMENT GRANTS AND INCENTIVES**

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

|                                 | 1 January-31 March 2011 | 1 January-31 March 2010 |
|---------------------------------|-------------------------|-------------------------|
| Social security grants          | 110.044                 | 127.006                 |
| Research and development grants | 28.626                  | 85.880                  |
|                                 | 138.670                 | 212.886                 |

These grants and incentives can be used by all companies, which meet the related legislative requirements and those grants have no sectoral differences.

There is an investment incentive right of the Group amounting to TRY 42.796.975 (31 March 2010: TRY 38.877.528), deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19<sup>th</sup> article of Income Tax Law (ITL) as of 1 January 2006.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

**NOTE 15 – PROVISIONS**

|   | 31 March<br>2011  | 31 December<br>2010 |
|---|-------------------|---------------------|
| Provision for lawsuits  | 30.517.102        | 29.398.275          |
| Provision for tax exposures                                     | 21.556.149        | 21.556.149          |
| Penalty provision for employment shortage of disabled personnel | 4.867.569         | 5.968.311           |
| Provision for state right on mining activities                  | 2.258.841         | 1.755.048           |
| Other provisions  | 23.538.321        | 12.000.000          |
|   | <u>82.737.982</u> | <u>70.677.783</u>   |

The movement of the provision for tax exposures are as follows:

|                          | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|--------------------------|------------------------------|------------------------------|
| Opening balance          | 21.556.149                   | 42.629.219                   |
| Provision for the period | -                            | 791.869                      |
| Closing balance          | <u>21.556.149</u>            | <u>43.421.088</u>            |

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

|                           | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|---------------------------|------------------------------|------------------------------|
| Opening balance           | 29.398.275                   | 24.279.009                   |
| Provision for the period  | 3.036.050                    | 2.744.989                    |
| Payments for lawsuits (-) | (685.838)                    | (1.975.867)                  |
| Provision released (-)    | (1.231.385)                  | (165.867)                    |
| Closing balance           | <u>30.517.102</u>            | <u>24.882.264</u>            |

The movement of the penalty provisions for the shortage related with obligatory employment of disabled are as follows:

|  | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|--|------------------------------|------------------------------|
| Opening balance  | 5.968.311                    | 7.024.569                    |
| Provision for the period   | 560.120                      | 504.400                      |
| Paid penalty for the employment shortage of disabled personnel (-) | (996.060)                    | -                            |
| Provisions released (-)  | (664.802)                    | (332.224)                    |
| Closing balance  | <u>4.867.569</u>             | <u>7.196.745</u>             |



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**NOTE 15 – PROVISIONS (cont’d)**

The movement of the provision for state right on mining activities are as follows:

|                          | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|--------------------------|------------------------------|------------------------------|
| Opening balance          | 1.755.048                    | -                            |
| Provision for the period | 503.793                      | -                            |
| Closing balance          | 2.258.841                    | -                            |

According to “Mining Law” numbered 3213 and regulation on “Mining Law Enforcement” published in the Official Gazette, numbered 25716 on 3 February 2005, the Group is obliged to pay state right on mining activities based on the stope sale prices of related year. %50 of the state right is paid to Special Provincial Administration while remaining %50 of it is paid to Government Treasury.

As of 31 March 2011 and 31 December 2010, lawsuits filed by and against the Group are as follows:

|  | 31 March<br>2011 | 31 December<br>2010 |
|--|------------------|---------------------|
| <u>Lawsuits filed by the Group</u>               |                  |                     |
| TRY  | 53.268.404       | 51.747.049          |
| US Dollars                                       | 81.917.153       | 81.795.465          |
|  | 135.185.557      | 133.542.514         |
| <u>Provision for lawsuits filed by the Group</u> |                  |                     |
| TRY  | 4.282.677        | 6.264.631           |
| US Dollars                                       | 4.502.153        | 4.495.465           |
|  | 8.784.830        | 10.760.096          |

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

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**NOTE 15 – PROVISIONS (cont’d)**

|   | 31 March<br>2011   | 31 December<br>2010 |
|---|--------------------|---------------------|
| <u>Lawsuits filed against the Group</u>               |                    |                     |
| TRY   | 74.662.981         | 78.871.445          |
| US Dollars  | 108.725.344        | 108.640.318         |
|   | <u>183.388.325</u> | <u>187.511.763</u>  |
| <u>Provision for lawsuits filed against the Group</u> |                    |                     |
| TRY   | 20.128.194         | 18.948.314          |
| US Dollars  | 10.388.908         | 10.449.961          |
|   | <u>30.517.102</u>  | <u>29.398.275</u>   |

As of 31 March 2011 and 31 December 2010, USD 25.000.000 (TRY 38.707.500) of the lawsuits filed by the Group is against the insurance company for the compensation of the losses of a crane destructed due to a shipping accident in 2005, for which the value of the crane was recognized over scrap value in the consolidated financial statements. Again for the same accident, ship owner, captain and indemnity insurance company of the ship is sued by the Group and the amount of this lawsuit is USD 25.000.000 (TRY 38.707.500).

At the end of the Competition Authority’s investigation to determine whether the Article 4 of the “The Act on the Protection of Competition” (No. 4054) had been violated in iron and steel products market, commenced by the decision of the Competition Board dated 2 April 2008 no. 08-27/313-M taken on the meeting dated 2 April 2008, no. 08-27, on ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş., ArcelorMittal FCE Çelik ve Ticaret A.Ş., Borçelik Çelik San. ve Tic. A.Ş. and the Company, it has been concluded that the stock transfer agreement between the Company and ArcelorMittal Group regarding the transfer of 25% of shares from ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. and accompanying Commercial Agreement and the applications related to the agreements were against article 4 of Act: 4054 and a fine of TRY 10.057.232,49, which is 0,2% of the Company’s annual gross revenues generated by the end of the fiscal year of 2008 amounting to TRY 5.028.616.243,94 shall be applied to the Company because the Share Purchase Agreement between ArcelorMittal Group and the Company, and the Commercial Agreement annexed thereto are inconsistent with the Article 4 of the Act on the Protection of Competition No. 4054 together with the practices conducted there under; additionally another fine of TRY 10.057.232,49, which is 0,2% of the Company’s annual gross revenues generated by the end of the fiscal year of 2008 amounting to TRY 5.028.616.243,94 shall be given to the Company because the Company’s partnership with Borçelik is violating the Article 4 of the Act on the Protection of Competition No. 4054 and the partnership of the Company both with the ArcelorMittal and Borçelik shall be dissolved.

Reasoned decision of the Competition Board dated 16 June 2009 no. 09-28/600-141 was communicated to the Company on 29 September 2009 and the Company filed an annulment lawsuit before the Council of State against that decision with an additional claim to get the execution of this decision be suspended by an interim decision until the end of the adjudication process. This lawsuit is still pending before the 13th Chamber of the Council of State (File No. 2009/7029E). However, the Company paid those fines as TRY 15.085.848 on 26 October 2009 by benefiting an early payment discount. Company’s partnership with Borçelik Çelik San. ve Tic. A.Ş. and ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. resolved on 4 November 2010 and 28 February 2011, respectively.

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#### **NOTE 15 – PROVISIONS (cont’d)**

As of 31 March 2011 and 31 December 2010, the lawsuit which amounts to TRY 35.673.249 among the lawsuits initiated against the Group was filed by the Privatization Administration (PA). In this lawsuit PA asked the court to declare the Company’s General Assembly Decision as to the dividend distribution for the year 2005 void. However, 3rd Commercial Court of Ankara rejected the case by its decision dated 23 September 2008 no. 2006/218 E., 2008/480 K. However, 11<sup>th</sup> Chamber of the Supreme Court of Appeals reversed the first instance court’s decision upon PA’s appeal by its judgment no. 2009/1319 E.; 2010/12257 K. of 30 November 2010. The Company appealed the Chamber’s decision on 18 February 2011, so the case is still pending before the Supreme Court of Appeals as explained below.

Information about the stages of the cases is given below:

CMB’s Communiqué Serial: XI No: 25 “Communiqué on Accounting Standards in the Capital Market” (the “Communiqué”) and its supplementary communiqués with some amendments are not in force today which were effective as of the first interim financial statements ending after 1 January 2005. The Company prepared its consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 in accordance with the related Communiqué. However, the Communiqué declared that as an alternative, the application of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) and the International Accounting Standards Committee (“IASC”) shall be counted as in compliant with the CMB’s financial reporting standards. According to CMB letter sent to the Company’s management on 7 March 2006 and numbered SPK 017/83-3483, instead of Communiqué XI No: 25, the Company prepared its annual consolidated financial statements in accordance with IFRS and announced to public as of 31 December 2005. According to the CMB’s Communiqué Serial: XI No: 29 “Communiqué on Financial Reporting Standards in Capital Markets” which abrogated CMB’s old Communiqué Serial: XI No: 25, companies must prepare their financial tables according to IFRS starting from 1 January 2008.

However, considering that the Company prepared its consolidated financial statements as of 31 December 2005 in accordance with a new set of accounting standards (IFRS) instead of the standard applied in the interim periods of 2005 (Communiqué Serial: XI No: 25) and net profit for the year 2005 has been affected by TRY 152.329.914, CMB, through a letter sent to the Company numbered B.02.1.SP.K.0.13-855-7484 of 5 May 2006 notifying its decision No: 21/526 of 5 May 2006, decided that, the Company’s consolidated financial statements as of 31 December 2005 should be revised in accordance with the set of accounting standards that were used in the interim periods (standards regulated in the “Communiqué”), publicly disclosed and should be immediately presented to the General Assembly for approval.

The Company filed an annulment lawsuit before 11th Administrative Court of Ankara against that decision (CMB’s decision No: B.02.1.SP.K.0.13-855-7484 of 5 May 2006 made at the meeting No. 21/526 of 5 May 2006) which was rejected by the court with a decision numbered E. 2006/1396; K. 2007/494 dated 29 March 2007. The Company appealed to this decision on 11 October 2007 before the 13th Chamber of the State Council (File number 2007/13762). The Chamber, ratified the first instance court’s decision by its judgement dated 12 May 2010 no. 2007/13762 E.; 2010/3984 K. However the Company appealed the Chamber’s decision on 2 September 2010. The case is still pending before State Council.

On the other hand, the Privatization Administration (PA) had filed a lawsuit before the 3rd Commercial Court of First Instance of Ankara against the Company on 1 May 2006 (E. 2006/218) asking the Court to cancel the Company’s General Assembly Resolution of 30 March 2006 regarding the dividend distribution which was also rejected by the Court by a decision dated 23 October 2008 and numbered E. 2006/218; K.2008/480. PA appealed this decision on 7 January 2009 before the 11th Chamber of the Supreme Court of Appeals (E. 2009/1319). The Chamber reversed the first instance court’s decision upon PA’s appeal by its judgment No. E. 2009/1319; K. 2010/12257 of 30 November 2010. However, this time, the Company has appealed the Chamber’s decision on 18 February 2011, so the case is still pending before the Supreme Court of Appeals.

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#### **NOTE 15 – PROVISIONS (cont’d)**

Due to the Company’s considerations that there was a permission of CMB about “Application of IFRS on consolidated financial statements prepared in 2005” numbered B.02.1.SP.K.0.17/83-3483 dated 7 March 2006 and the related lawsuits are also pending, the Company has not fulfilled CMB’s request and consequently CMB restated the Company’s consolidated financial statements as of 31 December 2005 by adding negative goodwill of TRY 152.329.914, which was previously classified into the retained earnings, to the profit for the year ended 31 December 2005 on its own initiative, and published them in the Istanbul Stock Exchange (ISE) bulletin dated 15 August 2006.

Therefore the Company has also filed a new annulment lawsuit in 10th Administrative Court of Ankara on 10 October 2006 against CMB’s restatement of consolidated financial statements as of 31 December 2005 on 15 August 2006. Later, the lawsuit has been forwarded to the 11th Administrative Court of Ankara. The 11th Administrative Court of Ankara has rejected this lawsuit with the decision numbered E.2006/2548; K.2007/1071 dated 25 June 2007. This decision has been declared to the Company on 18 September 2007 and the Company appealed this decision on 11 October 2007 with a motion to suspend the execution of this decision. Accordingly, the Chamber decided to suspend the execution of the decision of 11th Administrative Court of Ankara numbered E.2006/2548; K.2007/1071 dated 25 June 2007 and CMB’s related action no. B.02.1.SP.K.0.13-855-7484 taken on the meeting dated 5 May 2006 and numbered 21/526, by its decision numbered 2007/13724 and dated 4 December 2007 and consequently abolished the first instance court’s decision by its judgment dated 12 May 2010, no. 2007/13724; K. 2010/3985. CMB has appealed the Chamber’s decision on 6 September 2010, so the case is still pending before the state Council.

If the Company had started to prepare its consolidated financial statements in accordance with IFRS after 31 December 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on “IFRS 1: First-time adoption of International Financial Reporting Standards” and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with “IFRS 3: Business Combinations”. Therefore, the net profit for the periods ended 31 March 2011 and 2010 will not be affected from the above mentioned disputes.

The Company, based on the above mentioned reasons, did not make any adjustments in the accompanying consolidated financial statements according to the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above and expects the resolution of these pending lawsuits.

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. (“Enerjia”) has filed a lawsuit in the 7th Commercial Court of First Instance against the Company on 27 March 2010 asking for the Company's bankruptcy and indemnity amounting to US Dollars 68.312.520. Final agreement was not settled on the technical qualifications of the product, such as dimensions and main features that must be assessed to fulfill the Export Protocol numbered 69187 dated 2 July 2009 and “Additional Requirements to Erdemir-Enerjia Export Protocol numbered 69187”. Enerjia asked for indemnity claiming that the Company did not deliver the goods as committed and applied to Ankara Bankruptcy Directorate and started execution with a bankruptcy request against the Company. In response to the Company’s opposition, Enerjia filed bankruptcy lawsuit numbered 2010/259 E. in the 7th Commercial Court of First Instance against the Company .

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**NOTE 15 – PROVISIONS (cont’d)**

General procedures regarding preparation of the petition and collection of evidences has been completed. The Company's request for the postponement of exploration on sight, submission of evidences and expert assessment has been rejected and the court experts started to investigate the case. At the first court trial on 27 January 2011, the court rejected the request of Enerjia to send the legal opinion they have obtained to the court experts. The case file has been submitted to the court experts. However, the experts have not submitted their reports to the court on due time and one of the experts requested for additional time for such submission. The court has not given its response to this additional time request yet. Next trial is on 23 June 2011. The Company does not allocate any provision for that lawsuit as of 31 March 2011.

In relation to the other lawsuits that are filed against the Group, as of 31 March 2011 a total of TRY 30.517.102 (31 December 2010: TRY 29.398.275) provision is allocated.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

The guarantees received by the Group are as follows:

|                                | 31 March<br>2011   | 31 December<br>2010 |
|--------------------------------|--------------------|---------------------|
| Letters of guarantees received | 809.655.531        | 865.668.485         |
|                                | <u>809.655.531</u> | <u>865.668.485</u>  |

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

|   | 31 March<br>2011     | 31 December<br>2010  |
|---|----------------------|----------------------|
| A. Total CPM given for the Company's own legal entity                                     | 101.293.494          | 99.285.751           |
| B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis           | 2.714.558.649        | 3.105.933.822        |
| C. Total CPM given in favour of other 3rd parties for ordinary trading operations         | -                    | -                    |
| D. Other CPM given  | -                    | -                    |
| i. Total CPM given in favour of parent entity   | -                    | -                    |
| ii. Total CPM given in favour of other Group companies out of the scope of clause B and C | -                    | -                    |
| iii. Total CPM given in favour of other 3rd parties out of the scope of clause C          | -                    | -                    |
|   | <u>2.815.852.143</u> | <u>3.205.219.573</u> |

As of 31 March 2011, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2010: 0%). Total CPM given in favour of subsidiaries consolidated on line-by-line basis amounting to TRY 2.714.558.649 has been given as collateral for financial liabilities explained in Note 6.

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

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#### NOTE 16 – COMMITMENTS AND CONTINGENCIES (cont’d)

The breakdown of the Group’s collaterals, pledges and mortgages according to their original currency is as follows:

|              | 31 March<br>2011     | 31 December<br>2010  |
|--------------|----------------------|----------------------|
| US Dollars   | 1.545.302.867        | 1.958.447.651        |
| TRY          | 695.739.287          | 704.068.880          |
| EURO         | 488.506.268          | 454.938.549          |
| Japanese Yen | 85.112.714           | 86.645.822           |
| Romanian Lei | 1.191.007            | 1.118.671            |
|              | <u>2.815.852.143</u> | <u>3.205.219.573</u> |

#### NOTE 17 – PROVISIONS FOR EMPLOYMENT BENEFITS

|  | 31 March<br>2011   | 31 December<br>2010 |
|--|--------------------|---------------------|
| Provisions for employee termination benefits | 168.051.397        | 161.033.388         |
| Provisions for seniority incentive premium   | 8.649.633          | 7.255.683           |
|  | <u>176.701.030</u> | <u>168.289.071</u>  |

According to the articles of Turkish Labor Law in force, there is an obligation to pay the legal employee termination benefits to each employee whose employment contracts are ended properly entitling them to receive employee termination benefits. Also, in accordance with the effective laws of the Social Insurance Act No: 506 No: 2422 on 6 March 1981 and No: 4447 on 25 August 1999 and with the amended Article 60 of the related Act, it is obliged to pay the employees their legal employee termination benefits, who are entitled to terminate.

As of 31 March 2011, the amount payable consists of one month’s salary limited to a maximum of TRY 2.623,23 (31 December 2010: TRY 2.517,00).

The employee termination benefit legally is not subject to any funding requirement.

The employee termination benefit has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Group’s obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that, the maximum liability for each employment year will increase parallel with the inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. In the consolidated financial statements as of 31 March 2011, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5,10% and a discount rate of 10% (31 December 2010: the annual inflation rate 5,10% and the discount rate 10%). The probability of retirement is assumed as 99,88%. (31 December 2010 : 99,43%).

The anticipated rate of resignations which do not result in the payment of employee benefits is also considered in the calculation. As the maximum liability is revised semi annually, the maximum amount of TRY 2.623,23 effective from 1 January 2011 has been taken into consideration in calculating the provision for employee termination benefits of the Group (31 December 2010: TRY 2.623,23 effective as of 1 January 2011).

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**NOTE 17 – PROVISIONS FOR EMPLOYMENT BENEFITS (cont’d)**

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

|                           | 1 January-<br>31 March 2011 | 1 January-<br>31 March 2010 |
|---------------------------|-----------------------------|-----------------------------|
| Opening balance           | 161.033.388                 | 117.712.283                 |
| Service cost              | 5.798.093                   | 5.881.588                   |
| Interest cost             | 1.851.224                   | 1.711.436                   |
| Actuarial loss            | 741.832                     | 542.265                     |
| Termination benefits paid | (1.373.140)                 | (3.107.524)                 |
| Closing balance           | <u>168.051.397</u>          | <u>122.740.048</u>          |

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

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

|                          | 1 January-<br>31 March 2011 | 1 January-<br>31 March 2010 |
|--------------------------|-----------------------------|-----------------------------|
| Opening balance          | 7.255.683                   | 4.158.281                   |
| Provision for the period | 1.393.950                   | 914.881                     |
| Closing balance          | <u>8.649.633</u>            | <u>5.073.162</u>            |

**NOTE 18 – OTHER ASSETS AND LIABILITIES**

Other current assets

|                         | 31 March<br>2011   | 31 December<br>2010 |
|-------------------------|--------------------|---------------------|
| Advances given          | 20.470.160         | 42.025.211          |
| Other VAT Receivable    | 94.041.508         | 104.236.142         |
| Prepaid expenses        | 15.671.198         | 16.673.349          |
| VAT carried forward     | 5.923.758          | 4.163.009           |
| Prepaid taxes and funds | 3.107.987          | 2.945.856           |
| Due from personnel      | 956.563            | 902.704             |
| Job advances given      | 211.972            | 129.693             |
| Income accruals         | -                  | 1.184.826           |
| Other current assets    | 12.174.661         | 5.117.762           |
|                         | <u>152.557.807</u> | <u>177.378.552</u>  |

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

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

**NOTE 18 – OTHER ASSETS AND LIABILITIES (cont’d)**

Other non-current assets

|                          | 31 March<br>2011  | 31 December<br>2010 |
|--------------------------|-------------------|---------------------|
| Prepaid expenses         | 51.041.937        | 51.418.209          |
| Advances given           | 27.133.768        | 13.248.585          |
| Other non-current assets | 362.997           | 362.389             |
|                          | <u>78.538.702</u> | <u>65.029.183</u>   |

Other current liabilities

|                                | 31 March<br>2011   | 31 December<br>2010 |
|--------------------------------|--------------------|---------------------|
| Advances received              | 92.939.351         | 137.846.609         |
| Provision for unpaid vacations | 47.948.444         | 47.690.347          |
| Due to personnel               | 26.181.572         | 23.338.388          |
| VAT payable                    | 23.728.727         | 13.776.894          |
| Expense accruals               | 990.578            | 618.788             |
| Deferred income                | 315.859            | 317.518             |
| Other VAT payable              | -                  | 301.866             |
| Other current liabilities      | 1.763.165          | 3.089.852           |
|                                | <u>193.867.696</u> | <u>226.980.262</u>  |

Other non-current liabilities

|                               | 31 March<br>2011 | 31 December<br>2010 |
|-------------------------------|------------------|---------------------|
| Deferred income               | -                | 85.019              |
| Other non-current liabilities | 668.155          | 748.962             |
|                               | <u>668.155</u>   | <u>833.981</u>      |



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**NOTE 19 – EQUITY**

As of 31 March 2011 and 31 December 2010, the capital structure is as follows:

| <u>Shareholders</u>  | <u>(%)</u> | <u>31 March</u>      |            | <u>31 December</u>   |  |
|----------------------|------------|----------------------|------------|----------------------|--|
|                      |            | <u>2011</u>          | <u>(%)</u> | <u>2010</u>          |  |
| Ataer Holding A.Ş.   | 49,29      | 1.059.632.159        | 49,29      | 788.563.515          |  |
| Held by public       | 47,63      | 1.024.125.203        | 47,63      | 762.139.626          |  |
| Erdemir’s own shares | 3,08       | 66.242.638           | 3,08       | 49.296.859           |  |
| Historical capital   | 100        | 2.150.000.000        | 100        | 1.600.000.000        |  |
| Effect of inflation  |            | 731.967.735          |            | 731.967.735          |  |
| Restated capital     |            | 2.881.967.735        |            | 2.331.967.735        |  |
| Treasury shares      |            | (74.637.969)         |            | (57.692.172)         |  |
|                      |            | <u>2.807.329.766</u> |            | <u>2.274.275.563</u> |  |

The issued capital of the Company in 2011 consists of 215.000.000.000 lots of shares (2010: 160.000.000.000 lots). The nominal value of each share is 1 Kr (Turkish cent) (2010: 1 Kr). This capital is split between A and B group shares. Group A shares consist of 1 share with a share value of 1 Kr and Group B shares consist of 2.149.999.999,99 shares representing TRY 214.999.999.999 of the issued capital.

The General Assembly has to choose one member to the Board of Directors from the nominees of the Privatization Administration as the beneficiary owner representing A Group shares. In case, the Board member representing the A Group shares leaves the board within the chosen period, a new board member is obliged to be chosen from the nominees of the Privatization Administration as the beneficiary owner. For decisions to be taken about the rights assigned to A Group shares, the board member representing A Group shares is also obliged to use an affirmative vote. One of the auditors is selected from the nominees of Turkish Privatization Administration as the beneficiary owner representing A Group shares . The decisions to change the Articles of Association of the Company that will have an effect on the board of directors’ meeting and decision quorum, rights assigned to A Group shares, rights assigned to A Group shares in relation to investments and employment decisions and any other changes in the Articles of Association of the Company which will directly or indirectly affect the rights of A Group shares, have to receive an affirmative vote of the beneficiary owner representing the A Group shares. Otherwise, the decisions are accepted as invalid.

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**NOTE 19 – EQUITY (cont’d)**

|  | 31 March<br>2011     | 31 December<br>2010  |
|--|----------------------|----------------------|
| Other equity items                           |                      |                      |
| Share premium                                | 231.020.042          | 231.020.042          |
| Revaluation reserves                         | 26.217.738           | 25.241.672           |
| <i>-Revaluation reserves of fixed assets</i> | <i>26.217.738</i>    | <i>25.241.672</i>    |
| Cash flow hedging reserves                   | (20.850.646)         | (24.396.817)         |
| Foreign currency translation reserves        | (443.819)            | 4.845.393            |
| Restricted reserves assorted from profit     | 1.757.470.693        | 1.696.170.542        |
| <i>-Legal reserves</i>                       | <i>550.543.376</i>   | <i>489.243.225</i>   |
| <i>-Statutory reserves</i>                   | <i>1.206.927.317</i> | <i>1.206.927.317</i> |
| Retained earnings                            | 1.273.384.263        | 1.537.874.215        |
| <i>-Extraordinary reserves</i>               | <i>646.873.464</i>   | <i>537.873.352</i>   |
| <i>-Accumulated profit</i>                   | <i>626.510.799</i>   | <i>1.000.000.863</i> |
|  | <u>3.266.798.271</u> | <u>3.470.755.047</u> |

However, in accordance with the Communiqué Serial: XI, No: 29 issued on 1 January 2008 and other related CMB’s announcements, “Paid-in capital”, “Restricted profit reserves” and “Share premium” should be presented by using their registered amounts in the statutory records. The restatement differences (e.g. inflation restatement differences) arising from the application of this Communiqué should be associated with the:

- “Capital restatement differences” account, following the “paid-in capital” line item in the financial statements, if the differences are caused by “paid-in capital” and have not been added to capital yet;
- “Retained earnings”, if the differences are arising from “restricted profit reserves” and “share premium” and have not been associated with either profit distribution or capital increase yet.

Other equity items are carried at the amounts that are valued based on the CMB’s Financial Reporting Standards.

Capital restatement differences may only be considered as part of the paid-up capital.

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

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**NOTE 19 – EQUITY (cont’d)**

Listed companies perform dividend distributions as envisaged by Turkish Capital Market Board as explained below:

In accordance with the CMB Communiqué IV No:27 Clause:5 and other several decisions of CMB, in case of dividend distribution the rate of first dividend could not be less than %20 of remaining distributable profit after deducting the prior year losses if any. Depending on the decisions taken by General Assemblies, publicly traded joint stock companies are free to distribute dividends in cash, in share certificates, in partial distribution within cash or share certificates while retaining a portion within the company or retain as a whole with distributing neither cash nor stocks.

As required by CMB decision numbered 7/242 dated February 25, 2005; amount of distributable profit, calculated from net distributable profit in accordance with CMB regulations related to minimum dividend distribution requirements shall be fully distributed, wherein the amount could be compensated by net distributable profit per statutory books, otherwise full amount of net distributable profit per statutory books will be distributed. No profit distribution shall be made in the case of net loss in either statutory books or the financial statements prepared in accordance with CMB regulations.

In accordance with the Capital Market Board decision dated January 27, 2010, concerning with distribution of dividends for publicly traded joint stock companies, it was decided that no minimum dividend distribution requirement will be applied for publicly traded joint stock companies.

Complying with the decision related to the profit distribution principles for the operating profits made in 2008 by the publicly traded companies; which is announced in the CMB communiqué numbered 1/6 and dated January 9, 2009; the companies which are obliged to prepare consolidated financial statements are allowed to calculate the profits to be distributed by considering the net profit amount included in the financial statements which are prepared according to the CMB communiqué Serial:XI, No:29 – Communiqué on Principles of Financial Reporting in Capital Markets; regardless of the decision taken by the general assembly to distribute the profit, as long as the profit portions transferred from the subsidiaries, joint managing companies and affiliates shown under the profit presented in the consolidated financial statements, to the parent’s consolidated financial statements are afforded by the companies’ sources according to legal bookings.

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used as an internal source of capital increase, dividend distribution in cash or the net off from prior period losses. In case of usage of inflation adjustment to issued capital in dividend distribution in cash, it is subject to corporation tax.

Remaining portion of the current year profit after deduction of prior periods’ losses and other sources which might be used in dividend distribution in statutory books of the Company are equal to TL 2.434.996.093 as of 31 March 2011.

The legal reserves and the share premium, which is regarded as legal reserve in accordance with TCC Article 466, are presented using their statutory amounts. In this context, the difference of inflation restatements in accordance with IFRS framework, that are not subject to profit distribution or capital increase as of the date of financial statements, is associated with the retained earnings.

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

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**NOTE 19 – EQUITY (cont’d)**

According to the first paragraph of Article 466 of the Turkish Commercial Code (“TCC”), 5% of the profit shall be allocated as the first legal reserves, up to 20% of the paid/ issued capital. First dividend is appropriated for shareholders after deducting from the profit. Following the deduction of the amounts from the “profit”, General Assembly of Shareholders is authorized to decide whether shall be the remaining balance shall be fully or totally placed in extraordinary legal reserves or whether it is distributed, also taking into consideration the Company’s profit distribution policy. According to the sub-clause 3 of the clause 2 of Article 466 of the Turkish Commercial Code, after deducting dividends amounting to 5% of the paid/issued capital from the part decided to be allocated; ten percent of the remaining balance shall be appropriated to second legal reserves. If it is decided to distribute the profit as bonus share, through the method of adding the profit to the capital, second legal reserves is not appropriated.

According to the CMB Communiqué, until the company’s Article of Association was revised on 31 March 2008, an amount equal to the first dividend distributed to shareholders is allocated as status reserves in order to be used in the plant expansion. Also according to the 13th Article of Association before the revision on 31 March 2008, 5% of the net profit for the period after taxation is estimated to be allocated as legal reserves up until reaching 50% of the paid/issued capital. The reserve amount that exceeds the 20% of the legal reserves, defined by the Article 466 of TCC, is recorded as status reserve.

Cash flow hedging reserve arises from the recognition of the changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows directly in equity. The amounts deferred in equity are recognized in the consolidated statement of income in the same period, if the hedged item affects profit or loss.

Revaluation reserve of fixed assets arises from the revaluation of land and buildings. In the case of a sale or retirement of the revalued property, the related revaluation surplus remaining in the properties revaluation reserve is transferred directly to the retained earnings.

Foreign currency translation reserve arises from expressing the assets and liabilities of the Group's foreign operations in TRY by using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified to equity and transferred to the Group's translation reserve. Such exchange differences are recognized in the consolidated income statement in the period of which the foreign operation is disposed.

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

**NOTE 20 – SALES AND COST OF SALES**

|                          | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|--------------------------|------------------------------|------------------------------|
| <u>Sales Revenue</u>     |                              |                              |
| Domestic sales           | 1.591.570.056                | 1.391.112.046                |
| Export sales             | 402.008.809                  | 158.987.916                  |
| Other revenues (*)       | 42.263.566                   | 33.606.280                   |
| Sales returns (-)        | (251.743)                    | (397.698)                    |
| Sales discounts (-)      | (7.710.193)                  | (180.920)                    |
|                          | <u>2.027.880.495</u>         | <u>1.583.127.624</u>         |
| <u>Cost of Sales (-)</u> | <u>(1.606.233.439)</u>       | <u>(1.274.719.022)</u>       |
| Gross profit             | <u>421.647.056</u>           | <u>308.408.602</u>           |

(\*) The total amount of by product exports in other revenues is TRY 11.585.560 (31 March 2010: TRY 3.197.626).

The breakdown of cost of sales for the periods 1 January – 31 March 2011 and 1 January – 31 March 2010 is as follows:

|   | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|---|------------------------------|------------------------------|
| Raw material usage  | (1.071.551.923)              | (802.979.298)                |
| Personnel expenses  | (203.012.120)                | (126.227.617)                |
| Auxiliary material expenses                               | (100.343.531)                | (91.362.656)                 |
| Energy expenses   | (98.328.789)                 | (90.550.509)                 |
| Depreciation and amortization expenses                    | (74.275.710)                 | (68.565.245)                 |
| Inventory write-downs within the period (Note 10)         | (965.368)                    | (368.003)                    |
| Change of finished goods and work in progress inventories | 25.653.113                   | (52.131.256)                 |
| Reversal of inventory write-downs (Note 10)               | 3.055.531                    | 3.527.867                    |
| Other   | (86.464.642)                 | (46.062.305)                 |
|   | <u>(1.606.233.439)</u>       | <u>(1.274.719.022)</u>       |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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**NOTE 21 – RESEARCH AND DEVELOPMENT EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES, GENERAL ADMINISTRATIVE EXPENSES**

The breakdown of operating expenses for the periods 1 January – 31 March 2011 and 1 January – 31 March 2010 is as follows:

|  | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|--|------------------------------|------------------------------|
| Marketing, sales and distribution expenses (-) | (20.915.480)                 | (13.145.542)                 |
| General administrative expenses (-)            | (39.205.697)                 | (26.320.967)                 |
| Research and development expenses (-)          | (78.035)                     | (77.866)                     |
|  | <u>(60.199.212)</u>          | <u>(39.544.375)</u>          |

**NOTE 22 – OPERATING EXPENSES ACCORDING TO THEIR NATURE**

The breakdown of marketing, sales and distribution expenses according to their nature for the periods 1 January – 31 March 2011 and 1 January – 31 March 2010 is as follows:

|                                  | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|----------------------------------|------------------------------|------------------------------|
| Personnel expense (-)            | (11.938.145)                 | (5.731.001)                  |
| Depreciation and amortization(-) | (1.704.498)                  | (1.717.370)                  |
| Other (-)                        | (7.272.837)                  | (5.697.171)                  |
|                                  | <u>(20.915.480)</u>          | <u>(13.145.542)</u>          |

The breakdown of general administrative expenses for the periods 1 January – 31 March 2011 and 1 January – 31 March 2010 is as follows:

|                                   | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|-----------------------------------|------------------------------|------------------------------|
| Personnel expense (-)             | (23.500.012)                 | (14.736.819)                 |
| Depreciation and amortization (-) | (2.363.413)                  | (1.516.833)                  |
| Other (-)                         | (13.342.272)                 | (10.067.315)                 |
|                                   | <u>(39.205.697)</u>          | <u>(26.320.967)</u>          |

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**NOTE 23 – OTHER OPERATING INCOME/(EXPENSE)**

|   | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|---|------------------------------|------------------------------|
| <u>Other operating income</u>                   |                              |                              |
| Revenue from sale of financial assets (Note 26) | 7.962.073                    | -                            |
| Provisions released                             | 3.592.386                    | 507.211                      |
| Service income                                  | 1.891.689                    | 689.934                      |
| Maintenance and repair income                   | 1.563.090                    | 1.488.334                    |
| Indemnity and penalty detention income          | 681.323                      | 480.463                      |
| Client deposits income                          | 662.662                      | 735.132                      |
| Gain on sale of fixed assets                    | 430.562                      | -                            |
| Rent income                                     | 163.753                      | 146.538                      |
| Insurance indemnity income                      | 69.295                       | 1.815.290                    |
| Other income and gains                          | 2.643.626                    | 3.077.298                    |
|   | <u>19.660.459</u>            | <u>8.940.200</u>             |
|   |                              |                              |
|   | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
| <u>Other operating expenses (-)</u>             |                              |                              |
| Loss on disposal of fixed assets                | (4.038.679)                  | -                            |
| Penalty expenses                                | (3.816.892)                  | (9.224.949)                  |
| Provisions expenses                             | (3.603.527)                  | (29.286.261)                 |
| Service expenses                                | (1.481.222)                  | (1.583.974)                  |
| Lawsuit compensation expenses                   | (727.710)                    | (6.449.405)                  |
| Rent expenses                                   | (338.979)                    | (318.538)                    |
| Real estate and property levies expenses        | -                            | (4.833.908)                  |
| Demurage expenses                               | -                            | (642.293)                    |
| Loss on sale of fixed assets                    | -                            | (54.960)                     |
| Other expenses and losses                       | (4.842.913)                  | (7.334.149)                  |
|   | <u>(18.849.922)</u>          | <u>(59.728.437)</u>          |

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

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#### NOTE 24 – FINANCE INCOME

|  | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|--|------------------------------|------------------------------|
| Interest income on bank deposits                                 | 35.372.776                   | 13.664.779                   |
| Foreign exchange gains from trade receivables and payables (net) | 24.490.025                   | 576.149                      |
| Fair value differences of derivative financial instruments       | 16.143.804                   | -                            |
| Interest income from sales with maturity                         | 10.675.007                   | 9.900.729                    |
| Discount income  | 742.965                      | 138.242                      |
| Foreign exchange gains from financial liabilities (net)          | -                            | 10.608.398                   |
| Foreign exchange gains from forward contracts                    | -                            | 167.804                      |
| Other financial income   | 6.953                        | 103.801                      |
|  | <u>87.431.530</u>            | <u>35.159.902</u>            |

#### NOTE 25 – FINANCE EXPENSES

|  | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|--|------------------------------|------------------------------|
| Interest expenses on financial liabilities                 | (69.417.814)                 | (45.214.865)                 |
| Foreign exchange loss from financial liabilities (net)     | (34.824.948)                 | -                            |
| Foreign exchange loss from bank deposits (net)             | (4.630.809)                  | (5.784.841)                  |
| Fair value differences of derivative financial instruments | -                            | (2.583.212)                  |
| Foreign exchange loss from forward contracts               | (210.004)                    | -                            |
| Other financial expenses                                   | (2.139.811)                  | (1.324.204)                  |
|  | <u>(111.223.386)</u>         | <u>(54.907.122)</u>          |

During the period, TRY 341.118 of financial expenses related to foreign currency translation losses and TRY 861.849 of interest expenses in total TRY 1.202.964, have been capitalized as part of the Group’s property, plant and equipment (1 January – 31 March 2010: the foreign currency translation losses of TRY 6.493.172, the interest expenses of TRY 1.967.637, in total TRY 8.460.809 has been capitalized).

#### NOTE 26 –NON CURRENT ASSETS HELD FOR SALE

| <u>Company</u>                         | Ratio<br>% | 31 March<br>2011 | Ratio<br>% | 31 December<br>2010 |
|--|------------|------------------|------------|---------------------|
| ArcelorMittal Ambalaj Çeliği Tic. A.Ş. | 25         | -                | 25         | 11.498.657          |
|  |            | <u>-</u>         |            | <u>11.498.657</u>   |

(\*) The sale of ArcelorMittal Ambalaj Çeliği Tic. A.Ş. shares was completed on 28 February 2011 with the sale price of TRY 16.700.250 (TRY equivalent of US Dollars 10.500.000). The gain from the sale of the shares is TRY 7.962.073 and recognised under other operating income (Note 23).

The sale of Borçelik Çelik San. Tic. A.Ş. shares was completed on 4 November 2010 with the sale price of TRY 46.262.700 (TRY equivalent of US Dollars 33.000.000).



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**NOTE 27 –TAX ASSETS AND LIABILITIES**

|                                 | 31 March<br>2011             | 31 December<br>2010          |
|---------------------------------|------------------------------|------------------------------|
| <u>Corporate tax payable:</u>   |                              |                              |
| Current corporate tax provision | 42.066.925                   | 27.784.836                   |
| Prepaid taxes and funds (-)     | (680.310)                    | (20.669.115)                 |
|                                 | <u>41.386.615</u>            | <u>7.115.721</u>             |
|                                 | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
| <u>Taxation:</u>                |                              |                              |
| Current corporate tax expense   | 42.066.925                   | 6.171.636                    |
| Deferred tax expense            | 25.111.225                   | 25.172.469                   |
|                                 | <u>67.178.150</u>            | <u>31.344.105</u>            |

Corporate tax

The Group is subject to Turkish corporate taxes in force. The necessary provisions are allocated in the consolidated financial statements for the estimated liabilities based on the Group’s results for the year. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective corporate tax rate in Turkey is 20% and 16% in Romania as of 31 March 2011 (31 December 2010: in Turkey 20%, in Romania 16%). The total amount of the corporate tax paid by the Group in 2011 is TRY 7.796.031 (31 March 2010: TRY 3.830.724).

In Turkey, advance tax returns are filed on a quarterly basis. The temporary tax of 2011 has been calculated over the corporate earnings using the rate 20%, during the temporary taxation period. (2010: 20%).

Losses can be carried forward to offset the future taxable income for up to maximum 5 years. However, losses cannot be carried back to offset the profits of the previous periods, retrospectively.

In Turkey, a definite and distinct reconciliation procedure for tax assessment does not exist. Companies file their tax returns between 1April - 25 April following the closing period of the related year’s accounts. Tax returns and related accounting records may be examined and revised within five years.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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#### **NOTE 27 –TAX ASSETS AND LIABILITIES (cont’d)**

##### Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, except for the dividends distributed to fully fledged taxpayer companies receiving and declaring these dividends and to Turkish branches of foreign companies. The rate of income withholding tax applied to all companies in the period of 24 April 2003 - 22 July 2006 is 10%. This rate was changed to 15% as of 22 July 2006 by the decision of the Council of Ministers, numbered 2006/10731. Undistributed dividends incorporated in share capital are not subject to the income withholding taxes.

19,8% withholding tax must be applied to the investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Investment disbursements without any investment incentive certificate after this date which are directly related to production facilities of the company can be deducted by 40% from the taxable income. The investments without investment incentive certificates do not qualify for tax allowance.

##### Investment allowance application

With the decision numbered 2006/95, which was taken during the meeting of the Constitutional Court on 15 October 2009, the phrase “ only related to the years 2006, 2007 and 2008...” which was a part of the Temporary Article 69 of the Income Tax Law was cancelled and the cancellation became effective from the date the decision has been published in the Official Gazette on 8 January 2010. According to the decision, the investment incentive amount outstanding that cannot be deducted from 2008 taxable income previously, will be deducted from taxable income of the subsequent profitable years.

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69<sup>th</sup> article in Income Tax Regulation using the regulation numbered 6009 and dated 23 July 2010. Consequently, in compliance with the cancellation decision of the Constitutional Court, the year limitation has been abolished and investment allowance has been limited to 25% of the profit. Corporate tax ratio of 30% in the previous regulation for the ones who benefit from investment allowance has been decreased to the effective corporate tax with the amendment made. (2011: 20%)

##### Deferred tax

The Group recognizes deferred tax assets and liabilities based upon the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with the CMB’s Communiqué on Accounting Standards. These differences usually result in the recognition of revenue and expenses in different reporting periods for the CMB regulations and tax purposes and are explained below.

Tax rate used in the calculation of deferred tax assets and liabilities (excluding land) is 20% for the subsidiaries in Turkey and, 16% for the subsidiary in Romania (31 December 2010: in Turkey 20%, in Romania 16%). Deferred tax related with the temporary differences arising from land parcels is calculated with the tax rate of 5% (December 2010: 5%).

As the companies in Turkey cannot give a consolidated corporate tax declaration, subsidiaries that have deferred tax assets are not netted off with subsidiaries that have deferred tax liabilities and disclosed separately.

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**NOTE 27 –TAX ASSETS AND LIABILITIES (cont’d)**

|   | 31 March<br>2011     | 31 December<br>2010  |
|---|----------------------|----------------------|
| <u>Deferred tax assets:</u>                         |                      |                      |
| Carry forward tax losses(*)                         | (138.920.275)        | (152.001.407)        |
| Provision for employee benefits                     | (35.340.206)         | (33.657.814)         |
| Tangible and intangible assets                      | (23.220.416)         | (15.529.249)         |
| Inventories   | (9.082.689)          | (14.136.332)         |
| Provision for unpaid vacations                      | (9.589.689)          | (9.538.069)          |
| Investment incentive                                | (8.559.395)          | (8.120.868)          |
| Provision for lawsuits                              | (6.103.420)          | (5.879.655)          |
| Fair values of the derivative financial instruments | (2.349.901)          | (4.976.365)          |
| Provision for other doubtful receivables            | (5.170.811)          | (5.170.811)          |
| Prepaid expenses                                    | (1.686.290)          | (1.686.290)          |
| Other   | (8.406.459)          | (6.324.608)          |
|   | <u>(248.429.551)</u> | <u>(257.021.468)</u> |
| <u>Deferred tax liabilities:</u>                    |                      |                      |
| Tangible and intangible assets                      | 198.581.867          | 178.603.233          |
| Amortized cost adjustment on loans                  | 13.278.163           | 15.452.593           |
| Insurance expenses                                  | 1.894.019            | 1.965.207            |
| Other   | 3.234.701            | 3.173.229            |
|   | <u>216.988.750</u>   | <u>199.194.262</u>   |
|   | <u>(31.440.801)</u>  | <u>(57.827.206)</u>  |

(\*) As almost all of the carry forward tax losses occurred in 2009, the Group has the right to deduct the carry forward losses from taxable profit until 31 December 2014. According to the projections made, the Group’s Management recorded deferred tax asset for the portion of carry forward tax losses which is projected to be used within the future taxable income.

In the financial statements which are prepared according to the CMB Financial Reporting Standards, of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its affiliates that are separate taxpayer entities, the net deferred tax assets and liabilities of the related companies are classified separately within the accounts of deferred tax assets and liabilities of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries’ consolidated financial statements. The temporary differences disclosed above besides the deferred tax asset and liabilities, have been prepared on the basis of the gross values and show the net deferred tax position.

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**NOTE 27 –TAX ASSETS AND LIABILITIES (cont’d)**

|   | 31 March<br>2011             | 31 December<br>2010          |
|---|------------------------------|------------------------------|
| <b><u>Presentation of deferred tax (assets)/liabilities:</u></b>        |                              |                              |
| Deferred tax (assets)   | (132.843.952)                | (150.892.360)                |
| Deferred tax liabilities  | 101.403.151                  | 93.065.154                   |
|   | <u>(31.440.801)</u>          | <u>(57.827.206)</u>          |
| <b><u>Deferred tax asset movements:</u></b>                             | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
| Opening balance   | (57.827.206)                 | (202.899.442)                |
| Deferred tax expense  | 25.111.225                   | 25.172.469                   |
| The amount netted under equity  | 955.833                      | (935.888)                    |
| Translation difference  | 319.347                      | -                            |
| Closing balance   | <u>(31.440.801)</u>          | <u>(178.662.861)</u>         |
| <b><u>Reconciliation of tax provision:</u></b>                          | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
| Profit before tax   | 338.466.525                  | 198.328.770                  |
| Effective tax rate  | 20%                          | 20%                          |
| Calculated tax  | 67.693.305                   | 39.665.754                   |
| <b>Reconciliation between the tax provision and<br/>calculated tax:</b> |                              |                              |
| - Non-deductible expenses   | 1.797.532                    | 3.046.993                    |
| - Non-taxable income  | (9.389)                      | (213.060)                    |
| - Effect of non-taxable adjustments                                     | (914.176)                    | (11.537.271)                 |
| - Investment incentive  |                              |                              |
| - Effect of unused deferred tax assets                                  | (906.963)                    | (339.658)                    |
| - Effect of the different tax rates<br>due to foreign subsidiaries      | (191.621)                    | 913.395                      |
| - Other   | (290.538)                    | (192.048)                    |
| Tax expense in income statement   | <u>67.178.150</u>            | <u>31.344.105</u>            |

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

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#### NOTE 27 – TAX ASSETS AND LIABILITIES (cont’d)

As of 1 January - 31 March 2011 and 2010, the details of the tax gains/(losses) of the other comprehensive income/(expense) are as follows:

|  | 1 January – 31 March 2011 |                          |                     | 1 January – 31 March 2010 |                          |                     |
|--|---------------------------|--------------------------|---------------------|---------------------------|--------------------------|---------------------|
|  | Amount<br>before tax      | Tax income/<br>(expense) | Amount<br>after tax | Amount<br>before tax      | Tax income/<br>(expense) | Amount<br>after tax |
| <u>Other comprehensive income/(loss) in the current period</u> |                           |                          |                     |                           |                          |                     |
| Change in revaluation reserves of fixed assets                 | 976.066                   | -                        | 976.066             | (132.778)                 | -                        | (132.778)           |
| Change in cash flow hedging reserves                           | 4.779.166                 | (955.833)                | 3.823.333           | (4.679.434)               | 935.888                  | (3.743.546)         |
| Change in foreign currency translation reserves                | (5.289.212)               | -                        | (5.289.212)         | 78.625                    | -                        | 78.625              |
|  | <u>466.020</u>            | <u>(955.833)</u>         | <u>(489.813)</u>    | <u>(4.733.587)</u>        | <u>935.888</u>           | <u>(3.797.699)</u>  |

#### NOTE 28 – EARNINGS/ (LOSS) PER SHARE

|   | 1 January –<br>31 March 2011 | 1 January –<br>31 March 2010 |
|---|------------------------------|------------------------------|
| <u>Number of shares outstanding(*)</u>          | 215.000.000.000              | 215.000.000.000              |
| Net profit attributable to equity holders – TRY | 260.422.828                  | 160.405.362                  |
| Profit per share with 1 TRY nominal value TRY % | 0,1211 / % 12,11             | 0,0746 / % 7,46              |

(\*) According to the decision taken by the Ereğli Demir ve Çelik Fabrikaları T.A.Ş. Board of Directors dated 25 January 2011 and with the Approval No: 16/178 received from CMB on 28 February 2011, the Company’s paid capital was increased from TRY 1.600.000.000 to TRY 2.150.000.000, by means of bonus shares distribution from retained earnings.

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**NOTE 29 –RELATED PARTY DISCLOSURES**

The immediate parent and ultimate controlling parties of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively (Note 1).

The transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated in the consolidation and therefore are not disclosed in this note.

The trade payables to related parties mainly arise from purchased service transactions.

The details of transactions between the Group and other related parties are disclosed below:

|   | 31 March<br>2011 | 31 December<br>2010 |
|---|------------------|---------------------|
| <u>Due from related parties (short term)</u>                |                  |                     |
| Oyak Renault Otomobil Fab. A.Ş. <sup>(3)</sup>              | 8.148.629        | 6.017.296           |
| Bolu Çimento Sanayi A.Ş. <sup>(2)</sup>                     | 972.067          | -                   |
| ArcelorMittal Amb. Çel. San. ve Tic. A.Ş. <sup>(1)(*)</sup> | -                | 72.010.724          |
| Other   | 226.477          | 309.689             |
|   | <u>9.347.173</u> | <u>78.337.709</u>   |

(\*) The Group sold its shares in ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. on 28 February 2011.

|   | 31 March<br>2011 | 31 December<br>2010 |
|---|------------------|---------------------|
| <u>Due from related parties (long term)</u>             |                  |                     |
| Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(2)</sup> | 1.810.932        | 1.141.524           |
|   | <u>1.810.932</u> | <u>1.141.524</u>    |
| <u>Due to related parties (short term)</u>              |                  |                     |
| Omsan Lojistik A.Ş. <sup>(2)</sup>                      | 2.163.204        | 1.748.199           |
| Omsan Logistica SRL <sup>(2)</sup>                      | 965.947          | 590.783             |
| Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(2)</sup>     | 833.074          | 1.763.229           |
| Omsan Denizcilik A.Ş. <sup>(2)</sup>                    | 656.456          | 581.339             |
| Oyak Beton A.Ş. <sup>(2)</sup>                          | 63.013           | 182.930             |
| Oyak Telekomünikasyon A.Ş. <sup>(2)</sup>               | 2.755            | 144.886             |
| Adana Çimento Sanayi T.A.Ş. <sup>(2)</sup>              | 210              | 1.222.847           |
| Other   | 3.869.039        | 3.677.229           |
|   | <u>8.553.698</u> | <u>9.911.442</u>    |

<sup>(1)</sup> Investment in associate

<sup>(2)</sup> Subsidiaries of the parent company

<sup>(3)</sup> Investment in associates of the parent company

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

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**NOTE 29 –RELATED PARTY DISCLOSURES (cont’d)**

|   | 31 March<br>2011                | 31 December<br>2010             |
|---|---------------------------------|---------------------------------|
| <u>Non trade payables due to related parties (short term)</u> |                                 |                                 |
| Dividend payables to shareholders                             | 443.070.864                     | 1.709.879                       |
| Other   | 583                             | 5.121                           |
|   | <u>443.071.447</u>              | <u>1.715.000</u>                |
|   | 1 January –<br>31 March<br>2011 | 1 January –<br>31 March<br>2010 |
| <u>Major sales to related parties</u>                         |                                 |                                 |
| Oyak Renault Otomobil Fab. A.Ş. <sup>(3)</sup>                | 11.546.532                      | 3.851.087                       |
| ArcelorMittal Amb.Çel. San. ve Tic. A.Ş. <sup>(1) (*)</sup>   | 7.087.445                       | 32.040.893                      |
| Adana Çimento Sanayi T.A.Ş. <sup>(2)</sup>                    | 2.225.963                       | -                               |
| Bolu Çimento Sanayi A.Ş. <sup>(2)</sup>                       | 1.480.254                       | 265.987                         |
| Ünye Çimento Sanayi ve Ticaret A.Ş. <sup>(2)</sup>            | 357.085                         | 543.748                         |
| Oytaş İç ve Dış Ticaret A.Ş. <sup>(2)</sup>                   | 345.600                         | -                               |
| Aslan Çimento A.Ş. <sup>(2)</sup>                             | 47.040                          | 349.755                         |
| Borçelik Çelik San. Tic. A.Ş. <sup>(4) (*)</sup>              | -                               | 5.206.504                       |
|   | <u>23.089.919</u>               | <u>42.257.974</u>               |

<sup>(1)</sup> Investment in associate

<sup>(2)</sup> Subsidiaries of the parent company

<sup>(3)</sup> Investment in associates of the parent company

<sup>(4)</sup> Financial asset

<sup>(\*)</sup> The Group sold its shares in Borçelik Çelik San. ve Tic. A.Ş. on 4 November 2010. The Group sold its shares in ArcelorMittal Ambalaj Çeliği San ve Tic. A.Ş. on 28 February 2011.

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

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**NOTE 29 –RELATED PARTY DISCLOSURES (cont’d)**

|   | 1 January –<br>31 March<br>2011 | 1 January –<br>31 March<br>2010 |
|---|---------------------------------|---------------------------------|
| <u>Major purchases from related parties</u>                   |                                 |                                 |
| Omsan Lojistik A.Ş. <sup>(2)</sup>                            | 5.518.617                       | 1.609.469                       |
| Oyak Pazarlama Hizmet ve Turizm A.Ş. <sup>(2)</sup>           | 3.657.069                       | 1.643.244                       |
| Omsan Logistica SRL <sup>(2)</sup>                            | 2.753.372                       | 241.312                         |
| Omsan Denizcilik A.Ş. <sup>(2)</sup>                          | 2.555.907                       | -                               |
| Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. <sup>(2)</sup> | 1.461.418                       | -                               |
| Oyak Savunma ve Güvenlik Sistemleri A.Ş. <sup>(2)</sup>       | 526.385                         | 654.423                         |
| Oyak Telekomünikasyon A.Ş. <sup>(2)</sup>                     | 112.115                         | -                               |
| Oyak Genel Müdürlüğü  | 111.050                         | 506.345                         |
| Other   | 228.372                         | 71.005                          |
|   | <u>16.924.305</u>               | <u>4.725.798</u>                |

<sup>(2)</sup> Subsidiaries of the parent company

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

The terms and policies applied to the transactions with related parties:

The period end balances are unsecured, interest free and their collections will be done in cash. As of 31 March 2011, the Group provides no provision for the receivables from related parties (31 March 2010: none).

Salaries, bonuses and other benefits of the key management

For the period ended 31 March 2011, the total compensation consisting of short term benefits such as salaries, bonuses and other benefits of the key management of the Group is TRY 2.768.611 (31 March 2010: TRY 1.649.028).



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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS**

**Additional information about financial instruments**

(a) Capital risk management

The Group manages its capital through the optimization of the debt and the equity balance that minimizes the financial risk.

Through the forecasts regularly prepared by the Group, the future capital amount, debt to equity ratio and similar ratios are forecasted and required precautions are taken to strengthen the capital.

The capital structure of the Group consists of debt which includes the financial liabilities disclosed in Note 6, cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings as disclosed in Note 19.

The Group’s Board of Directors analyze the capital structure in regular meetings. During these analysis, the Board of Directors also evaluates the risks associated with each class of capital together with the cost of capital. The Group, by considering the decisions of the Board of Directors, aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

As of 31 March 2011 and 31 December 2010 the net debt/equity ratio is as follows:

|                                      | Note | 31 March<br>2011 | 31 December<br>2010 |
|--------------------------------------|------|------------------|---------------------|
| Total financial liabilities          | 6    | 4.679.254.362    | 5.851.241.280       |
| Less: Cash and cash equivalents      | 4    | 1.988.378.032    | 2.877.790.271       |
| Net debt                             |      | 2.690.876.330    | 2.973.451.009       |
| Total adjusted equity (*)            |      | 6.533.044.225    | 6.715.641.142       |
| Total resources                      |      | 9.223.920.555    | 9.689.092.151       |
| Net debt/Total adjusted equity ratio | 19   | 41%              | 44%                 |

Distribution of net debt/ total adjusted equity 29/71 31/69

(\*) Total adjusted equity is calculated by subtracting cash flow hedging reserves and adding non-controlling interests.

(b) Significant accounting policies

The Group’s accounting policies related to the financial instruments are disclosed in Note 2 “Summary of Significant Accounting Policies, 2.9.8 Financial Instruments”.

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(c) Financial risk management objectives

The Group manages its financial instruments through a separate treasury function which was established for that purpose. The developments are followed on a real time basis. The Group’s corporate treasury function manages the financial instruments through daily regular meetings by evaluating the domestic and international markets and by considering the daily cash inflows and outflows in accordance with the policies and regulations issued by the Group Risk Management Unit. At the end of each day, each Group company prepares a “daily cash report” and Group Risk Management Unit calculates daily Value at Risk (VaR) for cash and cash equivalents. The information included therein is consolidated by the treasury function and used to determine the cash management strategies. Additionally, the Group’s annual payment schedules are followed through the weekly reports and annual cash management is followed by the monthly reports.

The Group utilizes derivative financial instruments as required and within the terms and conditions determined by the Group Risk Management Unit. Instruments that are highly liquid and securing a high-level yield are preferred when determining the financial instruments. In that respect, the Group has a right to claim the accrued interest on time deposits when withdraw before the predetermined maturity.

(d) Market risk

The Group is exposed primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group utilizes the following financial instruments to manage the risks associated with the foreign exchange rates and interest rates. Also, the Group follows price changes and market conditions regularly and takes action in pricing instantaneously.

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

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

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(e) Credit risk management

Trade receivables include a large number of customers scattered in various sectors and regions. There is no risk concentration on a specific customer or a group of customers. The majority trade receivables are assured by bank letters of guarantee and/or credit limits. The credit reviews are performed continuously over the accounts receivable balance of the customers. The Group does not have a significant credit risk arising from any customer.

**Credit risk of financial instruments**

|   | <b>Receivables</b>       |              |                          |                 |                    |                   |
|---|--------------------------|--------------|--------------------------|-----------------|--------------------|-------------------|
|   | <b>Trade receivables</b> |              | <b>Other receivables</b> |                 | <b>Bank</b>        | <b>Derivative</b> |
|   | <b>Related</b>           | <b>Third</b> | <b>Related</b>           | <b>Third</b>    |                    |                   |
| <b>Party</b>  | <b>Party</b>             | <b>Party</b> | <b>Party</b>             | <b>Deposits</b> | <b>financial</b>   |                   |
| <b>31 March 2011</b>  |                          |              |                          |                 | <b>instruments</b> |                   |
| Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)                                     | 11.158.105               | 746.003.185  | -                        | 43.276.324      | 1.988.329.114      | 2.015.042         |
| - Secured part of the maximum credit risk exposure via collateral etc.                                    | -                        | 548.923.084  | -                        | -               | -                  | -                 |
| A. Net book value of the financial assets that are neither overdue nor impaired                           | 11.158.105               | 744.937.972  | -                        | 17.422.269      | 1.988.329.114      | 2.015.042         |
| B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired | -                        | -            | -                        | -               | -                  | -                 |
| C. Net book value of financial assets that are overdue but not impaired                                   | -                        | 1.065.213    | -                        | 25.854.055      | -                  | -                 |
| - secured part via collateral etc.  | -                        | 1.065.213    | -                        | -               | -                  | -                 |
| D. Net book value of impaired financial assets  | -                        | -            | -                        | -               | -                  | -                 |
| - Overdue (gross carrying amount)   | -                        | 42.920.469   | -                        | 25.854.055      | -                  | -                 |
| - Impairment (-)  | -                        | (42.920.469) | -                        | (25.854.055)    | -                  | -                 |
| - Secured part via collateral etc.  | -                        | -            | -                        | -               | -                  | -                 |
| - Not overdue (gross carrying amount)   | -                        | -            | -                        | -               | -                  | -                 |
| - Impairment (-)  | -                        | -            | -                        | -               | -                  | -                 |
| - Secured part via collateral etc.  | -                        | -            | -                        | -               | -                  | -                 |
| E. Off-balance sheet financial assets exposed to credit risk  | -                        | -            | -                        | -               | -                  | -                 |

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

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(e) Credit risk management (cont’d)

**Credit risk of financial instruments**

|   | <b>Receivables</b>       |              |                          |              |                 |   |
|---|--------------------------|--------------|--------------------------|--------------|-----------------|---|
|   | <b>Trade receivables</b> |              | <b>Other receivables</b> |              | <b>Bank</b>     | <b>Derivative<br/>financial<br/>instruments</b> |
|   | <b>Related</b>           | <b>Third</b> | <b>Related</b>           | <b>Third</b> |                 |   |
| <b>31 December 2010</b>   | <b>Party</b>             | <b>Party</b> | <b>Party</b>             | <b>Party</b> | <b>Deposits</b> |   |
| Maximum credit risk exposure as of balance sheet date (*) (A+B+C+D+E)                                     | 79.479.233               | 638.980.725  | -                        | 60.303.017   | 2.877.758.916   | 6.380.731                                       |
| - Secured part of the maximum credit risk exposure via collateral etc.                                    | 73.374.880               | 510.674.641  | -                        | -            | -               | -   |
| A. Net book value of the financial assets that are neither overdue nor impaired                           | 79.479.233               | 634.946.885  | -                        | 34.448.962   | 2.877.758.916   | 6.380.731                                       |
| B. Carrying amount of financial assets that are renegotiated, otherwise classified as overdue or impaired | -                        | -            | -                        | -            | -               | -   |
| C. Net book value of financial assets that are overdue but not impaired                                   | -                        | 4.033.840    | -                        | 25.854.055   | -               | -   |
| - secured part via collateral etc.  | -                        | 3.806.398    | -                        | -            | -               | -   |
| D. Net book value of impaired financial assets  | -                        | -            | -                        | -            | -               | -   |
| - Overdue (gross carrying amount)   | -                        | 42.714.004   | -                        | 25.854.055   | -               | -   |
| - Impairment (-)  | -                        | (42.714.004) | -                        | (25.854.055) | -               | -   |
| - Secured part via collateral etc.  | -                        | -            | -                        | -            | -               | -   |
| - Not overdue (gross carrying amount)   | -                        | -            | -                        | -            | -               | -   |
| - Impairment (-)  | -                        | -            | -                        | -            | -               | -   |
| - Secured part via collateral etc.  | -                        | -            | -                        | -            | -               | -   |
| E. Off-balance sheet financial assets exposed to credit risk  | -                        | -            | -                        | -            | -               | -   |

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

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

**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(e) Credit risk management (cont’d)

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

| 31 March 2011                    | <u>Receivables</u>       |                          |                      | <u>Derivative<br/>financial<br/>instruments</u> | <u>Other</u> | <u>Total</u> |
|----------------------------------|--------------------------|--------------------------|----------------------|---|--------------|--------------|
|                                  | <u>Trade receivables</u> | <u>Other receivables</u> | <u>Bank deposits</u> |   |              |              |
| Overdue 1-30 days                | 1.065.213                | -                        | -                    | -   | -            | 1.065.213    |
| Overdue 1-3 months               | -                        | -                        | -                    | -   | -            | -            |
| Overdue 3-12 months              | -                        | -                        | -                    | -   | -            | -            |
| Overdue 1-5 years                | -                        | 25.854.055               | -                    | -   | -            | 25.854.055   |
| Overdue 5 years or more          | -                        | -                        | -                    | -   | -            | -            |
| Total overdue receivables        | 1.065.213                | 25.854.055               | -                    | -   | -            | 26.919.268   |
| Secured part via collateral etc. | 1.065.213                | -                        | -                    | -   | -            | 1.065.213    |

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(e) Credit risk management (cont’d)

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

| <b>31 December 2010</b>          | <b><u>Receivables</u></b>       |                                 |                             | <b><u>Derivative<br/>financial<br/>instruments</u></b> | <b><u>Other</u></b> | <b><u>Total</u></b> |
|----------------------------------|---------------------------------|---------------------------------|-----------------------------|--|---------------------|---------------------|
|                                  | <b><u>Trade receivables</u></b> | <b><u>Other receivables</u></b> | <b><u>Bank deposits</u></b> |  |                     |                     |
| Overdue 1-30 days                | 4.033.840                       | -                               | -                           | -  | -                   | 4.033.840           |
| Overdue 1-3 months               | -                               | -                               | -                           | -  | -                   | -                   |
| Overdue 3-12 months              | -                               | -                               | -                           | -  | -                   | -                   |
| Overdue 1-5 years                | -                               | 25.854.055                      | -                           | -  | -                   | 25.854.055          |
| Overdue 5 years or more          | -                               | -                               | -                           | -  | -                   | -                   |
| Total overdue receivables        | 4.033.840                       | 25.854.055                      | -                           | -  | -                   | 29.887.895          |
| Secured part via collateral etc. | 3.806.398                       | -                               | -                           | -  | -                   | 3.806.398           |

**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)****Additional information about financial instruments (cont’d)**

## (f) Foreign currency risk management

As of 31 March 2011, the foreign currency position of the Group in terms of original currency is as follows:

|  | 31 March 2011                   |                                      |                                |                                    |                                    |
|--|---------------------------------|--------------------------------------|--------------------------------|------------------------------------|------------------------------------|
|  | TRY<br>(Functional<br>currency) | US Dollars<br>(Original<br>currency) | EURO<br>(Original<br>currency) | Jap. Yen<br>(Original<br>currency) | GB Pound<br>(Original<br>currency) |
| 1. Trade Receivables   | 640.927.287                     | 403.583.288                          | 7.332.638                      | 3.355.104                          | -                                  |
| 2a. Monetary financial assets  | 944.499.554                     | 575.874.683                          | 24.226.127                     | 14.679                             | 8.369                              |
| 2b. Non- monetary financial assets   | -                               | -                                    | -                              | -                                  | -                                  |
| 3. Other   | 33.846.330                      | 15.201.244                           | 2.265.008                      | 288.681.744                        | -                                  |
| <b>4. Current assets (1+2+3)</b>   | <b>1.619.273.171</b>            | <b>994.659.215</b>                   | <b>33.823.773</b>              | <b>292.051.527</b>                 | <b>8.369</b>                       |
| 5. Trade receivables   | -                               | -                                    | -                              | -                                  | -                                  |
| 6a. Monetary trade receivables   | -                               | -                                    | -                              | -                                  | -                                  |
| 6b. Non-monetary trade receivables   | -                               | -                                    | -                              | -                                  | -                                  |
| 7. Other   | 15.084.803                      | 3.297.988                            | 4.438.403                      | 15.900.000                         | -                                  |
| <b>8. Non-current assets (5+6+7)</b>   | <b>15.084.803</b>               | <b>3.297.988</b>                     | <b>4.438.403</b>               | <b>15.900.000</b>                  | -                                  |
| <b>9. Total assets (4+8)</b>   | <b>1.634.357.974</b>            | <b>997.957.203</b>                   | <b>38.262.176</b>              | <b>307.951.527</b>                 | <b>8.369</b>                       |
| 10. Trade payables   | 191.340.742                     | 104.646.691                          | 7.547.544                      | 683.799.850                        | 53.627                             |
| 11. Financial liabilities  | 861.340.330                     | 484.415.124                          | 40.610.021                     | 1.221.936.283                      | -                                  |
| 12a. Other monetary financial liabilities  | 29.951.208                      | 18.952.142                           | 278.515                        | -                                  | -                                  |
| 12b. Other non-monetary financial liabilities  | -                               | -                                    | -                              | -                                  | -                                  |
| <b>13. Current liabilities (10+11+12)</b>  | <b>1.082.632.280</b>            | <b>608.013.957</b>                   | <b>48.436.080</b>              | <b>1.905.736.133</b>               | <b>53.627</b>                      |
| 14. Trade payables   | -                               | -                                    | -                              | -                                  | -                                  |
| 15. Financial liabilities  | 2.409.050.545                   | 1.176.124.758                        | 207.587.313                    | 7.268.744.005                      | -                                  |
| 16a. Other monetary financial liabilities  | 668.155                         | 431.541                              | -                              | -                                  | -                                  |
| 16b. Other non-monetary financial liabilities  | -                               | -                                    | -                              | -                                  | -                                  |
| <b>17. Non-current liabilities (14+15+16)</b>  | <b>2.409.718.700</b>            | <b>1.176.556.299</b>                 | <b>207.587.313</b>             | <b>7.268.744.005</b>               | -                                  |
| <b>18. Total liabilities (13+17)</b>   | <b>3.492.350.980</b>            | <b>1.784.570.256</b>                 | <b>256.023.393</b>             | <b>9.174.480.138</b>               | <b>53.627</b>                      |
| <b>19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)</b>      | <b>327.082.809</b>              | <b>74.024.862</b>                    | <b>97.391.875</b>              | -                                  | -                                  |
| 19a. Off-balance sheet foreign currency derivative financial assets  | 327.082.809                     | 74.024.862                           | 97.391.875                     | -                                  | -                                  |
| 19b. Off-balance sheet foreign currency derivative financial liabilities                                     | -                               | -                                    | -                              | -                                  | -                                  |
| <b>20. Net foreign currency asset/liability position (9-18+19)</b>   | <b>(1.530.910.197)</b>          | <b>(712.588.191)</b>                 | <b>(120.369.342)</b>           | <b>(8.866.528.611)</b>             | <b>(45.258)</b>                    |
| <b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b> | <b>(1.906.924.139)</b>          | <b>(805.112.285)</b>                 | <b>(224.464.628)</b>           | <b>(9.171.110.355)</b>             | <b>(45.258)</b>                    |
| 22. Fair value of derivative financial instruments used in foreign currency hedge                            | (4.611.627)                     | 1.301.454                            | (3.037.527)                    | -                                  | -                                  |
| 23. Hedged foreign currency assets   | -                               | -                                    | -                              | -                                  | -                                  |
| 24. Hedged foreign currency liabilities  | 327.082.809                     | 74.024.862                           | 97.391.875                     | -                                  | -                                  |
| 25. Exports  | 413.594.369                     | 239.067.865                          | 16.862.628                     | -                                  | -                                  |
| 26. Imports  | 1.196.607.214                   | 747.049.944                          | 9.193.900                      | -                                  | -                                  |

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

**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)****Additional information about financial instruments (cont’d)**

## (f) Foreign currency risk management (cont’d)

As of 31 December 2010, the foreign currency position of the Group in terms of original currency is as follows:

|  | 31 December 2010                |                                      |                                |                                    |                                    |
|--|---------------------------------|--------------------------------------|--------------------------------|------------------------------------|------------------------------------|
|  | TRY<br>(Functional<br>currency) | US Dollars<br>(Original<br>currency) | EURO<br>(Original<br>currency) | Jap. Yen<br>(Original<br>currency) | GB Pound<br>(Original<br>currency) |
| 1. Trade Receivables   | 607.232.660                     | 380.971.391                          | 8.874.251                      | 3.520.873                          | -                                  |
| 2a. Monetary financial assets  | 1.165.423.290                   | 735.904.698                          | 13.515.554                     | 14.895                             | 8.216                              |
| 2b. Non-monetary financial assets  | -                               | -                                    | -                              | -                                  | -                                  |
| 3. Other   | 81.459.746                      | 52.206.574                           | 361.134                        | -                                  | 3.510                              |
| <b>4. Current assets (1+2+3)</b>   | <b>1.854.115.696</b>            | <b>1.169.082.663</b>                 | <b>22.750.939</b>              | <b>3.535.768</b>                   | <b>11.726</b>                      |
| 5. Trade receivables   | -                               | -                                    | -                              | -                                  | -                                  |
| 6a. Monetary trade receivables   | -                               | -                                    | -                              | -                                  | -                                  |
| 6b. Non-monetary trade receivables   | -                               | -                                    | -                              | -                                  | -                                  |
| 7. Other   | 8.420.261                       | 2.936.026                            | 1.747.172                      | 15.900.000                         | -                                  |
| <b>8. Non-current assets (5+6+7)</b>   | <b>8.420.261</b>                | <b>2.936.026</b>                     | <b>1.747.172</b>               | <b>15.900.000</b>                  | -                                  |
| <b>9. Total assets (4+8)</b>   | <b>1.862.535.957</b>            | <b>1.172.018.689</b>                 | <b>24.498.111</b>              | <b>19.435.768</b>                  | <b>11.726</b>                      |
| 10. Trade payables   | 205.031.840                     | 113.518.117                          | 7.108.880                      | 788.065.850                        | 19.080                             |
| 11. Financial liabilities  | 1.314.589.351                   | 785.423.351                          | 37.772.349                     | 1.210.876.831                      | -                                  |
| 12a. Other monetary financial liabilities  | 69.500.369                      | 39.834.137                           | 3.863.547                      | -                                  | -                                  |
| 12b. Other non-monetary financial liabilities  | -                               | -                                    | -                              | -                                  | -                                  |
| <b>13. Current liabilities (10+11+12)</b>  | <b>1.589.121.560</b>            | <b>938.775.605</b>                   | <b>48.744.776</b>              | <b>1.998.942.681</b>               | <b>19.080</b>                      |
| 14. Trade payables   | -                               | -                                    | -                              | -                                  | -                                  |
| 15. Financial liabilities  | 2.347.402.328                   | 1.158.356.411                        | 204.594.058                    | 7.254.509.745                      | -                                  |
| 16a. Other monetary financial liabilities  | 748.962                         | 484.452                              | -                              | -                                  | -                                  |
| 16b. Other non-monetary financial liabilities  | -                               | -                                    | -                              | -                                  | -                                  |
| <b>17. Non-current liabilities (14+15+16)</b>  | <b>2.348.151.290</b>            | <b>1.158.840.863</b>                 | <b>204.594.058</b>             | <b>7.254.509.745</b>               | -                                  |
| <b>18. Total liabilities (13+17)</b>   | <b>3.937.272.850</b>            | <b>2.097.616.468</b>                 | <b>253.338.834</b>             | <b>9.253.452.426</b>               | <b>19.080</b>                      |
| <b>sheet derivative financial instruments (19a-19b)</b>  | <b>314.008.128</b>              | <b>74.024.862</b>                    | <b>97.391.875</b>              | -                                  | -                                  |
| 19a. Off-balance sheet foreign currency derivative financial assets  | 314.008.128                     | 74.024.862                           | 97.391.875                     | -                                  | -                                  |
| 19b. Off-balance sheet foreign currency derivative financial liabilities                                     | -                               | -                                    | -                              | -                                  | -                                  |
| <b>20. Net foreign currency asset/liability position (9-18+19)</b>   | <b>(1.760.728.765)</b>          | <b>(851.572.917)</b>                 | <b>(131.448.848)</b>           | <b>(9.234.016.658)</b>             | <b>(7.354)</b>                     |
| <b>21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)</b> | <b>(2.164.616.900)</b>          | <b>(980.740.379)</b>                 | <b>(230.949.029)</b>           | <b>(9.249.916.658)</b>             | <b>(10.864)</b>                    |
| 22. Fair value of derivative financial instruments used in foreign currency hedge                            | (17.663.649)                    | 2.924.151                            | (10.826.405)                   | -                                  | -                                  |
| 23. Hedged foreign currency assets   | -                               | -                                    | -                              | -                                  | -                                  |
| 24. Hedged foreign currency liabilities  | 314.008.128                     | 74.024.862                           | 97.391.875                     | -                                  | -                                  |
| 25. Exports  | 889.721.058                     | 491.514.103                          | 77.036.379                     | -                                  | -                                  |
| 26. Imports  | 3.959.868.035                   | 2.596.001.755                        | 35.165.959                     | -                                  | -                                  |



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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(f) Foreign currency risk management (cont’d)

*Foreign currency sensitivity*

In the calculation of Group’s currency risk, the Value at Risk (VaR) is calculated by using the parametric method arising from the consolidated foreign currency position including derivative financial instruments. Based on this method; the effects of changes in currency rates on the foreign currency position are determined.

Since there are no stock portfolios and interest bearing treasury products among assets, the Value at Risk related to interest rates and equity prices is not calculated.

In parametric method, the Value at Risk is defined as the maximum loss on holding the current position for 1 day, based on the change in the earning yield calculated with a 99% confidence level.

In cases where the Value at Risk exceeds the limit predefined by the Group Risk Committee periodically, the Group Risk Committee gathers to take necessary actions and develop action plans. After evaluations, the committee provides valid precautions to be taken.

|  | 31 March<br>2011 | 31 December<br>2010 |
|--|------------------|---------------------|
| Foreign Currency Position Parametric VaR | 24.867.056       | 27.931.843          |

The Value at Risk results are in line with the open foreign currency position and the fluctuations in currencies.

The calculations of Value at Risk are supported by stress tests and scenario analyses. The testing of potential losses in extraordinary market conditions helps the determination of the Group financial strategies.

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(f) Foreign currency risk management (cont’d)

The following table shows the Group’s sensitivity to a 10% (+/-) change in the US Dollars, EURO and Japanese Yen. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates.

The profit/loss which will arise when the inventories are sold may change the effect if the foreign currency rates maintain this level in the long term.

As of 31 March 2011 asset and liability balances are translated by using the following exchange rates: TRY 1,5483 = US \$ 1, TRY 2,1816 = EUR 1 and TRY 0,0186 = JPY 1 (31 December 2010: TRY 1,5460 = US \$ 1, TRY 2,0491 = EUR 1 and TRY 0,0189 = JPY 1)

| 31 March 2011                                   | Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest |  |
|---|---|--|
|   | Appreciation of foreign currency against  | Depreciation of foreign currency against |
| 1- US Dollars net asset/liability               | (121.791.299)   | 121.791.299                              |
| 2- Hedged portion from US Dollars risk (-)      | 11.461.269  | (11.461.269)                             |
| 3- Effect of capitalization (-)                 | 10.686.209  | (10.686.209)                             |
| 4- US Dollars net effect (1+2+3)                | <u>(99.643.821)</u>   | <u>99.643.821</u>                        |
| 5- EURO net asset/liability                     | (47.506.787)  | 47.506.787                               |
| 6- Hedged portion from EURO risk (-)            | 21.247.011  | (21.247.011)                             |
| 7- Effect of capitalization (-)                 | -   | -  |
| 8- EURO net effect (5+6+7)                      | <u>(26.259.776)</u>   | <u>26.259.776</u>                        |
| 9- Jap. Yen net asset/liability                 | (16.489.970)  | 16.489.970                               |
| 10- Hedged portion from Jap. Yen risk (-)       | -   | -  |
| 11- Effect of capitalization (-)                | 1.436.621   | (1.436.621)                              |
| 12- Jap. Yen net effect (9+10+11)               | <u>(15.053.349)</u>   | <u>15.053.349</u>                        |
| 13- Other currencies net asset/liability        | (11.245)  | 11.245                                   |
| 14- Hedged portion from other currency risk (-) | -   | -  |
| 15- Effect of capitalization (-)                | -   | -  |
| 16- Other currencies net effect (13+14+15)      | <u>(11.245)</u>   | <u>11.245</u>                            |
| <b>TOTAL (4+8+12+16)</b>                        | <b><u>(140.968.191)</u></b>   | <b><u>140.968.191</u></b>                |

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**NOTE 30– NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(f) Foreign currency risk management (cont’d)

|   | Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest |  |
|---|---|--|
|   | Appreciation of foreign currency against  | Depreciation of foreign currency against |
| 31 December 2010                                |   |  |
| 1- US Dollars net asset/liability               | (143.097.417)   | 143.097.417                              |
| 2- Hedged portion from US Dollars risk (-)      | 11.444.244  | (11.444.244)                             |
| 3- Effect of capitalization (-)                 | 13.506.594  | (13.506.594)                             |
| 4- US Dollars net effect (1+2+3)                | (118.146.579)   | 118.146.579                              |
| 5- EURO net asset/liability                     | (46.891.753)  | 46.891.753                               |
| 6- Hedged portion from EURO risk (-)            | 19.956.569  | (19.956.569)                             |
| 7- Effect of capitalization (-)                 | -   | -  |
| 8- EURO net effect (5+6+7)                      | (26.935.184)  | 26.935.184                               |
| 9- Jap. Yen net asset/liability                 | (17.482.764)  | 17.482.764                               |
| 10- Hedged portion from Jap. Yen risk (-)       | -   | -  |
| 11- Effect of capitalization (-)                | 1.458.324   | (1.458.324)                              |
| 12- Jap. Yen net effect (9+10+11)               | (16.024.440)  | 16.024.440                               |
| 13- Other currencies net asset/liability        | (1.757)   | 1.757                                    |
| 14- Hedged portion from other currency risk (-) | -   | -  |
| 15- Effect of capitalization (-)                | -   | -  |
| 16- Other currencies net effect (13+14+15)      | (1.757)   | 1.757                                    |
| <b>TOTAL (4+8+12+16)</b>                        | <b>(161.107.960)</b>  | <b>161.107.960</b>                       |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(f) Foreign currency risk management (cont’d)

*Cross currency and interest rate swap agreements:*

As of 31 March 2011 and 31 December 2010 the details of the cross currency and interest rate swap agreements are provided in the table below:

| <b>31 March 2011</b>                                     | <b>Average<br/>agreement<br/>exchange rate</b> | <b>Sales with<br/>original currency</b> | <b>Purchases with<br/>original currency</b> | <b>Original<br/>currency<br/>(TRY equivalent)</b> | <b>Agreement value<br/>(TRY equivalent)</b> | <b>Fair value</b>   |
|--|--|---|---|---|---|---------------------|
| <b>Cross currency and interest rate swap agreements:</b> |  |   |   |   |   |                     |
| <b>TRY sale/ US Dollars purchase</b>                     | 1,4568   | 107.835.718                             | 74.024.862                                  | 107.835.718                                       | 105.820.676                                 | 2.015.042           |
| <b>TRY sale/ EURO purchase</b>                           | 2,0820   | 202.817.020                             | 97.391.875                                  | 202.817.020                                       | 209.443.689                                 | (6.626.669)         |
| More than 5 years  |  |   |   |   |   | <b>(4.611.627)</b>  |
| <b>31 December 2010</b>                                  | <b>Average<br/>agreement<br/>exchange rate</b> | <b>Sales with<br/>original currency</b> | <b>Purchases with<br/>original currency</b> | <b>Original<br/>currency<br/>(TRY equivalent)</b> | <b>Agreement value<br/>(TRY equivalent)</b> | <b>Fair value</b>   |
| <b>Cross currency and interest rate swap agreements:</b> |  |   |   |   |   |                     |
| <b>TRY sale/ US Dollars purchase</b>                     | 1,4568   | 107.835.718                             | 74.024.862                                  | 107.835.718                                       | 106.486.712                                 | 1.349.006           |
| <b>TRY sale/ EURO purchase</b>                           | 2,0820   | 202.817.020                             | 97.391.875                                  | 202.817.020                                       | 225.001.406                                 | (22.184.386)        |
| More than 5 years  |  |   |   |   |   | <b>(20.835.380)</b> |

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)

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

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### 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

#### Additional information about financial instruments (cont’d)

(f) Foreign currency risk management (cont’d)

#### *Forward agreements*

As of 31 March 2011 and 31 December 2010 the details of the forward agreements of the Group are provided in the table below:

| <b>31 March 2011</b>                  | <b>Average<br/>agreement<br/>exchange rate</b> | <b>Sales with<br/>original currency</b> | <b>Purchases with<br/>original currency</b> | <b>Original<br/>currency<br/>(TRY equivalent)</b> | <b>Agreement value<br/>(TRY equivalent)</b> | <b>Fair value</b> |
|---------------------------------------|--|---|---|---|---|-------------------|
| <b>Forward agreements:</b>            |  |   |   |   |   |                   |
| <b>EURO sale/ US Dollars purchase</b> | 1,3626   | 2.708.000                               | 3.689.113                                   | 5.907.773   | 6.127.741                                   | (219.968)         |
| Less than 3 months                    |  |   |   |   |   | <b>(219.968)</b>  |
| <b>31 December 2010</b>               |  |   |   |   |   |                   |
| <b>Forward agreements:</b>            |  |   |   |   |   |                   |
| <b>TRY sale/ US Dollars purchase</b>  | 1,4827   | 111.202.500                             | 75.000.000                                  | 111.202.500                                       | 106.255.344                                 | 4.947.156         |
| <b>US Dollars sale/ TRY purchase</b>  | 1,5310   | 75.000.000                              | 114.354.500                                 | 115.950.000                                       | 117.752.445                                 | (1.802.445)       |
| <b>EURO sale/ US Dollars purchase</b> | 1,3380   | 2.410.000                               | 3.224.580                                   | 4.938.331   | 4.911.310                                   | 27.021            |
| Less than 3 months                    |  |   |   |   |   | <b>3.171.732</b>  |

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(g) Interest rate risk management

The majority of the Group’s borrowings is based on floating interest rate terms. In order to manage the exposure to interest rate movements on certain portion of the bank borrowings, the Group uses interest rate swaps and changes floating rates to fixed rates.

In addition, through the use of deposits in which the Group has a right to claim the accrued interest when withdrawn before the predetermined maturity, the Group minimizes the interest rate risk by increasing the share of floating rate denominated assets in its consolidated the balance sheet.

Furthermore, for borrowings denominated in foreign currencies, except for US Dollars, the Group minimizes its interest rate risk by leveraging in foreign currencies that bear lower interest rate. In addition, a higher interest rate is applied to the trade receivables with a maturity when compared to the interest rate exposed for trade payables.

*Interest rate sensitivity*

The following sensitivity analysis is based on forecasted interest rate changes for the liabilities denominated in variable interest rates. The information details the Group’s sensitivity to an increase/decrease of 0,50% for US Dollars and EURO, 0,25% for Jap.Yen and 1,00% for TRY denominated interest rates.

Since the principal payments of the loans with floating interest rates are not affected from changes in interest rates, the risk exposure of the Group loans is measured using a sensitivity analysis instead of a Value at Risk calculation.

**Interest position table**

|   | <u>31 March 2011</u> | <u>31 December 2010</u> |
|---|----------------------|-------------------------|
| <b>Floating interest rate financial instruments</b> |                      |                         |
| Financial liabilities                               | 3.159.861.317        | 3.544.835.301           |

In addition to these, as of 31 March 2011, the amount of the Group’s financial loans is TRY 667.300.468 of which the floating interest rates have been fixed by the hedge purposed agreements (31 December 2010: TRY 739.372.766) (Note 6).

For the year round, if the US Dollars, EURO and Jap. Yen denominated interest rates increase/decrease by 100 base points in TRY, 50 base points in US Dollars and EURO and 25 base points in Jap.Yen respectively ceteris paribus, the profit before taxation and non-controlling interest after considering the effect of capitalization and hedging would be lower/higher TRY 4.868.057 (31 March 2010: TRY 4.718.310).

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(g) Interest rate risk management (cont’d)

*Interest rate swap agreements*

The Group uses interest rate swap instruments and pays/receives the difference between fixed interest rate and floating interest rates multiplied by the nominal amount. These contracts aim to mitigate the risk of fluctuations in the cash flow which the Group is exposed to due to borrowings with floating interest rates.

As of the balance sheet date, the Group’s agreed unpaid nominal amounts of the interest rate swap agreements and their remaining terms until maturity are stated below:

31 March 2011

| Unrealized agreements with fixed payments and floating interest receipts | Average fixed interest rate of the agreements | Nominal amount(*)  | Fair Value         |
|--|---|--------------------|--------------------|
| Between 1-5 years  | 2,55%   | 321.272.250        | (5.411.975)        |
| More than 5 years  | 2,39%   | 62.101.023         | (1.505.935)        |
|  |   | <u>383.373.273</u> | <u>(6.917.910)</u> |

31 December 2010

| Unrealized agreements with fixed payments and floating interest receipts | Average fixed interest rate of the agreements | Nominal amount(*)  | Fair Value         |
|--|---|--------------------|--------------------|
| Less than 3 months   | 1,84%   | 77.300.000         | (450.865)          |
| Between 1-5 years  | 2,55%   | 331.837.857        | (5.536.430)        |
| More than 5 years  | 2,39%   | 62.008.772         | (1.230.883)        |
|  |   | <u>471.146.629</u> | <u>(7.218.178)</u> |

(\*) In order to hedge against the interest rate risk of the borrowings with floating rates, the Group trades floating interest rates with fixed rates by making swap agreements. The fair value of the interest rate swap agreements with a nominal amount of TRY 383.373.273 (31 December 2010: TRY 471.146.629) is found to be effective. The fair value of such agreements which is categorized as cash flow hedges, is recognized under equity with its deferred tax effect and non-controlling interest deducted as TRY (5.260.052) (31 December 2010: TRY (5.476.236)).

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**NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)**

**Additional information about financial instruments (cont’d)**

(g) Interest rate risk management (cont’d)

Cross currency and interest rate swap agreements

31 March 2011

| Unrealized agreements with fixed payments and floating interest receipts | Average fixed interest rate of the agreements | Nominal amount(*)  | Fair Value         |
|--|---|--------------------|--------------------|
| <b>TRY sale / US Dollars purchase</b>                                    | 7,22%   | 107.835.718        | 2.015.042          |
| Over 5 years   |   |                    |                    |
| <b>TRY sale / EURO purchase</b>  | 10,65%  | 202.817.020        | (6.626.669)        |
| Over 5 years   |   |                    |                    |
|  |   | <u>310.652.738</u> | <u>(4.611.627)</u> |

31 December 2010

| Unrealized agreements with fixed payments and floating interest receipts | Average fixed interest rate of the agreements | Nominal amount(*)  | Fair Value          |
|--|---|--------------------|---------------------|
| <b>TRY sale / US Dollars purchase</b>                                    | 7,22%   | 107.835.718        | 1.349.006           |
| Over 5 years   |   |                    |                     |
| <b>TRY sale / EURO purchase</b>  | 10,65%  | 202.817.020        | (22.184.386)        |
| Over 5 years   |   |                    |                     |
|  |   | <u>310.652.738</u> | <u>(20.835.380)</u> |

(\*) In order to hedge against the interest and foreign exchange rate risk of the Euro and US Dollars borrowings, the Group trades floating interest rates with fixed rates and Euro and US Dollars amounts with TRY amounts by making cross currency swap agreements. The fair value of such agreements which are categorized as cash flow hedges and found to be effective, with nominal amount of TRY 310.652.738 (31 December 2010: TRY 310.652.738) is recognized under equity net off its deferred tax effect, unrealized foreign exchange gain/losses and non-controlling interests as TRY (15.590.594) (31 December 2010: TRY (18.920.581)).

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities and maintaining adequate funds and reserves.

Liquidity risk tables

Conservative liquidity risk management includes maintaining sufficient cash, availability of sufficient amount of borrowings and funds and ability to settle market positions.

The Group manages its funding of actual and forecasted financial obligations by maintaining the availability of sufficient number of high quality loan providers.

The following table details the Group’s expected maturity for its derivative and non derivative financial liabilities. Interests which will be paid on borrowings in the future are included in the relevant columns in the following table.



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### NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

#### Additional information about financial instruments (cont’d)

(h) Liquidity risk management (cont’d)

31 March 2011

| <u>Contractual maturity analysis</u>        | <u>Book value</u>    | <u>Total cash outflow<br/>per agreement<br/>(I+II+III+IV)</u> | <u>Less than 3<br/>months<br/>(I)</u> | <u>3-12<br/>months<br/>(II)</u> | <u>1-5 years<br/>(III)</u> | <u>More than<br/>5 years<br/>(IV)</u> |
|---|----------------------|---|---------------------------------------|---------------------------------|----------------------------|---------------------------------------|
| <b>Non derivative financial liabilities</b> |                      |   |                                       |                                 |                            |                                       |
| Borrowings from banks                       | 4.679.254.362        | 5.157.150.673   | 1.156.219.335                         | 738.354.123                     | 2.544.875.306              | 717.701.909                           |
| Trade payables                              | 368.598.449          | 369.884.763   | 298.763.114                           | 71.121.649                      | -                          | -                                     |
| Other financial liabilities (*)             | 568.881.340          | 568.881.340   | 452.900.567                           | 115.980.773                     | -                          | -                                     |
| <b>Total liabilities</b>                    | <b>5.616.734.151</b> | <b>6.095.916.776</b>  | <b>1.907.883.016</b>                  | <b>925.456.545</b>              | <b>2.544.875.306</b>       | <b>717.701.909</b>                    |
| <b>Derivative financial liabilities</b>     |                      |   |                                       |                                 |                            |                                       |
| Derivative cash inflows                     | 2.015.042            | 357.206.401   | 34.850.348                            | 28.903.169                      | 262.760.571                | 30.692.313                            |
| Derivative cash outflows                    | (13.764.547)         | (454.977.993)   | (50.578.236)                          | (43.127.299)                    | (329.954.311)              | (31.318.147)                          |
|   | <b>(11.749.505)</b>  | <b>(97.771.592)</b>   | <b>(15.727.888)</b>                   | <b>(14.224.130)</b>             | <b>(67.193.740)</b>        | <b>(625.834)</b>                      |

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

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### NOTE 30 – NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (cont’d)

#### Additional information about financial instruments (cont’d)

(h) Liquidity risk management (cont’d)

31 December 2010

| <u>Contractual maturity analysis</u>        | <u>Book value</u>    | <u>Total cash outflow<br/>per agreement<br/>(I+II+III+IV)</u> | <u>Less than 3<br/>months<br/>(I)</u> | <u>3-12<br/>months<br/>(II)</u> | <u>1-5 years<br/>(III)</u> | <u>More than<br/>5 years<br/>(IV)</u> |
|---|----------------------|---|---------------------------------------|---------------------------------|----------------------------|---------------------------------------|
| <b>Non derivative financial liabilities</b> |                      |   |                                       |                                 |                            |                                       |
| Borrowings from banks                       | 5.851.241.280        | 6.415.179.491   | 1.474.980.774                         | 1.724.757.494                   | 2.468.055.946              | 747.385.277                           |
| Trade payables                              | 359.941.902          | 360.619.499   | 208.373.082                           | 152.246.417                     | -                          | -                                     |
| Other financial liabilities (*)             | 170.533.176          | 170.533.176   | 168.703.852                           | 1.829.324                       | -                          | -                                     |
| <b>Total liabilities</b>                    | <b>6.381.716.358</b> | <b>6.946.332.166</b>  | <b>1.852.057.708</b>                  | <b>1.878.833.235</b>            | <b>2.468.055.946</b>       | <b>747.385.277</b>                    |
| <b>Derivative financial liabilities</b>     |                      |   |                                       |                                 |                            |                                       |
| Derivative cash inflows                     | 6.380.731            | 574.471.379   | 236.693.369                           | 55.725.598                      | 253.224.204                | 28.828.208                            |
| Derivative cash outflows                    | (31.262.557)         | (683.373.395)   | (234.331.034)                         | (87.227.193)                    | (330.497.021)              | (31.318.147)                          |
|   | <b>(24.881.826)</b>  | <b>(108.902.016)</b>  | <b>2.362.335</b>                      | <b>(31.501.595)</b>             | <b>(77.272.817)</b>        | <b>(2.489.939)</b>                    |

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

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

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#### NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

##### Additional information about financial instruments

Categories of the financial instruments and their fair values

|                                  | Cash and cash<br>equivalent | Loans and<br>receivables | Available for sale<br>financial assets | Held for<br>trading<br>financial<br>instruments | Financial<br>liabilities at<br>amortized cost | Derivative<br>financial<br>instruments<br>through other<br>comprehensive<br>income/loss | Derivative<br>financial<br>instruments<br>through<br>profit/loss | Carrying value | Note |
|----------------------------------|-----------------------------|--------------------------|--|---|---|---|--|----------------|------|
| <b>31 March 2011</b>             |                             |                          |  |   |   |   |  |                |      |
| <u>Financial Assets</u>          |                             |                          |  |   |   |   |  |                |      |
| Cash and cash equivalents        | 1.988.378.032               | -                        | -                                      | -   | -   | -   | -  | 1.988.378.032  | 4    |
| Trade receivables                | -                           | 757.161.290              | -                                      | -   | -   | -   | -  | 757.161.290    | 8    |
| Financial investments            | -                           | -                        | 58.742                                 | -   | -   | -   | -  | 58.742         | 5    |
| Other financial assets           | -                           | 43.276.324               | -                                      | -   | -   | -   | -  | 43.276.324     | 9    |
| Derivative financial instruments | -                           | -                        | -                                      | -   | -   | 2.015.042   | -  | 2.015.042      | 5    |
| <u>Financial Liabilities</u>     |                             |                          |  |   |   |   |  |                |      |
| Financial liabilities            | -                           | -                        | -                                      | -   | 4.679.254.362                                 | -   | -  | 4.679.254.362  | 6    |
| Trade payables                   | -                           | -                        | -                                      | -   | 368.598.449                                   | -   | -  | 368.598.449    | 8    |
| Other liabilities                | -                           | -                        | -                                      | -   | 568.881.340                                   | -   | -  | 568.881.340    | 9/18 |
| Derivative financial instruments | -                           | -                        | -                                      | -   | -   | 13.544.579  | 219.968  | 13.764.547     | 7    |
| <b>31 December 2010</b>          |                             |                          |  |   |   |   |  |                |      |
| <u>Financial Assets</u>          |                             |                          |  |   |   |   |  |                |      |
| Cash and cash equivalents        | 2.877.790.271               | -                        | -                                      | -   | -   | -   | -  | 2.877.790.271  | 4    |
| Trade receivables                | -                           | 718.459.958              | -                                      | -   | -   | -   | -  | 718.459.958    | 8    |
| Financial investments            | -                           | -                        | 56.681                                 | -   | -   | -   | -  | 56.681         | 5    |
| Other financial assets           | -                           | 60.303.017               | -                                      | -   | -   | -   | -  | 60.303.017     | 9    |
| Derivative financial instruments | -                           | -                        | -                                      | -   | -   | 1.370.505   | 5.010.226  | 6.380.731      | 7    |
| <u>Financial Liabilities</u>     |                             |                          |  |   |   |   |  |                |      |
| Financial liabilities            | -                           | -                        | -                                      | -   | 5.851.241.280                                 | -   | -  | 5.851.241.280  | 6    |
| Trade payables                   | -                           | -                        | -                                      | -   | 359.941.902                                   | -   | -  | 359.941.902    | 8    |
| Other liabilities                | -                           | -                        | -                                      | -   | 170.533.176                                   | -   | -  | 170.533.176    | 9/18 |
| Derivative financial instruments | -                           | -                        | -                                      | -   | -   | 29.424.063  | 1.838.494  | 31.262.557     | 7    |

(\*) Book values of the financial assets and liabilities are close to the fair values.

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**NOTE 31 – FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (cont’d)**

**Additional information about financial instruments (cont’d)**

Categories of the financial instruments and their fair values (cont’d)

| <u>Financial asset and liabilities at fair value</u>   | 31 March 2011       | Fair value level as of reporting date |                     |          |
|--|---------------------|---------------------------------------|---------------------|----------|
|  |                     | Level 1                               | Level 2             | Level 3  |
| <b>Financial assets and liabilities at fair value through profit/loss</b>                        |                     |                                       |                     |          |
| Financial assets held for trading  | -                   | -                                     | -                   | -        |
| Derivative financial assets  | -                   | -                                     | -                   | -        |
| Derivative financial liabilities   | (219.968)           | -                                     | (219.968)           | -        |
| <b>Financial assets and liabilities at fair value through other comprehensive income/expense</b> |                     |                                       |                     |          |
| Derivative financial assets  | 2.015.042           | -                                     | 2.015.042           | -        |
| Derivative financial liabilities   | (13.544.579)        | -                                     | (13.544.579)        | -        |
| Total  | <u>(11.749.505)</u> | <u>-</u>                              | <u>(11.749.505)</u> | <u>-</u> |

| <u>Financial asset and liabilities at fair value</u>   | 31 December 2010    | Fair value level as of reporting date |                     |          |
|--|---------------------|---------------------------------------|---------------------|----------|
|  |                     | Level 1                               | Level 2             | Level 3  |
| <b>Financial assets and liabilities at fair value through profit/loss</b>                        |                     |                                       |                     |          |
| Financial assets held for trading  | -                   | -                                     | -                   | -        |
| Derivative financial assets  | 5.010.226           | -                                     | 5.010.226           | -        |
| Derivative financial liabilities   | (1.838.494)         | -                                     | (1.838.494)         | -        |
| <b>Financial assets and liabilities at fair value through other comprehensive income/expense</b> |                     |                                       |                     |          |
| Derivative financial assets  | 1.370.505           | -                                     | 1.370.505           | -        |
| Derivative financial liabilities   | (29.424.063)        | -                                     | (29.424.063)        | -        |
| Total  | <u>(24.881.826)</u> | <u>-</u>                              | <u>(24.881.826)</u> | <u>-</u> |

First Level: Quoted (non adjusted) prices in active markets for identical assets or liabilities.

Second Level: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Third Level: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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**NOTE 32 – SUBSEQUENT EVENTS**

22nd Period Collective Labor Agreement, which was valid between 1 September 2008-31 August 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 1 February 2011. The official arbitrator started working on the dispute, yet failing to negotiate an agreement as well, and thus submitting his report on 14 March 2011. Under these circumstances, on 30 March 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 the Company on 4 April 2011.

**NOTE 33 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION**

**Changes in working capital are as follows:**

|  | 1 January-<br>31 March 2011 | 1 January-<br>31 March 2010 |
|--|-----------------------------|-----------------------------|
| Current trade receivables                        | (41.414.953)                | (74.998.941)                |
| Inventories                                      | (25.065.171)                | (123.591.750)               |
| Other short term receivables / current assets    | 29.342.163                  | (8.033.147)                 |
| Non current trade receivables                    | 810.956                     | (62.349)                    |
| Other long term receivables / non current assets | (14.081.505)                | (3.016.023)                 |
| Current trade payables                           | 8.656.547                   | 52.541.956                  |
| Other short term payables / liabilities          | (6.305.825)                 | (29.982.692)                |
| Other long term payables / liabilities           | (15.687.285)                | 7.061.264                   |
|  | <u>(63.745.073)</u>         | <u>(180.081.682)</u>        |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011**

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

**NOTE 33 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION (cont’d)**

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

| <u>Account</u>  | (Previously reported)<br>1 January-<br>31 March 2010 | (Restated)<br>1 January-<br>31 March 2010 | Difference   |
|---|--|---|--------------|
| Revenues <sup>(1)(2)</sup>  | 1.581.871.303  | 1.583.127.624                             | (1.256.321)  |
| Cost of sales (-) <sup>(1)(2)(4)(5)</sup>                           | (1.272.465.799)                                      | (1.274.719.022)                           | 2.253.223    |
| Marketing, sales and distribution expenses (-) <sup>(4)(5)(6)</sup> | (12.698.735)   | (13.145.542)                              | 446.807      |
| General administrative expenses (-) <sup>(5)(6)</sup>               | (27.241.810)   | (26.320.967)                              | (920.843)    |
| Research and development expenses (-) <sup>(5)(6)</sup>             | (600.732)  | (77.866)                                  | (522.866)    |
| Other operating income <sup>(3)</sup>                               | 10.878.512   | 8.940.200                                 | 1.938.312    |
| Other operating expense (-) <sup>(3)</sup>                          | (61.666.749)   | (59.728.437)                              | (1.938.312)  |
| Financial income <sup>(7)</sup>                                     | 127.844.107  | 35.159.902                                | 92.684.205   |
| Financial expense (-) <sup>(7)</sup>                                | (147.591.327)  | (54.907.122)                              | (92.684.205) |
| Total   |  |   | -            |

- (1) Excess scrap and raw material sales income of TRY 242.575 which is previously netted off under “Cost of sales (-)” is reclassified to “Revenues”.
- (2) Raw material sales revenue of TRY 1.013.746 which is previously netted off under “Cost of sales (-)” is reclassified to “Revenues”.
- (3) Lawsuit compensation expenses related to the lawsuits already provided for, of TRY 1.938.312 are netted off under “Other operating income”.
- (4) Transportation expenses of TRY 1.284.607 which is previously reported in “Marketing, sales and distribution expenses” is reclassified to “Cost of sales (-)”.
- (5) Amortization expenses amount of TRY 287.705 which is previously reported in “Cost of sales” is reclassified to “Marketing, sales and distribution expenses”. In addition, amortization expenses amount of TRY 1.408.583 which is previously reported in “General administrative expenses” and amortization expenses of TRY 870 which is previously reported in “Research and development expenses” is reclassified to “Marketing, sales and distribution expenses”.
- (6) TRY 34.256 of personnel and other expenses amount of TRY 521.996 which is previously reported in “Research and development expenses” is reclassified to “Marketing, sales and distribution expenses”; TRY 487.740 of that expenses is reclassified to “General administrative expenses”.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

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

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**NOTE 33 – OTHER ISSUES AFFECTING THE CONSOLIDATED FINANCIAL STATEMENTS MATERIALLY OR THOSE REQUIRED TO BE DISCLOSED FOR A CLEAR, UNDERSTANDABLE AND INTERPRETABLE PRESENTATION (cont’d)**

**The details and the amounts of the reclassifications made of the income statement are as follows: (cont’d)**

- (7) Fair value differences of derivative financial instruments of TRY 2.583.212 which is previously netted off under “Financial income” is reclassified to “Financial expenses”. In addition, net interest accrual expense from cross currency and interest rate swap agreements of TRY 793.483 which is previously netted off under “Financial income” is reclassified to “Financial expenses”. Foreign exchange gain from bank deposits of TRY 96.060.900 which is previously reported in “Financial income” is reclassified to “Financial expenses”.

**Convenience translation to English:**

The effect of differences between the Financial Reporting Standards published by the Capital Market Board in Turkey and accounting principles generally accepted in countries in which the consolidated financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified in the consolidated financial statements. The differences with IFRS mainly related to the application of inflation accounting which was ceased one year later in IFRS, and the presentation of the basic consolidated financial statements and the notes to them. Accordingly, the consolidated financial statements are not intended to present the consolidated financial position and consolidated financial performance of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries in accordance with the accounting principles generally accepted in such countries and IFRS.