

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

**1. Period of the Report**

01.01.2010 - 31.12.2010

**2. Title of the Association**

EREĞLİ IRON AND STEEL WORKS, INC.

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

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors and Auditors are executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership or in Auditors' Board within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next regular general assembly to be approved. The company's 2009 Regular General Assembly has been executed on 09.03.2010.

The active members of the Board of Directors as of 31.12.2010:

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

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

Board Members Mehmet Aydın MÜDERRİSOĞLU, Celalettin ÇAĞLAR ve Ergün Oktay OKUR resigned on 22.02.2010 and Fatih Osman TAR was elected for one those vacant positions as of the same date and was commissioned as Deputy Chairman – Executive Director later on.

Fatih Osman TAR, has been elected to the Executive Board once again on the Regular General Assembly of the Company dated 09.03.2010 and commissioned as Chairman – Executive Director at the following task distribution meeting.

Nihat KARADAĞ, who was elected as a Board Member on 30.09.2009, has been once again elected to the Executive Board on the Regular General Assembly of the Company dated 09.03.2010 and commissioned as Deputy Chairman – Executive Director at the following task distribution meeting.

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Additionally, Fatma CANLI has been elected to the Executive Board for the first time on the Regular General Assembly of the Company dated 09.03.2010. The active members of the Board of Auditors as of 31.12.2010:

Board of Auditors	Title	Effective from
Ahmet Türker ANAYURT	Board of Auditors Member (1 year)	09.03.2010
Ali Güner TEKİN	Board of Auditors Member (1 year)	31.03.2008

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

General Assembly has elected Ahmet Türker ANAYURT to the Board of Auditors for one year, as a substitution for Fatma CANLI who completed her term of office, on its regular meeting dated 09.03.2010.

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

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

#### **4. Executive Management**

Executive Management	Title	Effective from
Oğuz Nuri ÖZGEN	President and Chief Executive Officer	13.07.2006
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006
Ahmet Samim ŞAYLAN	Executive Vice President (Human Resources and Admin. Affairs)	13.07.2006
Bülent BEYDÜZ	Executive Vice President (Chief Financial Officer)	15.01.2010
Mustafa Ayhan KALMUKOĞLU (by proxy)	ERDEMİR Group Marketing and Sales Coordinator	12.07.2010
Ozan BEKÇİ	Executive Vice President (Procurement)	13.07.2006
Mehmet Müçteba BEKCAN (by proxy)	Executive Vice President (Technical Services and Investments)	14.07.2010
Öner SONGÜL (by proxy)	ERDEMİR Group Information Technologies Coordinator	12.08.2010
Muammer Alp ARSLAN	Long Products Marketing and Sales Coordinator	01.11.2010

Executive vice Presidency for Sales and Marketing has been reorganized and its title has been changed as ERDEMİR Group Marketing and Sales Coordinatorship, Mr. Günhan BEŞE, former executive vice president for sales and marketing has been assigned as consultant to our Chief Executive Officer, Mr. Mustafa Ayhan KALMUKOĞLU has been appointed as ERDEMİR Group Marketing and Sales Proxy Coordinator as of 12.07.2010.

Mr. Mehmet Müçteba BEKCAN has been assigned as Proxy Executive Vice President for Technical Services and Investments which became available due to the expiration of Mr. İsmail Hakkı GÜROL's contract as of 13.07.2010.

ERDEMİR Group Information Technologies Coordinatorship has been created and Mr. Öner SONGÜL has been appointed as ERDEMİR Group Information Technologies Proxy Coordinator as of 12.08.2010.

As of 26.10.2010, Long Products Marketing and Sales Coordinatorship has been created and Mr. Muammer Alp ARSLAN has been appointed as Long Products Marketing and Sales Coordinator on 01.11.2010.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29****5. Compliance With The Corporate Governance Principles**

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity report for the year ending 2009 were met during the period 01.01.2010 – 31.12.2010. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been charged according to the CMB Communiqué Serial IV No: 41.

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

In accordance with Capital Markets Board's decision taken on its meeting dated 09.09.2009 and numbered 28/780, Article 14 of the Company Charter headed as "Duties of the Executive Board" has been amended on the Regular Meeting of the General Assembly dated 09.03.2010 as follows:

"The primary duties of Board of Directors are; to fulfill the resolutions of General Assembly of Shareholders, to invite the General Assembly of Shareholders to meeting under the law and articles of association, to execute any kind of disposals deemed necessary and useful for the Company, to purchase and acquire any immovable properties and similar real rights on behalf of and for the possession of the Company; to restrict the Company's immovable properties under a certain real right or execute sales transactions; to lease and hire out any kind of movable and immovable properties that it shall deem as necessary for the interests of the Company; to grant and owe loans on the account and behalf of the Company, whenever necessary to establish liens on the immovable properties of the Company, and to take mortgages form real and legal entities on behalf of the Company and to submit motions of the same; to cancel such mortgages and any and all types of restrictions and limitations; and to submit the necessary cancellation motions.

The principles stipulated within the scope of Capital Market regulations shall be complied with, concerning the issues as to Company's giving guarantees, securities, warranties or giving collaterals including liens, mortgages on its behalf and for the benefit of third parties.

The Board of Directors is authorized to take decisions about any transactions other than the issues exclusively left to the discretion of General Assembly of Shareholders in the Law and the Articles of Association."

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

There is no issued capital market instrument in the period.

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

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

**9. Information about the sector**

In 2010, there is a major recovery in world markets and in terms of our sector 2010 was quite a positive year. Major companies in steel sector keep investing and higher capacities continue to be engaged. Particularly in China, mergers and acquisitions activities in steel industry also resurrected. Especially investments in mining accelerated. Steel prices went on increasing even if they fluctuated for a while due to increases in prices of iron and coal. It is reported that purchases were mostly inventory purchases. World hot coiled product price changes are given in the chart at the following page:

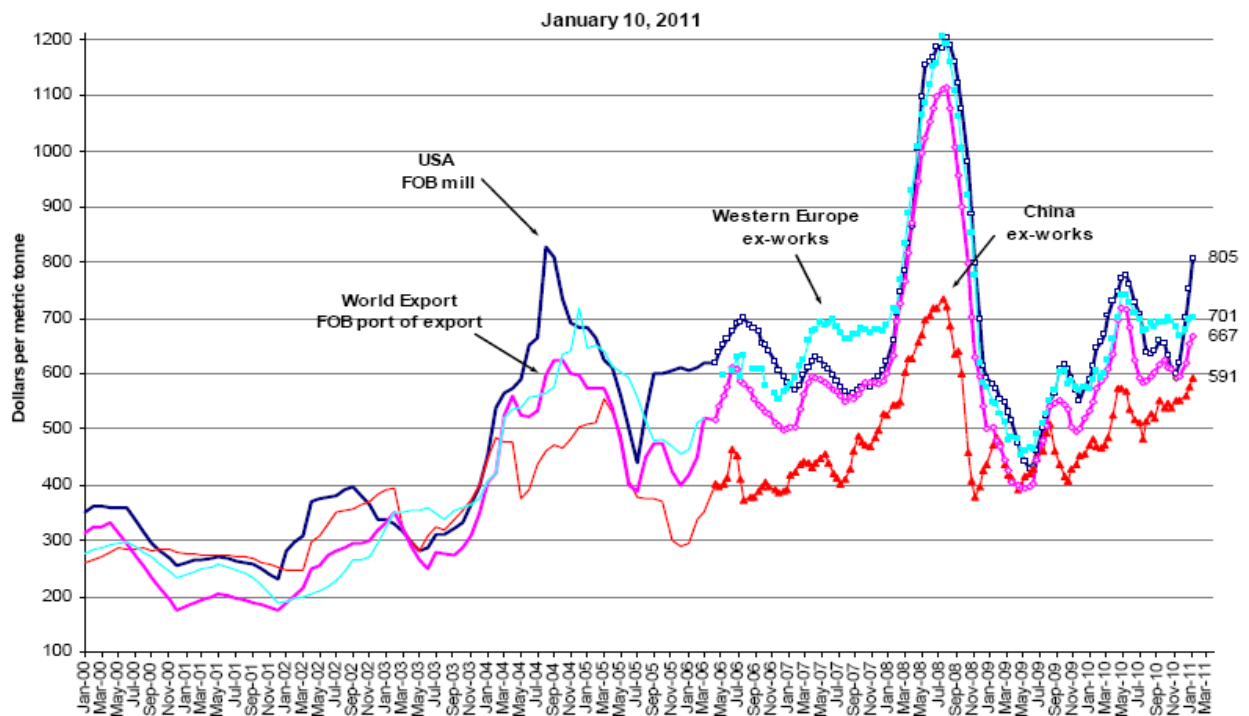
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*SteelBenchmarker™* HRB Price

**USA, China, Western Europe and World Export**

(WSD's PriceTrack data, Jan. 2000 - March 2006; SteelBenchmarker data begins April 2006)



Global crude steel production rose by 15% year-on-year to just over 1.4bn tons in 2010, according to the World Steel Association. Overall Asian crude steel production in 2010 rose by 11.6%: this included an increase of 9.3% in China to 626.7m t. After China, the world's second largest producer in 2010 was Japan (109.6m t), followed by the USA (80.6m t) and Russia (67m t). India was the fifth largest producer (66.8m t), and Korea the sixth (58.5m t). Regional increases y-on-y were the highest in North America (35.7%), Europe - EU-27 (24.6%) and Australia/New Zealand (35.5%). The increase in Asia was 11.6%, and 15.9% in South America. In terms of countries, last year's US crude production rose by 38.5%, whilst that in Japan increased by 25.2%. Russian output was 11.7% higher, whilst Indian production was only up by 6.4%. Korean production increased by 20.3%. Meanwhile in December 2010, world production was 116.2m t, an increase of 1.3% month-on-month. Global capacity utilization fell to 73.8% from 75.2% in the month-on-month comparison. Production in Q4 2010 was 2.6% higher than in Q3. December European production was down by 11.6% on November m-on-m, whilst North American output was 5.3% higher. CIS production last month was 3.3% higher, and Asian output was up by 3.1%.

Turkey has produced 29,1 million tons of crude steel and remained 10th globally, rising by 15,2% year-on-year. 20.9 million tons of the production was made in electrical arc furnaces and 8.2 million tons in integrated plants.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
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Based on the report published by worldsteel, in 2009 with a 6.5 million tons crude steel production, Erdemir Group became the 30th globally, 10th in Europe and 5th within EU-27. In 2010, the crude steel production in Ereğli Plant has decreased by 4.7% and went down to 3.5 million tons. On the other hand crude steel production in İskenderun went up to 3.6 million tons with a 30% y-o-y increase.

**11. Research and Development Activities**

Research and Development Activities of Ereğli Iron and Steel Works Inc. within the period are as follows:

- The project for the production of X-80 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process (TÜBİTAK-TEYDEB Project) is completed.
  - The trial procedure for the development of DIN EN 10149 grade S500MC for Mercedes Turkey has been completed. Due to unsuccessful results, it is decided that trial procedure will be accomplished in Iskenderun plant in future.
  - The briquetting of pellet dust using suitable additives in laboratory scale and research to enable charging of manufactured briquettes into the steel mill, sinter and blast furnace. The briquetting trials have been completed and pre-report has been published. This project presented to TÜBİTAK-TEYDEB and project is in progress. The project cost is TRY 1.121.015,55 TL. In the scope of the first term studies, TEYDEP project with the subject of "Recycling of iron/carbon bearing solid wastes generated in iron and steel industry by the way of briquetting", is going on by covering the practices of building a pilot scale plant and preparing the recipes for different kind of wastes (such as various combinations of blast furnace sludge, steel sludge, flue dust and fine ores) to operate the plant for producing test briquettes.
  - In order to eliminate surface damages caused by strap buckle in less than 0.5mm thick cold rolled coils, a plastic sticker type material is tried and successfully applied.
  - Due to automotive industry demands specific homologation studies and industrial production trials have been performed together with Renault, Tofaş/Fiat and Ford Otosan.
  - The exposed panel sheet production trial requested by Oyak Renault as "ERDEMİR 324 steel grade- C surface quality" has continued and one dimension (fender part) trial was found successful. From now on it is agreed to continue "C surface quality" studies on "roof part" trial and approval process for all three dimensions will be concluded due to this part trial success.
  - In respect of customer demands, a new steel grade (Erd 4252) that meets DIN EN 10025 S355J2 Class 1 standard requirements with galvanizing ability developed and presented to market.
  - In order to use in strap production a trial of S355 grade 0,8 mm full hard material has performed and the material is under test in customer's plant.
  - In order to develop a new, lower cost alternative to Erdemir 1335 quality galvanized sheet the production studies have continued according to previously prepared trial procedure.
  - For the use of waste oils in the Coke Plant, trial tests have been carried out in coke test oven located in our laboratory and has been determined the most appropriate mixing ratio. In the second phase the use of coal blend with the addition of approximately 1%-2% waste oil in the production of coke. In coke battery, 1 day usage is tested and the results were successful. In the last stage of this study, one week industrial scale trials will be done.
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## 12. Investment Activities

In 2010, Automation and Modernization of Continuous Annealing Line (CAL) Cold Rolling Mill No.2 in Ereğli Plants and BOF Modernization in İskenderun Plants were put into commercial operation. The details of the main investments continuing in Ereğli and İskenderun plants are as follows:

Ereğli Plant;

- No.4 Coke Oven Battery
- New Turbo Blower
- No.7 Air Separation Plant
- Blast Furnace Top Pressure Recovery Turbines (TRT)
- Erdemir Steel Service Center
- Yarımca Harbor & Logistics Center
- Automation and Modernization of Continuous Pickling Line (CPL) and Tandem Cold Mill (TCM) Cold Rolling Mill No.2
- Advanced Planning & Scheduling System
- Hot Strip Mill No.1 Combined Mill Drive Motor
- Reline Investment on No.2 Blast Furnace
- Investments in Steel Mill and Other Plants depending to the Reline
- Enterprise Resource Planning (including İskenderun Plants)

İskenderun Plant;

- No.2 Sinter Plant
- No.4 Blast Furnace
- Modernization of No.4 Coke Oven Battery
- Harbor Investments (2<sup>nd</sup> Stage) "First Phase of Coastal Structures"
- Infrastructure Improvements
- Modernization of Automation System of the existing Steam Boilers
- Environmental Investments

## 13. Government Grants

Government grants and incentives, received by Erdemir Group are as follows:

(TRY)	1 January - 31 December 2010	1 January- 31 December 2009
Social Security Grant	424.401	502.765
Research and Development Grant	368.210	808.035
Energy Grant	-	5.018.685
Tax Grant	-	57.401
<b>Total</b>	<b>792.611</b>	<b>6.386.886</b>

These grants and incentives can be used by all companies who meet the related legislative requirements.

There is an investment incentive right of the Group amounting to TRY 40.604.341, deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
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The world economy, with contributions of developing countries, is estimated to grow by 5% in 2010 despite the expectations of a new stagnation phase and economical fluctuations. In addition, the apparent steel use is expected to rise in accordance with economical growth. The World Steel Association (WSA) stated that net crude steel production increased by 15% compared to 2009 and reached 1.41 billion tons level. According to the estimations, global apparent steel use reached 1.4 billion tons with an increase of 12.6%.

Turkish economy is estimated to grow by about 8% in accordance with the global economy. Not only this economic growth, but also the new domestic flat steel producers have contributed to the Turkish steel production and consumption in 2010. Depending on the WSA records, Turkey increased total crude steel production by 14.6% to 29 million tons and kept its 10th rank in the top steel producing countries list.

As well as the contributions of the economic growth and the inventory activity to consumption, the base effect of contracted steel consumption in 2009 increased the Turkish apparent steel use in 2010. According to the Turkish Steel Producers Association's records, Turkey's total apparent steel use has increased by 30.6% in 2010 and reached to the level of 23.6 million tons. The apparent flat steel use has reached the level of 11.9 million tons with a 43.1% increase and leading the growth; whereas, the apparent long steel use reached the level of 11.6 million tons with a 20.2% increase.

In compliance with the profit focused production and marketing strategy, Erdemir Group's flat steel sales volume increased by 13% year-on-year and has reached 4.4 million tons level through maximum use of crude steel capacity at Ereğli and Iskenderun facilities. Despite the increase in domestic shipments, Erdemir Group's total market share is expected to be realized around 35% due to the fact that there has been an increase of 43.1% in Turkish apparent flat steel use.

The sales volume of long products decreased by 25% in line with profit focused business strategy and targeted increase in operating flat steel investments at maximum level in Iskenderun. Even though, the group's market share in long product market is not expected to change and is expected to be realized at a 13% level due the contraction at traded billet market.

The steel consumption has reached pre-crisis levels in 2010 and a stable growth about 5% - 6% is expected in 2011 due to slow recovery in major economies. In addition, Turkish steel consumption is expected to grow about 10% with the effect of this positive outlook in 2011.

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**15. Products**

The main products of Erdemir Group are as follows:

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

**16. Production Plants and Productivity**

The information about the main plant units and capacities of Ereğli Iron and Steel Works Inc. are stated below:

	1 January - 31 December 2010			1 January - 31 December 2009		
	Capacity (*) (tons)	Production (tons)	C.U.P. (%)	Capacity (*) (tons)	Production (tons)	C.U.P. (%)
Coke Plant	1.000.000	989.134	99	1.000.000	973.794	97
Sinter Plant	2.000.000	2.020.695	101	2.000.000	1.933.770	97
Blast Furnaces	3.400.000	3.209.010	94	3.400.000	3.350.238	99
BOF	3.850.000	3.656.518	95	3.500.000	3.836.644	110
Casters	3.750.000	3.537.575	94	3.400.000	3.715.622	109
Hot Strip Mill.1	1.150.000	566.403	49	1.150.000	898.640	78
Hot Strip Mill.2	3.650.000	2.882.935	79	3.650.000	3.189.033	87
Plate Mill	300.000	67.280	22	300.000	22.407	8
Cold Mill.1	500.000	334.049	67	450.000	291.325	65
Cold Mill.2	1.500.000	1.220.654	81	1.550.000	1.344.284	87
Galvanizing Line	300.000	263.360	88	300.000	285.804	95
Elect. Tinning Line	250.000	237.997	95	250.000	166.578	67
<b>C.U.P %</b>			<b>88</b>			<b>96</b>

(\*) Actual capacity for twelve months.

The information about the main plant units and capacities of İskenderun Iron and Steel Works Co. is stated below:

	1 January - 31 December 2010			1 January - 31 December 2009		
	Capacity (*) (tons)	Production (tons)	C.U.P. (%)	Capacity (*) (tons)	Production (tons)	C.U.P. (%)
Coke Plant	2.150.000	1.949.417	91	2.150.000	1.716.096	80
Sinter Plant	3.000.000	2.733.904	91	3.000.000	2.140.364	71
Blast Furnaces	3.800.000	3.355.025	88	3.800.000	2.593.720	68
BOF	4.000.000	3.676.857	92	3.500.000	2.820.894	81
Billet Casting	2.500.000	1.441.663	58	2.500.000	1.896.092	76
Slab Casting	5.000.000	2.134.990	43	5.000.000	853.533	17
Hot Strip Mill	3.500.000	1.988.507	57	3.500.000	817.898	23
Wire Rod Mill	500.000	445.604	89	500.000	517.514	104
<b>C.U.P %</b>			<b>73</b>			<b>56</b>

(\*) Actual capacity for twelve months.



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**17. Production (quantity)**

Final Products (000 Tons)	01 January - 31 December 2010	01 January - 31 December 2009
Erdemir	3.406	3.994
Isdemir	3.475	2.812
Ermaden	2.705	2.334

**18. Developments Regarding Sales**

In the current competitive steel market with high price volatility, an industry oriented marketing and sales organization is established to differentiate the Group in the market. In this new organization, Group Sales & Marketing Coordinator and the Long Products Marketing & Sales Coordinator are directly subordinated to Chairman and Managing Director.

The Group Sales & Marketing structure consists of two marketing directorates focused on planning and development and six marketing and sales directorates focused on sales. The marketing and sales directorates are divided as pipe – profile industry, and wholesales, re-rolling industry and steel service centers, automotive, white goods and packaging, shipbuilding and heavy industries, general machinery and international trade.

The main objectives of the new marketing and sales structure are increasing the market share of the group both in the domestic and export markets, developing customer loyalty, creating profitable product mix that suits the market best and providing fast solutions to customers through technology oriented processes. In addition, major steps are taken for a far more effective sustainable supply chain with closer relationships built by the customer representatives and facilitated order process.

The customer representatives take a great role in transferring the customers' voice in to our processes by building a direct relationship and providing active communication. The new investment decisions are made to improve the distribution channels depending on the customer representatives' feedbacks and market development studies. Accordingly, it has been decided to expand the service capability at Ereğli facilities with a steel service center investment and implementation phase has started. With the new facility, our tailor made product properties will be improved and our product mix will expand with shaped-cut products. Furthermore, the project of improving service capacity of the existing cut to length lines at Iskenderun has started.

The positive customer feedbacks about new developments, increased number of the active customers depending on gained customers, higher averages of delivery and order quantities, protected profitability level and improvements at other sales parameters are considered as the indicators of successful steps in 2010.

In addition to these developments, the highest on time delivery performance of the last decade had been reached via Advanced Programming and Scheduling System (APASS) started to be used in 2010. The efforts constantly continue to use APASS more effectively in order to improve the delivery performance at the forthcoming years.

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The domestic deliveries of the Erdemir Group increased by 15% and reached to the level of 4.4 million tons and the total deliveries reached to the level of 5.1 million tons with an increase of 0.7%. Total long steel shipment decreased by 25% and was realized at about 1.4 million tons level. The main objective of the industry oriented marketing and sales organization is to increase the sales volume to the end-users. Accordingly, the sales volume of the automotive & white goods industry increased by 40% and general machinery industry increased by 30% when compared to 2009. In 2011, an increase of 10% is expected at the group's total steel sales volume, parallel to the increase in apparent steel use.

Moreover, customer claim rate was an important indicator of process improvements realized in 2010. The declining trend started in 2006 continued in 2010 and the minimum claim rate and accepted claim rate of the last decade has been realized. We continuously spend efforts on developing new steel qualities and products that meet our customer needs, in order to increase loyalty.

### 19. Sales (quantity)

Final Products (000 Tons)	1 January - 31 December 2010	1 January - 31 December 2009
Erdemir	3.284	4.293
Isdemir	3.288	2.809
Ermaden	2.774	2.100

### 20. Indicators and Ratios

Financial statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and have been audited as of 31 December 2009 and 31 December 2010.

#### Summary of Balance Sheet

(TRY)	31 December 2010	31 December 2009
Current Assets	6.324.667.258	3.729.502.669
Non-current Assets	7.216.305.378	7.420.919.878
Total Assets	13.540.972.636	11.150.422.547
Current Liabilities	3.763.668.823	1.620.897.962
Non-current Liabilities	3.086.059.488	3.610.830.559
Shareholders' Equity	6.691.244.325	5.918.694.026
Total Liabilities	13.540.972.636	11.150.422.547

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**Summary of Income Statement**

(TRY)	1 January- 31 December 2010	1 January- 31 December 2009
Sales Revenue	6.632.827.541	5.265.818.577
Operating Profit	1.121.339.764	51.745.902
Profit / (Loss) Before Taxation	973.883.922	(223.475.119)
Profit / (Loss) for the Period (*)	796.347.142	(168.481.558)
EBITDA	1.419.925.686	381.775.807
Earnings / (Loss) Per Share	%47,87	% (10,54)

(\*) Shareholder's share in the net profit/ (loss) for the period is TRY 765.999.660 in December 2010 (December 2009: TRY (168.690.422)).

**Key Ratios**

(%)	31 December 2010	31 December 2009
Operating Profit Margin	16,9	1,0
Profit/ (Loss) Margin	12,0	(3,2)
EBITDA Margin	21,4	7,3

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

22nd Period Collective Labor Agreement, which was valid between 01.09.2008-31.08.2010, expired. Signature Procedure for the New Collective Labor Agreement is still in progress and the dispute protocol was signed with Turkish Metal Union on February 1, 2011.

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

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

Ereğli Iron and Steel Works Co. and its subsidiaries, Iskenderun Iron and Steel Works Co, Erdemir Engineering Management and Consulting Services Inc. and Erdemir Logistics Inc., made 250 TRY/month support payments (including the legal withholdings which are going to be paid by the Companies) to each of their employees, for 4 months, covering the period between May-August 2010.

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The operation for decreasing personnel salaries and salary dependant rights by 35% which had been realized within Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its affiliates Iskenderun Demir ve Çelik A.Ş., Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. and Erdemir Lojistik A.Ş between 01.05.2009 – 31.08.2010 ceased as of 31.08.2010 and salaries and salary dependant rights started to be paid to the personnel without any deduction since 01.09.2010.

The number of the personnel on 31 December 2010 and 31 December 2009 are as follows:

	<b>30 December 2010</b>	<b>31 December 2009</b>
Monthly paid personnel (A)	3.378	3.244
Hourly paid personnel (B)	7.859	8.003
Candidate worker (C)	2.173	1.786
Contractual personnel (D)	18	17
Contractual personnel (Contractor)	125	111
<b>TOTAL</b>	<b>13.553</b>	<b>13.161</b>

## 22. Shareholding and Capital Structure

Authorized Capital : TRY 5.000.000.000  
Paid-in Capital: TRY 1.600.000.000

<b>Shareholders</b>	<b>Shares (TRY)</b>	<b>%</b>
Ataer Holding A.Ş.	788.563.515	49,29
Publicly Held	762.139.626	47,63
Erdemir's Own Shares	49.296.859	3,08
<b>Total</b>	<b>1.600.000.000</b>	<b>100,00</b>

## 23. Dividend Distribution Policy

Erdemir Groups' Dividend Distribution Policy is as follows:

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

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29****24. The Availability of Financial Sources and The Policies The Group Applies in This Framework**

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

**25. Risk Management Policy**

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

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

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

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

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

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

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

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

<b>Name of the Company</b>	<b>Country of Operation</b>	<b>Operation</b>	<b>2010 Share %</b>
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00
Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100,00

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

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 USD 33.000.000). The gain from the sale of the shares is TRY 15.992.680 and recognised under other operating income.

According to the decisions taken by the Board of Directors of Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. (ERBOR) dated 14 July 2010 and numbered 334 and Board of Directors of Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. (ERSEM) dated 14 July 2010 and numbered 22, ERBOR with all its remaining assets and liabilities will be taken over and merged by ERSEM, the work about the take over is continuing.

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

Subsidiaries

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

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

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

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
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When the Group purchases a company, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. The amount of the minority interest shares is obtained by the calculation of the fair values of assets and liabilities with respect to the proportion of the minority interest. The operational results of subsidiaries are included or excluded from consolidation according to their effective dates of acquisition and disposal, respectively.

Minority interests in the net assets of the subsidiaries included in consolidation appears as a separate item in Group's equity. Minority interest consists of minority'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 minority interest after the first acquisition date. Losses exceeding the shares belonging to minority interest are distributed to the shares of the Group, unless there is a mandatory obligation to compensate the recognized losses and an opportunity to make additional investments to cover the stated losses of the minority interest. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

**Investments in Associates**

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

The results of operations, assets and liabilities of the associates that are incorporated in the consolidated financial statements are accounted for via the equity method, in cases where the associates are held for sale.

According to the equity method, the investments in associates are carried into the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the registered assets and liabilities on the date of acquisition such as identifiable assets, liabilities and contingent liabilities, is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is recognized immediately in the consolidated income statement after the revaluation.

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**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
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**27. Information for Shareholders**

According to the decisions of the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) dated 25 January 2011, numbered 9071, the registered capital was decided to be increased by 34,375% from retained earnings in total TRY 550.000.000 from TRY 1.600.000.000 to TRY 2.150.000.000 within the registered authorized capital, TRY 5.000.000.000. New shares resulting from non-cash capital increase will be registered to shareholders in accordance with percentage of ownership on current shares. The capital increase procedure was completed by the registration and announcement of the certificate of registry dated 28 February 2011, issued by Capital Market Board.

The sale of ArcelorMittal Ambalaj Çeliği Sanayi ve Ticaret. A.Ş. shares to ArcelorMittal France S.A. has been completed on 28 February 2011 with the sale price of USD 10.500.000.

On 7 December 2010, negotiations on the 23 rd Labour Agreement started between Turkish Employers' Association of Metal Industries, which Ereğli Demir ve Çelik Fabrikaları T.A.Ş from Erdemir Group is a member of and represents company during labour agreements, and Turkish Metal Union. On 1 February 2011, the negotiations between both parties have resulted with minutes of dispute.

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