

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

1. Period of the Report

01/01/2009-30/09/2009

2. Title of the Association

EREĞLİ IRON AND STEEL WORKS, INC.

3. Members of the Board of Directors and Auditors

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

Members of the Board of Directors as of 30.09.2009:

Board of Directors	Title	Effective from
Şerif Coşkun ULUSOY	Chairman (1 year)	27/02/2006
Mehmet Aydın MÜDERRİSOĞLU	Deputy Chairman (1 year)	27/02/2006
Arzu Hatice ATİK	Board Member (1 year)	26/02/2008
Celalettin ÇAĞLAR	Board Member (1 year)	27/02/2006
Ergün Oktay OKUR	Board Member (1 year)	27/02/2006
Nihat KARADAĞ	Board Member (Until 2009 Regular General Assembly)	30/09/2009
Dinç KIZILDEMİR	Board Member (1 year)	27/02/2006
Ertuğrul AYDIN	Board Member (1 year)	31/03/2008
Oğuz Nuri ÖZGEN	Board Member (1 year)	17/07/2006

Changes in the Board of Directors within the Period

Ali Caner ÖNER has resigned from the membership of the Board of Directors on 29.09.2009 and Nihat KARADAĞ has been elected for the vacant position as a member to the Board on 30.09.2009.

Members of the Board of Auditors as of 30.09.2009:

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

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Changes in the Board of Auditors within the Period

None.

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 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
Halil Cem KARAKAŞ	Executive Vice President (Chief Financial Officer)	28/08/2007
Günhan BEŞE	Executive Vice President (Sales and Marketing)	13/07/2006
Ozan BEKÇİ	Executive Vice President (Raw Materials and Procurement)	13/07/2006
İsmail Hakkı GÜROL	Executive Vice President (Technical Services and Investment)	13/07/2006

Changes in the Executive Management within the Period

None.

5. Compliance With The Corporate Governance Principles

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity report for the year ending 2008 were complied with during the period 01/01/2009 – 30/09/2009.

6. Amendments in The Articles of Association

None.

7. The Nature and Amount of Issued Capital Market Instruments

In accordance with the decision of the Board of Directors dated 24.07.2009 numbered 9010 and dated 09.09.2009 numbered 9015, it was decided to raise the paid up capital from TL 1.148.812.500,00 to TL 1.600.000.000,00 by an increase of TL 451.187.500,00 consisting 39,27425% of the paid up capital. The procedures for the increase in capital have been completed with the registration and publication of the Capital Market Board document dated 15.10.2009 numbered 88/861.

BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29**8. Significant Changes Occurring in the Environment the Company Operates in and the Policies Executed in Return**

None.

9. Information about the sector

The high supply and demand balance was maintained up until September 2008 in the iron and steel sector. The increase in raw material costs led to a rise in steel prices, thus record high increases continued until September. However, the economic crisis which began in the U.S. has spread globally. It induced a monetary pressure on steel manufacturers and caused production cuts which increased stocks and resulted in record-low price declines. Cutbacks in production beginning from the third quarter of 2008 have continued with an increasing pace throughout the first half of 2009. Nonetheless by the 3rd quarter, some indications of recovery were noticed. Depleting inventories, shifting industrial production and rising steel demand due to necessities have increased the capacity utilization ratios. However, the upwards trend from early June till September 2009 was not persistent; mainly due to complementing inventories and lack of increase in real industrial demand. Furthermore, the competitive marketing pressure from China has been causing a particular downward price tendency in October.

Consequently, in the first 9 months of 2009, the world crude steel production has fallen down to 759,6 million tons; indicating a 41,44% decrease on a y-o-y basis. In August 2009 the world crude steel production has reached 106,7 million tons, indicating an increase by 6,5% compared to June and 2,6% compared to July. This has been the maximum level of output since the September 2008 production of 107,9 million tons.

In the first 9 months of 2009, Turkey has produced 18,5 million tons of crude steel which indicates a 13,5% decrease on a y-o-y basis. Among this amount; 5,4 million tons were cast in integrated plants and 13,1 million tons were cast in electric arc furnaces.

10. The Position of the Group within the Sector

In 2008, the Erdemir Group has produced 6 million tons of crude steel. By doing so, it was ranked 50th globally, 15th Europe-wide and 8th within EU-27 according to World Steel Organization. In the first 9 months of 2009, the crude steel production at the Ereğli premises has been 2,8 million tons which indicates an increase of 14,5% on a y-o-y basis. The cause in the rise of crude steel is due to the lack of hot metal production during the commissioning works of blast furnace no:1 (Ayşe) in 2008. Regarding İskenderun plants, the crude steel output in the first 9 months of 2009 has been 1,8 million tons which indicates a decrease of 19,4% on a y-o-y basis.

BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29**11. Research and Development Activities**

Research and Development Activities within the period are as follows:

- The production of X-80 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process. (TÜBİTAK-TEYDEB Project)
- The production of X-70 petroleum and natural gas pipe line steel grade in reversible hot rolling mill process. (TÜBİTAK-TEYDEB Project)
- The production and development of alternative DC04 ED enameling steel grade according to DIN EN 10209 standards, having improved aging properties.
- The production and development of electric steel grades having high silicon content. (Sale to offer, continue to observing.)
- The development and production of steel grades S355JO, S355K2, S355J2W (resistant to the atmospheric corrosion) produced in the concern of DIN EN 10025 standard due to the requirement of structural construction companies. (Sale to offer, continue to observing.)
- The development of DIN EN 10149 grade S700MC for Mercedes.
- The Improvement of DIN EN 10149 grade S500MC. Trial productions have been done and project in progress.
- The production of plates with TCR rolling up to API X-60 steel grades. Depending on the heavy plate order the trial productions will continue.
- The development and production of steel grades XES- XE280D for Renault accomplished successfully and developed steel grade is ready for sale.
- The briquetting of pellet dust with using suitable additives in laboratory scale and research to charging of produced briquettes into the steel mill, sinter and blast furnace.

12. Investment Activities

Throughout the first 9 months of 2009, investments of Erdemir Group have continued. Details of the main works are as follows:

Ereğli Plants;

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

İskenderun Plants;

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

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

	01 January-30 September 2009		
	Capacity* (tons)	Production (tons)	C.U.P. (%)
Coke Plant	750.000	731.886	97,6
Sinter Plant	1.500.000	1.409.605	94,0
Blast Furnaces	2.550.000	2.503.657	98,2
BOF	2.625.000	2.870.397	109,3
Casters	2.550.000	2.784.732	109,2
Hot Strip Mill.1	862.500	792.858	91,9
Hot Strip Mill.2	2.737.500	2.404.047	87,8
Plate Mill	225.000	18.644	8,3
Cold Mill.1	337.500	200.660	59,5
Cold Mill.2	1.162.500	987.993	85,0
Galvanizing Line	225.000	202.978	90,2
Electrolytic Tinning Line	187.500	112.808	60,2
General C.U.P %			95,6

* Actual capacity for the first 9 months.

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

	01 January-30 September 2009		
	Capacity* (tons)	Production (tons)	C.U.P. (%)
Coke Plant	1.612.500	1.245.529	77,2
Sinter Plant	2.250.000	1.456.295	64,7
Blast Furnaces	2.850.000	1.733.703	60,8
BOF	2.625.000	1.867.036	71,1
Billet Casting	1.875.000	1.438.638	76,7
Slab Casting	3.750.000	391.267	10,4
Hot Strip Mill	2.625.000	425.041	16,2
Wire Rod Mill	375.000	383.756	102,3
General C.U.P %			49,8

* Actual capacity for the first 9 months.

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14. Products

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

15. Productivity

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

	01 January-30 September 2009			01 January-30 September 2008			01 January-30 September 2007		
	Capacity* (tons)	Production (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)
Coke Plant	750.000	731.886	97,6	779.250	755.632	97,0	779.250	746.599	95,8
Sinter Plant	1.500.000	1.409.605	94,0	1.500.000	1.467.640	97,8	1.500.000	1.522.840	101,5
Blast Furnaces	2.550.000	2.503.657	98,2	2.239.083	2.175.249	97,1	2.025.000	2.078.242	102,6
BOF	2.625.000	2.870.397	109,3	2.375.992	2.506.018	105,5	2.250.000	2.404.439	106,9
Casters	2.550.000	2.784.732	109,2	2.303.092	2.432.291	105,6	2.175.000	2.341.208	107,6
Hot Strip Mill.1	862.500	792.858	91,9	862.500	855.454	99,2	862.500	816.587	94,7
Hot Strip Mill.2	2.737.500	2.404.047	87,8	2.737.500	2.427.041	88,7	2.681.250	2.248.062	83,8
Plate Mill	225.000	18.644	8,3	375.000	178.573	47,6	375.000	164.777	43,9
Cold Mill.1	337.500	200.660	59,5	375.000	289.204	77,1	375.000	251.848	67,2
Cold Mill.2	1.162.500	987.993	85,0	1.125.000	1.074.660	95,5	1.125.000	978.597	87,0
Galvanizing Line	225.000	202.978	90,2	225.000	291.785	129,7	225.000	191.031	84,9
Elect. Tinning Line	187.500	112.808	60,2	187.500	216.368	115,4	187.500	162.929	86,9
General C.U.P %			95,6			97,2			95,5

* Actual capacity for the first 9 months.

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

	01 January-30 September 2009			01 January-30 September 2008			01 January-30 September 2007		
	Capacity* (tons)	Production (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)	Capacity* (tons)	Produc. (tons)	C.U.P. (%)
Coke Plant	1.612.500	1.245.529	77,2	1.612.500	1.583.620	98,2	1.305.000	1.008.348	77,3
Sinter Plant	2.250.000	1.456.295	64,7	1.890.000	1.988.328	105,2	1.890.000	1.706.998	90,3
Blast Furnaces	2.850.000	1.733.703	60,8	2.850.000	2.373.805	83,3	2.700.000	1.872.004	69,3
BOF	2.625.000	1.867.036	71,1	2.625.000	2.434.015	92,7	1.650.000	1.725.762	104,6
Billet Casting	1.875.000	1.438.638	76,7	1.875.000	1.575.345	84,0	1.875.000	1.335.630	71,2
Slab Casting	3.750.000	391.267	10,4	3.750.000	801.189	21,4	1.875.000	352.486	18,8
Hot Strip Mill	2.625.000	425.041	16,2	583.333	43	0,01	-	-	-
Wire Rod Mill	375.000	383.756	102,3	375.000	390.852	104,2	375.000	348.158	92,8
General C.U.P %			49,8			71,6			71,5

* Actual capacity for the first 9 months.

16. Production (quantity)

Final Products (000 Tons)	01 January - 30 September 2009	01 January - 30 September 2008	01 January - 30 September 2007
Erdemir	3.125	3.435	3.065
İsdemir	1.926	2.417	1.870
Ermaden	1.802	1.570	1.469

17. Sales (quantity)

Final Products (000 Tons)	01 January - 30 September 2009	01 January - 30 September 2008	01 January - 30 September 2007
Erdemir	3.310	3.283	3.232
İsdemir	1.930	2.256	1.826
Ermaden	1.530	1.452	1.391

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18. Indicators and Ratios

Financial statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and have not been audited as of 30 September 2009. Financial statements have been subject to a full-scope of audit as of 31 December 2008.

Selected Balance Sheet Items (TL)

(TL)	30/09/2009	31/12/2008
Current Assets	4.079.599.248	4.649.284.426
Non-current Assets	7.419.142.045	7.285.155.391
Total Assets	11.498.741.293	11.934.439.817
Current Liabilities	1.943.380.927	3.355.971.032
Non-current Liabilities	3.759.688.650	2.474.840.646
Shareholders' Equity	5.795.671.716	6.103.628.139
Total Liabilities	11.498.741.293	11.934.439.817

Selected Income Statement Items (TL)

(TL)	30/09/2009	30/09/2008
Net Sales	3.607.017.169	5.634.236.974
Operating Profit/(Loss)	(153.592.088)	1.769.473.054
Profit / (Loss) for the Period	(356.247.227)	1.877.458.714
Net Profit / (Loss) for the Period*	(290.734.348)	1.458.784.621
EBITDA	79.957.072	1.999.424.833
Earnings / (Loss) Per Share	(0,1800)	0,8752

*Parent company's share in the net profit/(loss) for the period is (288.034.943) TL in September 2009. (September 2008: 1.400.301.534 TL)

Key Ratios

(%)	30/09/2009	30/09/2008
Operating Profit Margin	(4,3)	31,4
Net Profit Margin	(8,1)	25,9
EBITDA Margin	2,2	35,5

19. Collective Labor Agreement Applications and the Benefits

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

In the scope of collective agreement applications, rights and benefits of the white-collar and blue-collar workers are classified under bonuses and social benefits, and vacations. **Bonuses and social benefits;** bonuses, holiday pay, heating allowance, paid annual leave

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allowance, marriage allowance, birth allowance, bereavement allowance (the death of the worker, spouse, children, mother, father or sibling, death of the worker as a result of a work accident. The allowance will pass onto the worker's heir in case of death as a result of a work accident), military service allowance, children allowance, educational allowance for each child (primary school, secondary school, higher education), meal allowance, and transportation allowance. **Vacations;** paid annual leaves, family leaves for medical purposes, leaves of absence with excuse, unpaid leaves, and other paid leaves consisting marital leaves, bereavement leaves, maternity leaves, nursing leaves and leaves in case of a natural catastrophe.

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

In accordance with the provisions stated in the Collective Labor Agreement, the amount of bonuses and social benefits, valid as of 01.09.2009, had been increased by the Consumer Price Index of 5,33 %, realized for the period between 01.09.2008-31.08.2009.

Considering the Ramadan festivity and opening of the school year, Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) has made a TL 1.000 (net) support payment per employee on 14.09.2009. Such decision has been carried out in İskenderun Demir ve Çelik A.Ş. and some other Erdemir Group companies. Erdemir Group's total support payment is TL 20 million including taxes.

The number of the personnel based on categories at 30 September 2009 and 31 December 2008 are as follows:

	30 September 2009	31 December 2008
Monthly paid personnel (A)	3.246	3.551
Hourly paid personnel (B)	8.080	9.063
Candidate worker (C)	1.786	1.797
Contractual personnel (D)	17	17
Contractual personnel (Contractor)	86	209
TOTAL	13.215	14.637

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20. Shareholding and Capital Structure

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

Shareholders	Shares (TL)	%
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
Total	1.600.000.000	100,00

21. Dividend Distribution Policy

The Company's Dividend Distribution Policy is as follows:

"Our Company's dividend distribution policy is covered by the Clause 37 of the Articles of Association. In compliance with 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 and the Company'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."

22. The Availability of Financial Sources and The Policies The Company Applies in This Framework

Erdemir has full access to all national and international financial sources with its market making force based on high trading volume in money markets. New funding alternatives according to changing market conditions are continuously analyzed and offers are evaluated. The debt policy of Erdemir is developed based on the capability of cash generation and the strong equity structure. Hedging methods and amounts used against financial risks during the global crisis environment are developed based on a frame of systematic models. Within 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 are sought.

23. Risk Management Policy

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

Value at Risk method (VaR) is used to measure the market risk and the maximum loss which might occur from changes in currency rates is calculated weekly within %99 probability ratio and one day retain interval.

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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 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 the Group is exposed to and the amount of gain / loss which may arise in possible interest rate changes is measured using a sensitivity analysis.

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

24. The Information About Affiliates Subject to Consolidation

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

Name of the Company	Operation	2009 Share %
İskenderun Demir ve Çelik A.Ş.	Iron and Steel	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Iron Ore and Pellet	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Iron and Steel	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Management and Consultancy	100,00
Erdemir Romania S.R.L.	Iron and Steel	100,00
Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş.	Iron and Steel	100,00
Erdemir Lojistik A.Ş.	Logistics Services	100,00

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

(**) In accordance with the decision taken by the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş., ArcelorMittal Ambalaj Çeliği Tic. A.Ş. (25,00%) which was previously accounted for using the equity pick-up method and Borçelik Çelik San. Tic. A.Ş. (9,34%) which was accounted for under available for sale financial assets held by the Group were reclassified as long term assets held for sale as of 1 April 2009 as their sales are highly probable in twelve months.

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

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

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

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

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

25. Information for Shareholders

On 15.09.2008 it was announced on the ISE bulletin that Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (Erdemir) decided to end the Commercial Agreement which was signed on 17.10.2002 between ArcelorMittal Ambalaj Çeliği Tic. A.Ş. and Arcelor Packaging International SA, and also decided to end the shareholding in ArcelorMittal Ambalaj Çeliği Tic. A.Ş. and Borçelik Çelik San. ve Tic. A.Ş according to the Board of Directors' resolution numbered 8971, dated 11 September 2008. Negotiations are still continuing.

According to the decision of the Constitutional Court received at the meeting held on 15.10.2009 with no. 2006/95 basis GVK (Income Tax Law)'s investment incentives contained in the temporary Article 69 concerning "...2006, 2007, 2008 belong to ..." the phrase has been decided to be cancelled and the decision has been decided to enter into force with the publication in the Official Gazette. The enforcement date is not definite as the decision has not been published in the Official Gazette yet.
