ERDEMİR GROUP
2011 ANNUAL REPORT

Contents

A centenary line.
A safe future.

The Supplementary Occupational Pension Fund (the fund supplementing the primary pension system) is not a concept well-known in our country. It is an arrangement for assuring an occupational group to enjoy better living conditions during their working life and when they retire. It has been successful implemented in many advanced democracies throughout the world and in developed countries. Often, they are known as Second Pillar Occupational Pension Funds. Only one enterprise has successfully implemented this system in Turkey: OYAK

This enterprise, the foundations of which were laid in 1911, continued its operations under the name of OYAK in 1961 with an expanded array of functions that paralleled its modern equivalents. It has turned what were minor personal savings of its members into major investments, in addition to providing services such as better retirement conditions, death - disability benefits and individual loans. In addition, it has generated employment through its subsidiaries. With approximately 270,000 members, OYAK has not received any funding from the government to date, but has made a considerable contribution in the government budget with the high taxes it has paid as a functioning enterprise and Group. It has inspired the current private pension system and has become one of the most valuable and important enterprises within the Turkish Republic.

It has become a role model with a strong infrastructure for more than 50 years. With a long established past and facing a brighter future, we are ready to offer our experience in the field of Supplementary Occupational Pension Funding by increasing long-term savings for each teacher, healthcare worker, police officer, judicial staff member and similar occupational groups to provide them with better retirement conditions. At OYAK we celebrate the New Year with the public and our members, extending our best wishes for the coming days after 50 successful years in operation.

OYAK

* The announcement was published in leading newspapers in Turkey on December 30-31, 2011 in recognition of the completion of OYAK's 50th operating year.

Prioritizing open and continuous communication with principles of honesty, transparency and active participation of its employees, ERDEMİR Group continues its journey towards “the better”.

Group Profile

“Group synergy nurtured by shared mind”

In line with its growth strategy, Ereğli Demir ve Çelik Fabrikaları T.A.Ş. successfully transforms itself into a Business Group through series of new operations and acquisitions in both domestic and international markets since 2001. Today, with its eight companies ERDEMİR Group continue its activities in the production of flat and long steel, mining, engineering & project management, logistics and service centers.

ERDEMİR Group, with its modern and advanced production facilities, efficient resource utilization capabilities and focus in occupational health & safety, environment and social responsibility has a pioneer role in its sector. ERDEMİR Group with its dedication to continuous development relentlessly carries on its efforts to maximize its value contribution to Turkey through production, employment and tax payment.

ERDEMİR Group, as being one of Turkey's largest private employers, has a significant contribution to national employment with a strong workforce. In 2011 the group employs total 13,433 people, of which 9,933 is blue collar, 3,388 is white collar and 112 includes contracted employees.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. (ERDEMİR), being the first and largest integrated flat steel producer of the country and one of the most valuable companies of Turkey, is the flagship of ERDEMİR Group. Since the establishment of Istanbul Stock Exchange ("ISE"), ERDEMİR shares have been considered as one of the most important investment tools.

With a share transfer contract dated February 27, 2006, ERDEMİR shares owned by the state were transferred to ATAER Holding, a wholly-owned subsidiary of OYAK. The current share breakdown is as follows:

- ATAER Holding A.Ş.: 49.29%
- ERDEMİR Portfolio: 3.08%
- Other: 47.63% (Free float)

Turkey's first integrated flat steel producer ERDEMİR, started production at 1965 and today has an annual capacity of approximately 4 million tons of crude steel and over 5 million tons of finished products. The Company produces plate, hot and cold rolled coil and tinplate, as well as chrome and zinc-coated flat steel products at international quality standards. ERDEMİR supplies fundamental material to industries such as automobiles, white goods, pipes and profiles, rolling, general manufacturing, electrical and electronics, machinery and equipment, energy and heating appliances, shipbuilding and heavy industry, defense and packaging. It thus leads the development of national industry.

İSKENDERUN DEMİR VE ÇELİK A.Ş.

Commissioned in 1970 to produce long steel, İskenderun Demir ve Çelik A.Ş. joined ERDEMİR Group on February 1, 2002. Following the acquisition of İSDEMİR by ERDEMİR, key investment projects were completed to eliminate all obstacles preventing the profitable operation of İSDEMİR.

Modernization and Transformation Investments (MTI), the largest industrial investment in the history of Turkish Republic, was aimed at eliminating the imbalance between long and flat products in the national steel industry. Completed within its deadline, İskenderun plant began manufacturing flat products in 2008.

İSDEMİR plays a vital role in the increase of flat product capacity, which is key to the development of the national steel industry. The Company continues to produce billets and wire rods.

Today, İSDEMİR has a liquid steel capacity of approximately 5.5 million tons, as well as a total finished product capacity of 4 million tons - composed of 3.5 million tons of flat products and 0.5 million tons of wire rods. As for semi-finished products, İSDEMİR has the capacity to produce an additional 1.5 million tons of billet and 1.5 million tons of slabs.

A Snapshot of the ERDEMİR Plant

ERDEMİR MADENCİLİK SAN. VE TİC. A.Ş.

ERDEMİR Group's mining company ERMADEN has 11 iron and one manganese ore sites. The Company has the only pellet plant in Turkey. ERMADEN accounts for 50% of domestic iron ore production and meets 20% of the Group's iron ore demand.

ERDEMİR ROMANİA S.R.L.

ERDEMİR Group's overseas investment ERDEMİR Romania S.R.L. produces silicon flat steel, one of the key inputs for electrical engine and transformer industries, at its plants in the city of Targoviste.

ERDEMİR ÇELİK SERVİS MERKEZİ SAN. VE TİC. A.Ş.

Located in the Gebze Organized Industrial Zone, ERDEMİR Steel Service Center provides first degree processed flat steel materials and services mainly for the automotive, white goods and general manufacturing industries.

ERDEMİR LOJİSTİK A.Ş.

ERDEMİR Group's logistics company ERDEMİR Lojistik A.Ş. provides services to other Group companies and third parties utilizing its vast expertise in the field of marine and train ferry transportation.

ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.

ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. provides a vast range of engineering and project management services, ranging from planning to implementation for iron and steel and other industries.

OYAK

ATAER (100%)

ERDEMİR (49.29%)

İSDEMİR (92.91%)
ERDEMİR MADEN (90%)
ERENCO (100%)
ERDEMİR ROMANIA S.R.L. (100%)
ERDEMİR ÇELİK SERVİS MERKEZİ (100%)
ERDEMİR LOJİSTİK 100%)
ERDEMİR GAZ (100%)

** On March 31, 2011, ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş. acquired ERDEMİR ÇELBOR Çelik Çekme Boru San. ve Tic. A.Ş. complete with its assets and liabilities.*

Milestones

"For 46 years, ERDEMİR has been on a successful journey toward excellence."

1960

ERDEMİR was established via ad-hoc law.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. was founded.

1965

ERDEMİR commenced operations with an annual crude steel capacity of 0.5 million tons.

1972

The Intermediary Extension was completed. (Capacity: 0.8 million tons of crude steel per annum)

1978

Upon completion of the 1st Extension, ERDEMİR's annual crude steel production capacity reached 1.5 million tons.

1983

2nd Extension was completed. (Capacity: 1.7 million tons of crude steel per annum)

1986

The ISE was established and ERDEMİR shares were quoted.

1996

As a result of projects CIM I and CIM II, ERDEMİR's annual capacity rose to approximately 3 million tons of crude steel.

1997

ERDEMİR's II. Cold Rolling Plant was commissioned and significantly expanded the product portfolio.

TS ISO 9002 Quality Management System Certification was obtained.

1998

The port of ERDEMİR was commissioned and became Turkey's largest port on the Black Sea coast.

1999

Tinplate and Chrome Coating Plant commenced operations with an annual capacity of 250,000 tons.

2000

Flat steel production exceeded 3 million tons.

2001

ERDEMİR Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. was founded.

ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş. which diversified ERDEMİR's field of operation, commenced operations with a capacity of 150,000 tons per annum.

ERDEMİR broke a historical record by exporting 1.1 million tons of steel products.

2002

In line with its growth strategy, ERDEMİR acquired İskenderun Demir ve Çelik A.Ş. and Çelik Çekme Boru Sanayisi ve Ticaret A.Ş. (ÇELBOR).

In its first overseas investment, ERDEMİR acquired the Romanian silicon steel plant LBE with an annual capacity of 108,000 tons.

2003

TS ISO 9001 Quality Management System Certification was obtained.

2004

ERDEMİR Lojistik A.Ş. was established.

Divriği-Hekimhan Madenleri San. ve Tic. A.Ş. (DİVHAN) was acquired and renamed ERDEMİR Madencilik San. ve Tic. A.Ş.

ERDEMİR Gaz San. ve Tic. A.Ş. was founded.

The Company obtained TS ISO 14001 Environment Management System Certification.

The Company obtained TS 18001 Occupational Health and Safety Management System Certification.

The Company earned EFQM's award for Recognition for Excellence.

The Company received the National Quality Award - Large Scale Company Achievement Prize.

2006

ERDEMİR's privatization process was completed following the transfer of the state's shares to the OYAK Group on February 27, 2006.

As part of the Modernization and Transformation Investments at İSDEMİR, slab production started with slabs being shipped to ERDEMİR.

2007

On September 27, 2007, ERDEMİR's market capitalization peaked at US$ 8.3 billion.

ISO/TS 16949 Quality Management System Certification for the Automobile Industry was received.

2008

Designed, constructed and commissioned by ERDEMİR engineers and workers, the new Blast Furnace No. 1 called AYŞE commenced operations.

As part of the Modernization and Transformation Investments at ERDEMİR Group's İskenderun plant, the 3.5 million ton/year capacity Hot Rolling Plant commenced test production on August 2, 2008 and produced its first coil.

2011

The Group company Çelik Çekme Boru Sanayisi ve Ticaret A.Ş. (ÇELBOR) was acquired by ERDEMİR Çelik Servis Merkezi San. ve Tic. A.Ş.

İSDEMİR's 4th Blast Furnace commenced operations.

ERMADEN's Ekinbaşı mine was commissioned.

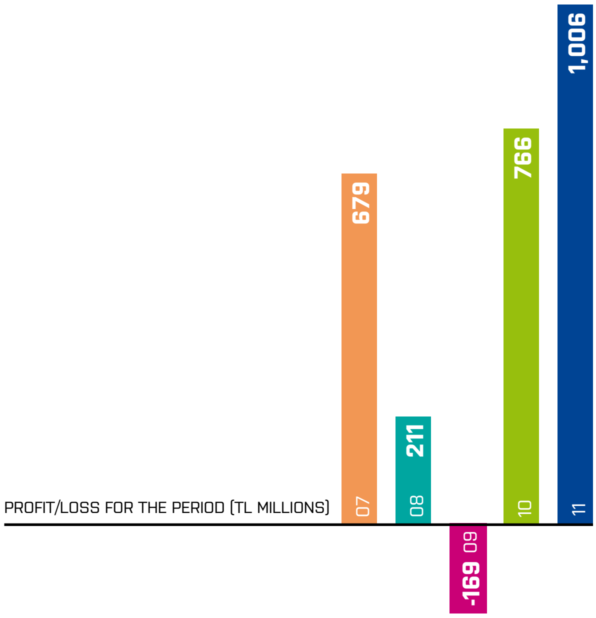
ERDEMİR became the first Turkish steel company of its scale to obtain TS 16001 Energy Management System Certification.

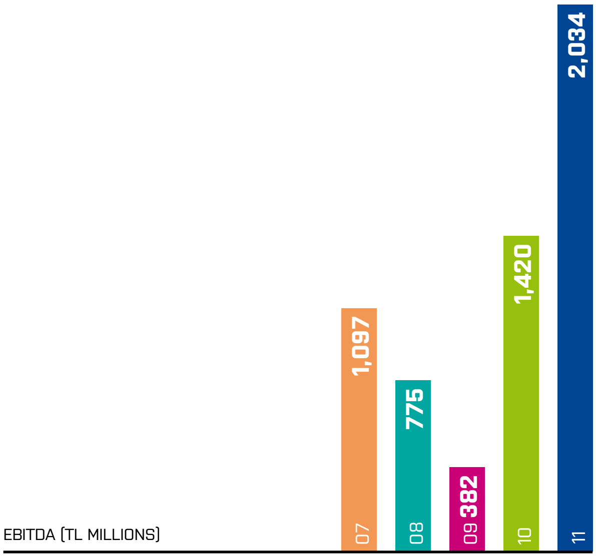
Consolidated Highlights

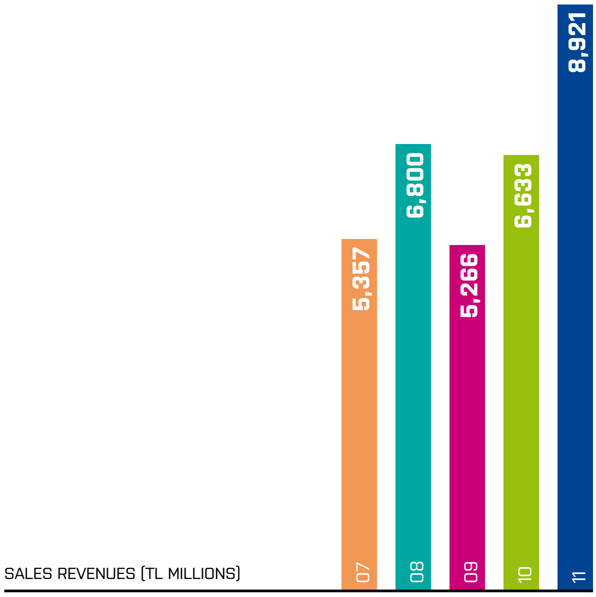
"Record-breaking net profit: TL 1,006 million"

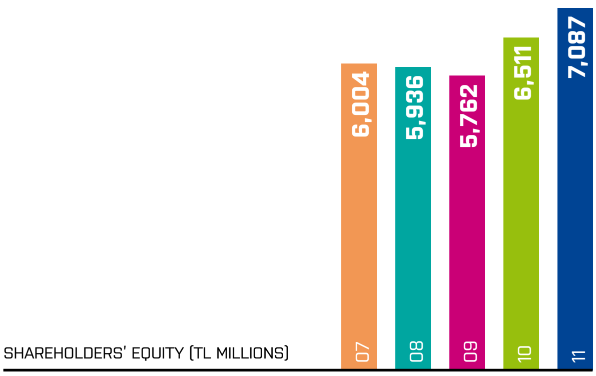
		2007	2008	2009	2010	2011
Sales Revenues	(TL millions)	5,357	6,800	5,266	6,633	**8,921**
	(US$ millions)	4,117	5,240	3,404	4,427	**5,338**
Operating Profit	(TL millions)	724	517	52	1,121	**1,725**
	(US$ millions)	557	398	33	748	**1,032**
EBITDA	(TL millions)	1,097	775	382	1,420	**2,034**
	(US$ millions)	843	597	247	948	**1,217**
Profit / (Loss) for the Period	(TL millions)	679	211	(169)	766	**1,006**
	(US$ millions)	522	163	(109)	511	**602**
Current Assets	(TL millions)	3,233	4,649	3,730	6,325	**6,027**
	(US$ millions)	2,776	3,074	2,477	4,091	**3,191**
Fixed Assets	(TL millions)	6,396	7,285	7,421	7,216	**7,366**
	(US$ millions)	5,492	4,817	4,929	4,668	**3,900**
Total Assets	(TL millions)	9,629	11,934	11,150	13,541	**13,393**
	(US$ millions)	8,268	7,892	7,405	8,759	**7,090**
Short-Term Liabilities	(TL millions)	1,542	3,356	1,621	3,764	**2,473**
	(US$ millions)	1,324	2,219	1,077	2,434	**1,309**
Long-Term Liabilities	(TL millions)	1,924	2,475	3,611	3,086	**3,633**
	(US$ millions)	1,652	1,636	2,398	1,996	**1,923**
Shareholders' Equity	(TL millions)	6,004	5,936	5,762	6,511	**7,087**
	(US$ millions)	5,155	3,925	3,827	4,212	**3,752**
Market Capitalization (annual average)	(TL millions)	7,478	7,829	5,468	7,418	**7,875**
	(US$ millions)	5,746	6,032	3,535	4,950	**4,713**

Strong financial and operational results in 2011





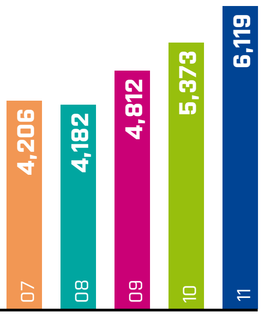




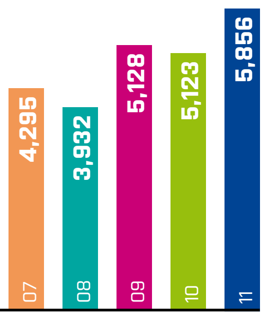
Consolidated Highlights

“Flat steel production has increased 14%”

		2007	2008	2009	2010	2011
Flat Steel Production	(thousand tons)	4,206	4,182	4,812	5,373	**6,119**
Flat Steel Sales	(thousand tons)	4,295	3,932	5,128	5,123	**5,856**
Domestic	(thousand tons)	3,639	3,132	3,809	4,389	**4,807**
Exports	(thousand tons)	656	800	1,319	734	**1,049**
Long Steel Production	(thousand tons)	1,652	1,950	1,869	1,420	**794**
Long Steel Sales	(thousand tons)	1,652	1,963	1,858	1,393	**791**
Domestic	(thousand tons)	1,419	1,404	1,236	1,240	**643**
Exports	(thousand tons)	233	559	622	153	**148**



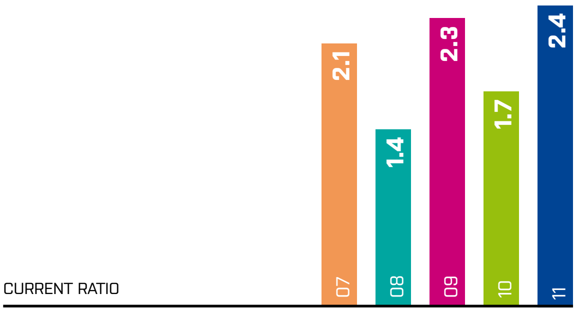
FLAT STEEL PRODUCTION (THOUSAND TONS)

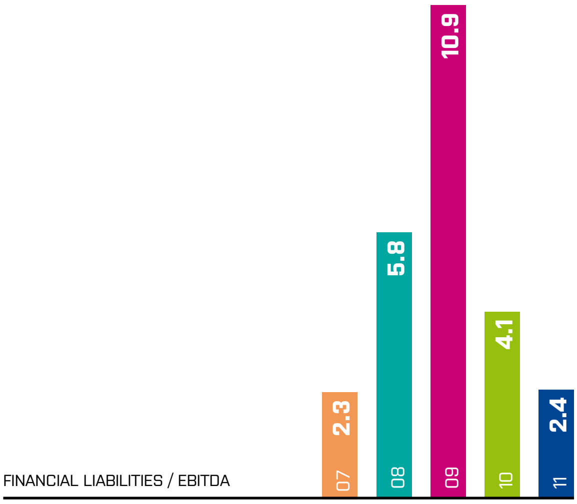


FLAT STEEL SALES (THOUSAND TONS)

ERDEMİR Group continues to create added value through strong financial results.

		2007	2008	2009	2010	2011
Gross Profit Margin	(%)	16.9	12.3	4.5	19.8	**23.2**
Profit (Loss) Margin for the Period	(%)	12.7	3.1	(3.2)	11.5	**11.3**
Current Ratio		2.1	1.4	2.3	1.7	**2.4**
Debt / Shareholders' Equity		36/64	49/51	47/53	51/49	**46/54**
Funds from Operations / Total Adjusted Debt		34.1	46.3	(22.1)	22.2	**43.8**
Financial Liabilities / EBITDA		2.3	5.8	10.9	4.1	**2.4**






More
PROFI

"We change by growing.
Having significantly reduced costs and boosted productivity by following an effective production and marketing strategy, **ERDEMİR Group** continues to grow by becoming **more profitable** every day."

Message from the Management

“ ERDEMİR Group accomplished the year 2011 with a strong performance.”

ERDEMİR Group's objective is to constantly create added value through sustainable profitable growth, increased productivity and cost efficiency.

İsmail Akçakmak | Fatih Tar | Oğuz Özgen

Distinguished Shareholders;

Year 2010 was a period of post-crisis recovery in the global economy and favorable developments in the steel industry. Although the recovery continued in the first half of 2011, crisis expectations and uncertainties increased in the second half. The price fluctuations of raw materials and finished products prices continued to affect the markets in 2011, as in previous years, and this is expected to continue through 2012.

World crude steel production grew by 6.8% in 2011 to reach 1.527 billion tons. Domestically, growth rate of crude steel production was 17% in 2011, up from 15% in 2010; Turkey ranked first among the top 30 steel producing nations in terms of crude steel production growth rate. In 2011, Turkey again ranked 10th for global crude steel production with 34.1 million tons. Investments to the Turkish flat steel industry changed the supply-demand balance completely, and in 2011 installed capacity exceeded domestic consumption. It is predicted that from 2012 onward Turkey will be a net exporter of flat steel products.

According to the World Steel Association, in 2011, global apparent steel use is expected to grow 6.5% from the prior year to reach 1.4 billion tons, and in 2012, it is forecasted to increase 5.4% to 1.47 billion tons. It is expected that the share of developed economies in steel consumption, which stood at 58.4% in 2000, will drop to 27.4% by 2012. Consequently, it is estimated that China's share in overall consumption will rise from 16% in 2000 to 46% in 2012. The raw materials and price dynamics in the steel industry can change rapidly according to the supply-demand balance in developed nations, the terms of raw materials suppliers and regional economic developments.

Increasing competitiveness has become more important than ever in the current business environment. In today's world, data can be accessed rapidly and easily. As in all industries, a well-experienced, innovative, dynamic and proactive management style becomes more and more valuable in the steel industry and transparent and open communication gains importance. ERDEMİR's objective is to become a group of companies constantly creating added value through profitable growth, increasing productivity and cost efficiency and enabling its shareholders to be part of a healthy future. We make the utmost effort to move forward in harmony while creating synergy, in line with principles of honesty and transparency and through open and clear communication.

We are pleased to announce that 2011 was a strong year for the Group. All employees have demonstrated their determination to take ERDEMİR Group to the future by utilizing production facilities and resources in an efficient way, prioritizing savings, focusing on cost efficiency and optimizing production at quality levels that satisfy customers.

In the face of negative signals emanating from the markets, ERDEMİR prioritizes risk management in every field and takes the necessary cost-cutting measures such as managing cash effectively, reducing/controlling procurement expenditure and keeping inventories at the optimum level.

TL 1,006 million

Record-breaking profit

Throughout the year, the Group managed to continue its investment plan. Modernization and Transformation Investments were successfully completed at İSDEMİR and the newly launched 4th Blast Furnace brought the Group's total crude steel production capacity to over 9 million tons. The Group produced 7.5 million tons of crude steel and sold 6.7 million tons of finished products during 2011 and sales revenues reached TL 8,921 million. This strong performance translated into favorable financial results, with the Group posting its highest ever net profit of TL 1,006 million.

Competition is intense in the steel industry even in a favorable economic environment and current market data suggest that it is necessary to remain prudent in the year 2012.

To successfully manage this difficult period, we will continue to do our best to make timely decisions, adapt immediately to change and capitalize on our crisis management experience with our highly experienced and knowledgeable employees. Focusing on the cost saving, productivity, inventory and cash management and cost-cutting, ERDEMİR Group will not only implement the measures those have proven success up until now, but also will revise its fundamental strategies in line with the demands of the market and formulate brand new solutions when necessary.

Confident that these efforts will move the Group forward, we extend our gratitude to our shareholders who have always supported us; to our employees who constantly strive to work efficiently and diligently, as well as to our customers and suppliers with whom we have established long-term cooperation based on mutual trust.

Best regards,

Fatih Tar
Chairman and Managing Director

Oğuz Özgen
ERDEMİR General Manager and Board Member

İsmail Akçakmak
İSDEMİR General Manager and Board Member

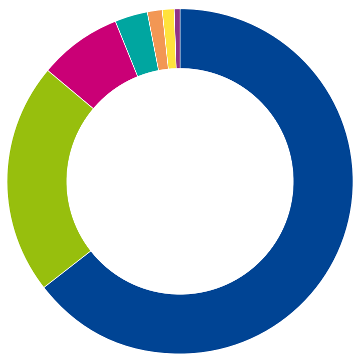
World Steel Industry

“In 2011, world crude steel production reached 1.527 billion tons.”

In 2011, developing countries continued to increase their share of global crude steel production.

In the final quarter of 2008, world steel industry suffered significant setbacks in production, employment and revenue due to a sharp contraction of demand. In 2009, the industry entered a period of recovery; hot rolled coil export prices dropped US$ 320 in March 2009 and increased from there onwards, albeit with fluctuations. This trend continued until the first half of the year 2011. In this recovery process, steel producers put numerous plants back into service and boosted production; they also continued investment projects to increase capacity.

From 2001-2010, global crude steel production capacity increased by 837 million tons to reach 1.9 billion tons; in addition, global crude steel capacity grew at an average annual rate of 5% from 2000-2005 and by 7% from 2006-2010. It is expected that the world crude steel capacity will expand by 217 million tons between 2011 and 2013, to reach 2.12 billion tons. An analysis of capacity increase data reveals that emerging economies led by China account for the largest portion of this capacity increase. Meanwhile, the capacity utilization rate fell from its pre-2008 crisis level of 88% to around 70% in 2009 due to the crisis, before rising to 82% in the first half of 2011.

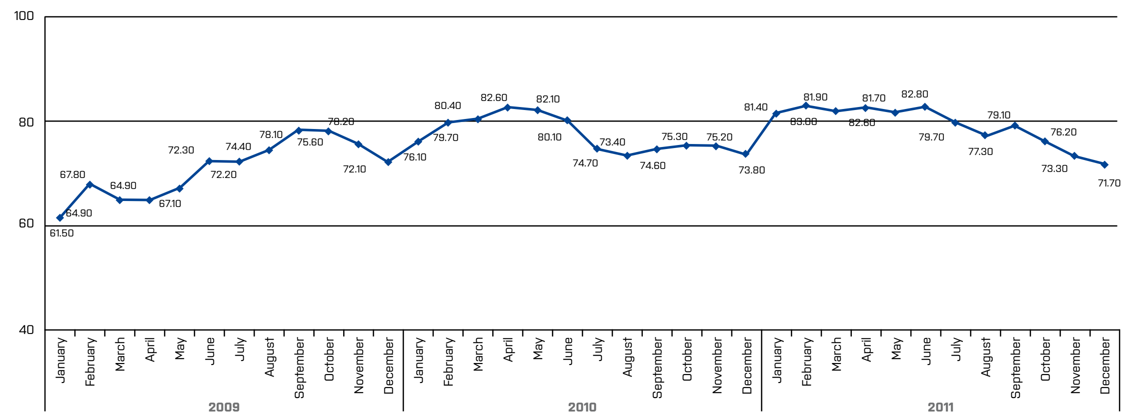


WORLD CRUDE STEEL PRODUCTION BY REGION (%)

Asia **64.7**	Middle East **1.4**
Europe **21.5**	Africa **0.9**
North America **7.8**	Australia **0.5**
South America **3.2**	

Source: worldsteel - World Crude Steel Production (03.02.2012)

GLOBAL STEEL CAPACITY UTILIZATION RATE (%)



Source: worldsteel - World Crude Steel Production (23.01.2012)

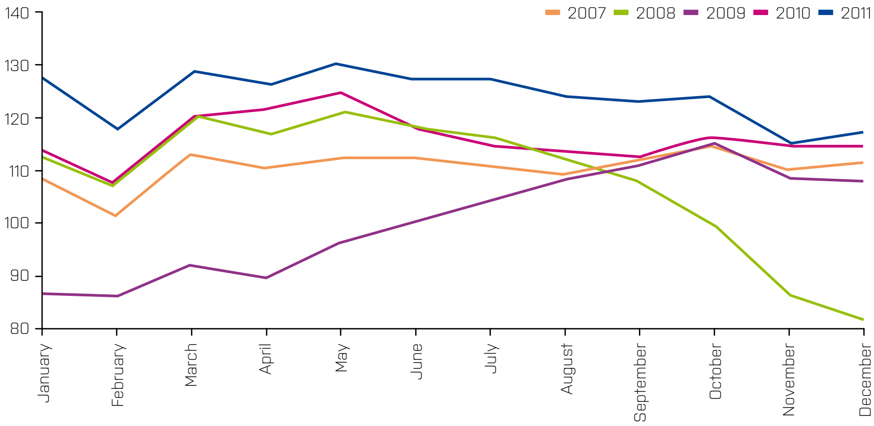
In the second half of 2011, the capacity utilization rate dropped below its level in the first half, due to demand contraction triggered by negative economic developments in the European region.

In 2011, the Japanese earthquake, political turmoil in the Middle East, exchange rate fluctuations during the year and economic troubles affecting numerous European nations led to a contraction in demand and consequently to sharp falls in steel prices. Due to contracting demand and falling prices, plant closures and production cutbacks once again came to loom large on the steel industry's agenda, reminiscent of the year 2009. Emerging economies are considered to have been the driving force in overcoming this bottleneck.

In 2011, world crude steel production grew 6.8% to reach 1.527 billion tons. According to crude steel production data for the year 2011, China, Japan and the USA shared the top three positions, as in 2010. Turkey remained in 10th place with crude steel production of 34.1 million tons. Meanwhile, Turkey, South Korea and Taiwan topped the production growth rate rankings.

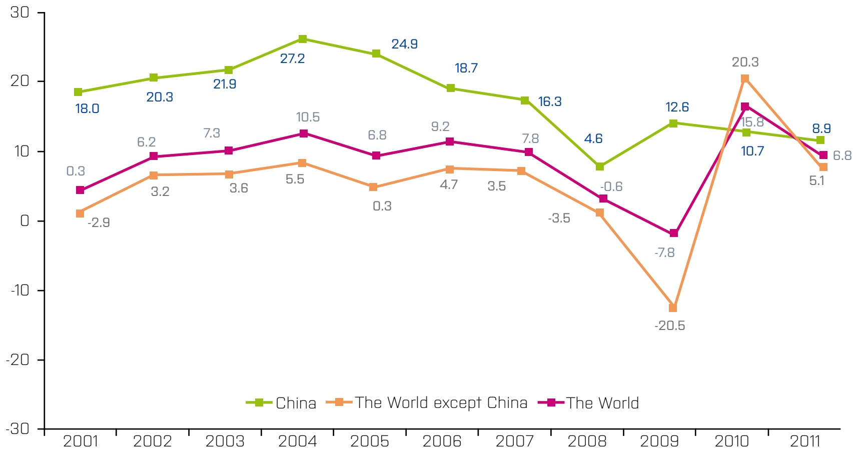
In 2011, apparent steel use in the world is expected to grow 6.5% over the previous year to reach 1.4 billion tons.

WORLD CRUDE STEEL PRODUCTION (million tons)

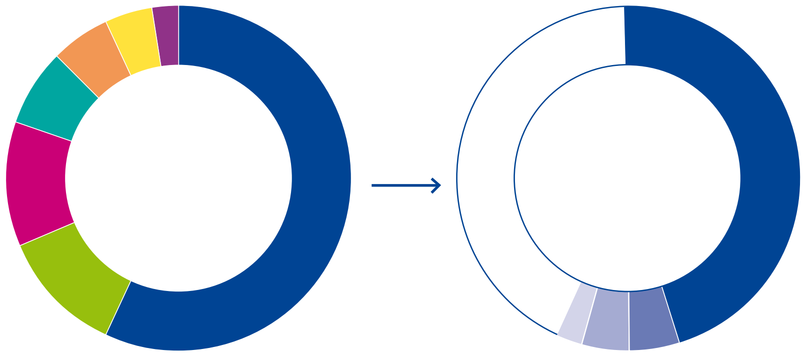


Source: worldsteel - World Crude Steel Production (03.02.2012)

CHANGES IN WORLD CRUDE STEEL PRODUCTION (%)



Source: worldsteel - World Crude Steel Production (03.02.2012)



WORLD CRUDE STEEL PRODUCTION BY COUNTRY (%)

BRIC **57.0**	USA **5.7**
Other **11.8**	South Korea **4.5**
EU 27 **11.6**	Ukraine **2.3**
Japan **7.1**	

CRUDE STEEL PRODUCTION IN BRIC NATIONS (%)

China **45.5**	Russia **4.5**
India **4.7**	Brazil **2.3**

Source: worldsteel - World Crude Steel Production (03.02.2012)

Turkish Steel Industry

“Steel industry continues to add value to Turkish economy.”

In 2011, Turkey led the pack in crude steel production growth.

In terms of capacity, production and consumption, the Turkish steel industry has performed strongly in recent years. Crude steel capacity rose from 25.1 million tons in 2005 to 47.1 million in 2011. The sector rapidly recovered in the post-crisis period and increased crude steel production from 29.1 million tons in 2010 to 34.1 million in 2011. This growth momentum is expected to last into 2012, eventually bringing total production up to 37 million tons.

The Turkish steel industry is one of the key sectors in the country, as regards to its contribution to GDP, manufacturing, exports, net foreign currency inflow, employment, competitiveness, investments, international reach and macroeconomic volume. According to production and consumption data, while the industry is currently dependent on imports, only able to meet half of the nation's flat steel demand, it is set to meet the entire domestic demand and even become a net exporter by 2013, upon completion of new investments in the pipeline.

Million Tons	**2011**		**2010**			
COUNTRY	**Production**	**Rank**	**Production**	**Rank**	**Change in Rank**	**% Change 2010-2011**
China	695.5	1	638.7	1	→	8.9
Japan	107.6	2	109.6	2	→	-1.8
USA	86.4	3	80.5	3	→	7.3
India	72.2	4	68.3	4	→	5.7
Russia	68.7	5	66.9	5	→	2.7
South Korea	68.5	6	58.9	6	→	16.2
Germany	44.3	7	43.8	7	→	1.0
Ukraine	35.3	8	33.4	8	→	5.7
Brazil	35.2	9	32.9	9	→	6.8
TURKEY	**34.1**	**10**	**29.1**	**10**	→	**17.0**
Italy	28.7	11	25.8	11	→	11.3
Taiwan	22.7	12	19.8	12	→	14.7
Mexico	18.5	13	16.9	13	→	9.7
France	15.8	14	15.4	15	↑	2.4
Spain	15.6	15	16.3	14	↓	-4.6
WORLD	**1,527.3**		**1,429.9**			**6.8**

Source: worldsteel - World Crude Steel Production (03.02.2012)

ERDEMİR 2. Cold Rolling Plant Tandem Roll Exit Stock Field

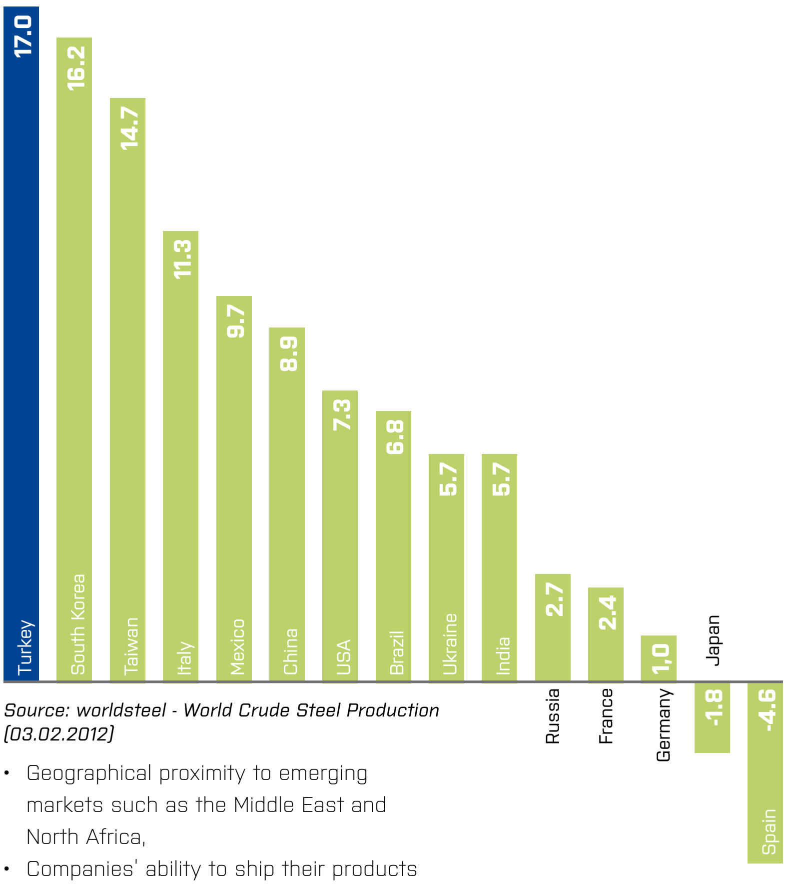
Due to contracting demand from international markets following the crisis, the Turkish steel industry has started to turn away from traditional export markets and has targeted neighboring countries and even alternative markets such as Latin America. In 2011, Turkey's total steel product exports volume grew 5.3% to 18.5 million tons.

With a boost from increased flat steel production, the industry's exports/imports balance tilted significantly toward exports. In 2011, the sector's total exports were 18.5 million tons with total imports of 10.7 million tons. Total flat product exports expanded 51.2% and hot rolled flat product exports jumped 77%.

The Turkish steel industry has the following advantages over its competitors:

- A production base formed by private companies,
- A majority of plants with new and robust technological infrastructure,
- Highly qualified workforce with advanced technical know-how,
- The capability of marketing world class products at competitive prices in international markets,
- The vibrant and constantly expanding domestic market,

THE TOP 15 COUNTRIES IN CRUDE STEEL PRODUCTION VOLUME INCREASE (%)



Source: worldsteel - World Crude Steel Production (03.02.2012)

- Geographical proximity to emerging markets such as the Middle East and North Africa,
- Companies' ability to ship their products rapidly and efficiently,
- Rising quality standards due to efforts of harmonization with EU standards.

Forecasts for 2012

“World crude steel capacity is expected to reach 2.1 billion tons by the end of 2012.”

In 2012, it is estimated that emerging economies will account for 73% of global steel consumption.

According to data from the World Steel Association, after growing 15.1% in 2010, world steel demand is set to further expand by 6.5% in 2011 and by 5.4% in 2012. Africa and Central and South America are expected to attain the highest growth figures with 11% and 9.8%, respectively. China is again estimated to take the lion's share of apparent steel use with 1.47 billion tons in 2012, albeit at a growth rate of 6%, lower than those observed in prior years. The World Steel Association is of the opinion that 73% of apparent steel use will be accounted for by emerging nations. As such, these countries are expected to serve as the driving force during the recovery from the crisis, with China and other Asian countries leading the way.

World crude steel capacity is set to reach 2.1 billion tons by 2012 with a surplus capacity of 500 million tons. Accordingly, steel producers are going global, boosting productivity through horizontal and vertical integration and slashing costs.

EUROFER, on the other hand, estimates that the visible demand will contract by 2% in Europe in 2012 and that uncertainties will remain in the USA despite an improvement of business sentiment. In addition, the stagnation in the Euro Zone is expected to continue through mid-2012 and global recovery will not kick in before 2013.

As a result of the slowdown in the global economy and the risk posed by sluggish demand, the Turkish steel industry could see its performance deteriorate and be obliged to face tough competition to maintain its position in international markets.


ERDEMİR
İSDEMİR

The Corner Stone of Turkish Industry: ERDEMİR Group

“ERDEMİR Group plays a pioneering role in the development of Turkish industry.”

A Regional Giant in the Steel Industry

ERDEMİR Group companies create value through their production operations and services and implement an extensive range of corporate social responsibility activities that contribute to the national economy and social advancement. The ERDEMİR Group of companies has become a dynamic of socioeconomic development in regions where they operate and has set an example for other industrial corporations.

Turkey's Largest Steel Producer

With its cutting-edge technology and high quality products, as well as sustained investments to boost modernization, capacity increases, product development, efficiency and environmental performance, the ERDEMİR Group is Turkey's largest steel producer. In its ongoing pursuit to improve operations and devise solutions that fully meet customer expectations, ERDEMİR Group deploys the largest product range and sales-marketing organization in Turkey.

High Employment Capacity

As one of Turkey's largest private sector employers, ERDEMİR Group has 13,433 employees, comprised of 9,933 blue collar, 3,388 white collar and 112 contracted workers as of end-2011. Group companies also contribute to the creation of employment across Turkey through the jobs they generate indirectly in the value chain.


More
EFFIC

"**We change by building a shared mind.**
ERDEMİR Group forges an efficient internal dialogue mechanism via Synergy Committees and continues to operate in a **more efficient** way by encouraging all units and individuals to actively participate in decision-making processes."

Production

“ ERDEMİR Group is focused on delivering high quality products at minimum cost and maximum efficiency.”

In 2011, the Group produced 7.5 million tons of crude steel and 7 million tons of finished product.

Running its operations in line with the philosophy "high quality products at minimum cost and maximum efficiency," ERDEMİR Group effectively carried out all management and maintenance activities in its plants and attained profit-maximizing production levels in 2011.

Group employees came together in Synergy Committees designed to optimize resource utilization, manage costs and cash efficiently, raise savings awareness and enhance productivity.

Production (thousand tons)	2007	2008	2009	2010	2011
Hot Metal	5,236	5,637	5,933	6,551	**6,812**
Ereğli	2,762	2,791	3,339	3,196	**3,039**
İskenderun	2,474	2,846	2,594	3,355	**3,773**
Liquid Steel	5,486	6,122	6,619	7,311	**7,656**
Ereğli	3,200	3,201	3,798	3,634	**3,480**
İskenderun	2,286	2,921	2,821	3,677	**4,176**
Crude Steel	5,366	5,976	6,465	7,116	**7,473**
Ereğli Slab	3,128	3,124	3,715	3,539	**3,372**
İskenderun (Slab)	552	871	854	2,135	**3,288**
İskenderun (Billet)	1,686	1,981	1,896	1,442	**813**
Flat Finished Product	4,206	4,182	4,812	5,373	**6,119**
Ereğli Tinplate	232	247	166	238	**227**
Ereğli Galvanized	281	318	285	263	**321**
Ereğli Cold Rolled	1,119	921	1,139	999	**1,104**
Ereğli Hot Rolled	2,355	2,343	2,356	1,840	**1,872**
Ereğli Plate	219	212	48	66	**247**
İskenderun Hot Rolled	-	141	818	1,967	**2,348**
Long Finished Product	1,652	1,950	1,869	1,420	**794**
Billet	1,154	1,378	954	715	**344**
Wire Rod	478	502	517	445	**446**
Other	20	70	398	260	**4**
Silicon Flat Steel	59	73	47	62	**64**
Iron Ore	1,919	1,740	2,334	2,705	**2,862**
Pellet	1,292	1,118	1,371	1,493	**1,495**
Other	627	622	963	1,212	**1,367**

İSDEMİR BOF

Labor Productivity in Finished Product Output (man hours/ton)

ERDEMİR	
2011	**3.87**
2010	4.13
2009	3.61
2008	4.00
2007	3.62

İSDEMİR	
2011	**3.15**
2010	3.33
2009	4.13
2008	4.51
2007	5.26

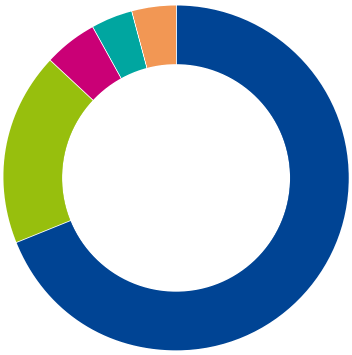
As a result of such efforts, the Group plans to greatly increase profitability and productivity in the period ahead. At the Ereğli plant, the capacity utilization rate reached 89% and the overall equipment effectiveness (OEE), an indicator of the efficiency and productivity in production and operational performance, realized 75.2%.

At the Ereğli plant, per employee flat product output volume reached 563 tons, a 13% increase over its 2010 level of 498 tons.

Working hours spent for each ton of product was down 6.3% from the prior year to 3.87 man hours/ton at the Ereğli plant and down 5.4% from the prior year to 3.15 man hours/ton at the İskenderun plant, since flat steel production increased more than the total working hours spent.

Flat steel production

In 2011, the total flat finished product output reached 6.12 million tons, composed of 2.12 million tons of hot rolled and 1.65 million tons of cold rolled products at the Ereğli plant and 2.35 million tons of hot rolled products at the İskenderun plant. Silicon flat steel production at the Romanian plant stood at 64,000 tons in 2011.

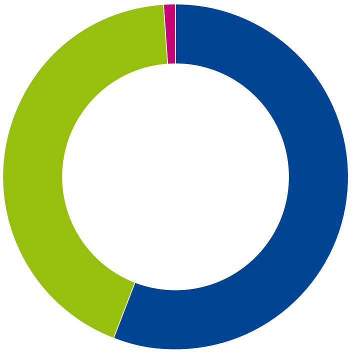


FLAT FINAL PRODUCTS BY PRODUCT GROUP (%)

Hot Rolled **69**	Tinplate **4**
Cold Rolled **18**	Plate **4**
Galvanized **5**	

Hot and Cold Products

Long Steel Production
In 2011, total long final product output reached 794 thousand tons, comprising 344 thousand tons of billet, 446 thousand tons of wire rod and 4 thousand tons of other products.



LONG FINAL PRODUCTS BY PRODUCT GROUP (%)

Wire Rod **56**	Other **1**
Billet **43**	

Iron Ore Production
In 2011 1,495 thousand tons of pellet were produced and the total output of other products (lump ore, fine ore, intermediary products and magnetite) reached 1,367 thousand tons. As of year-end, the aggregate output volume was 2,862 thousand tons.

Steel Service Center Operations
In 2011, production at the ERDEMİR Steel Service Center reached 148 thousand tons and production at the İSKENDERUN Steel Service Center 91 thousand tons. In the latter, the present hot cut-to-length lines were operated by the ERDEMİR Steel Service Center.

Engineering and Project Management Services
In charge of managing ERDEMİR Group's investment portfolio, ERENCO implemented four projects at the Ereğli plant and seven projects at the İskenderun plant in 2011 and two of these were completed during the year. In addition, the ERDEMİR Romania Renovation Project was completed during the year.

Outside of the Group, ERENCO implemented the Üstay-Azerbaycan (Baku) Waste Incineration Plant Engineering Services Project and the Çayeli Copper Factory Engineering Services Project.

In line with the Group's emphasis on energy efficiency efforts, ERENCO joined forces with Türkiye Ekonomi Bankası in 2011 to launch the energy efficiency consultancy services initiative, planned to last four years.

Logistics Services
ERDEMİR Lojistik displayed a strong performance in 2011 thanks to its high quality maritime and train-ferry shipment services.

Port Operations
In 2011, ERDEMİR's ports delivered 10.37 million tons of loading and discharging services, of which 1.68 million tons went to third parties. As of year-end 2011, the total revenue from the ports sum up at US$ 10.5 million.

At the İSDEMİR port, a total of 11.66 million tons were handled, of which 1.47 million belonged to third parties. The total service revenue was US$ 9.9 million for the year.

İSDEMİR Blast Furnace


Much
CLO

"We change by getting closer to our customers.
ERDEMİR Group occupies a highly reputable position in the industry thanks to its constructive and frank approach to business processes and reinforces its market position each year by establishing **much closer** relationships with clients."

Marketing and Sales

“In 2011, sales revenues reached TL 8,921 million.”

“ERDEMİR produces key inputs for such industries as automotive, white goods, tube and pipe, re-rolling, general manufacturing, electrical and electronic machinery and equipment, energy and heat equipment, ship building, heavy industry, defense and packaging. It thus plays a vital role in the development of Turkish industry.”

The European sovereign debt crisis, the Arab Spring in the Middle East and North Africa and the debt ceiling troubles in the United States loomed large on the global agenda in the second half of the year, leading to a deceleration of global growth, regional recession and eventually a drop in the demand for steel in the final quarter of 2011. The Turkish economy navigated these troubled waters successfully and closed the year 2011 with a growth rate of 8.5%. Economic growth resulted in a parallel rise in domestic steel production. According to data released by the Turkish Iron and Steel Producers' Association, total domestic flat product and long steel consumption was up 14.1% from the prior year and reached 26.9 million tons. The consumption of flat steel products increased 10.6% over the previous year to 13.2 million tons and long products rose 17.7% to 13.7 million tons.

The Turkish iron and steel industry made a breakthrough in flat product output, by raising its hot rolled product capacity to 16 million tons in 2011. Over the last two years, Turkish hot rolled product output expanded 85%. Despite intensifying competition, ERDEMİR Group, controlling over 50% of the total established capacity, continues to deliver flexible, rapid and customer-oriented services by reinforcing its relationship with clients. Demands and expectations in the market were identified through visits to customers, sponsored events and customer satisfaction surveys conducted by an independent firm. The necessary measures were taken and the image of ERDEMİR Group among clients was enhanced significantly.

ERDEMİR Group restructured its sales and marketing organization to sharpen its competitive edge, enhance profitability and promptly respond to customer demands and expectations in a rapidly changing, price sensitive market. The Group has the most extensive sales and marketing network in the Turkish iron and steel industry; its dynamic employees are specialized according to sectors and have one-to-one contact with customers. As a result, ERDEMİR Group enhances customer loyalty, creates a profitable product mix reflecting current market conditions and integrates customer expectations in its processes.

The recently launched Advanced Planning and Scheduling System and the supportive mechanisms developed have enabled the Group to further improve its flexibility, mobility and effective order delivery performance in the face of changing market conditions in 2011.

ERDEMİR BOF Ladle Preparation

ERDEMİR Continuous Caster

Sales (thousand tons)	2007	2008	2009	2010	2011
Flat Finished Product	4,295	3,932	5,128	5,123	**5,856**
Ereğli Tinplate	240	236	177	222	**214**
Ereğli Galvanized	286	310	313	245	**307**
Ereğli Cold Rolled	1,162	925	1,175	988	**1,030**
Ereğli Hot Rolled	2,392	2,231	2,572	1,776	**1,769**
Ereğli Plate	215	200	56	53	**219**
İskenderun Hot Rolled	-	30	835	1,839	**2,317**
Long Finished Product	1,652	1,963	1,858	1,393	**791**
Billet	1,153	1,379	964	722	**331**
Wire Rod	479	517	522	439	**450**
Other	20	67	372	232	**10**
Iron Ore*	1,865	1,615	2,100	2,774	**2,904**
Pellet	1,302	1,114	1,324	1,468	**1,477**
Other	563	501	776	1,306	**1,427**
Silicon Flat Steel	75	88	104	67	**70**
Silicon Sheet	58	73	45	60	**63**
Carbon Steel	9	7	52	1	**-**
Other	8	8	7	6	**7**

• *In 2011, 2,629 thousand tons of iron ore sales were downstream.*

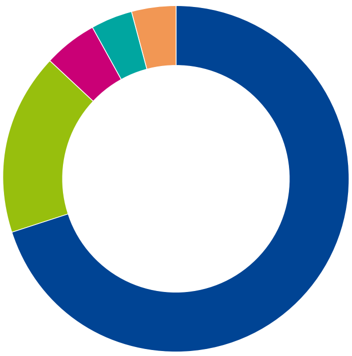
Flat Product

Flat Product

ERDEMİR Group's 2011 flat product sales were up 14.3% from the previous year to 5.9 million tons and total flat product sales revenue increased 29% to US$ 4.6 billion. Domestic sales grew 10% over 2010, with sales to the automotive and white goods industries jumping 54%.

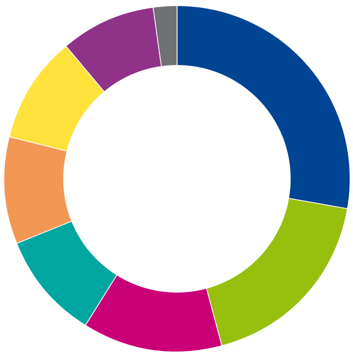
Sales to the general manufacturing industry which covers the production of machines, energy and heating appliances, electric and electronic devices, household and office appliances increased 24%.

Compared to the previous year, ERDEMİR Group's flat product export volume expanded 43% to reach 1 million tons, which yielded exports revenue of US$ 570 million. Despite the contraction in the second half of the year, Europe remained the largest export market of the Group during 2011. Sales from the Romanian plant, which manufactures silicon sheets, reached 70 thousand tons in 2011.



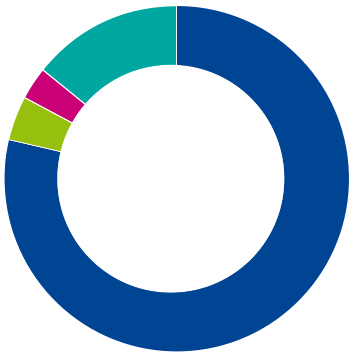
FLAT FINISHED PRODUCT SALES BY PRODUCT GROUP (%)

Hot Rolled **70**	Tinplate **4**
Cold Rolled **17**	Plate **4**
Galvanized **5**	



FLAT FINISHED PRODUCT SALES BY SECTOR (%)

Tube and Pipe **28**
International Trade **18**
General Manufacturing **13**
Automotive and White Goods **10**
Service Centers **10**
Wholesale **10**
Re-Rolling **9**
Shipbuilding, Heavy Industry and Byproducts **2**



FLAT FINISHED PRODUCT EXPORTS BY COUNTRY (%)

EU-27 **78**	USA **3**
Morocco **4**	Other **15**

İSDEMİR Employees

Long Products

In 2011, the long product sales volume (including billet) fell to approximately 791 thousand tons; the liquid steel produced at İSDEMİR was channeled to the manufacturing of flat products and slab. Total sales revenue from long products stood at US$ 570 million, 62% of which was accounted for by wire rod. Long product exports were around 148 thousand tons and the largest long product export market was Egypt.

Long Product ("Wire Rod")

DOMESTIC LONG FINISHED PRODUCT SALES BY PRODUCT GROUP (%)

Commercial Grade	**33**
High Carbon Grade	**23**
Profile Manufacturers	**17**
Construction Steel Manufacturers	**16**
Special Grade	**10**
Other	**1**

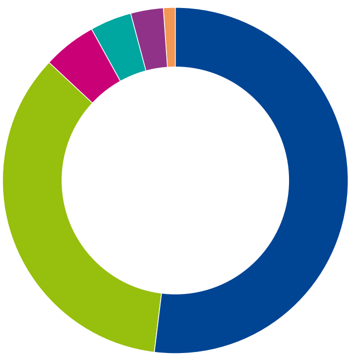
LONG FINISHED PRODUCT EXPORTS BY COUNTRY (%)

Egypt	**23**
Saudi Arabia	**21**
Tunisia	**17**
United Arab Emirates	**14**
Other	**13**
EU	**12**

ERDEMİR Steel Service Center

Steel Service Center

In 2011, sales to Steel Service Centers reached 368 thousand tons, 42% of which were for products processed and shipped by ERSEM. The remaining 58% were unprocessed products shipped to customers; 4% of the sales went overseas and the remaining 96% were for domestic consumption. Of the latter, 52% went to the automotive industry, 35% to white goods industry 5% to the energy and heat equipment industry and 8% to other industries (exports, electrical and electronic machinery and equipment, steel service centers).



STEEL SERVICE CENTER DOMESTIC SALES BY SECTOR (%)

Original Equipment Manufacturers (OEMs) and Parts and Components Industry	**52**
White Goods Manufacturers and White Goods Parts and Components Industry	**35**
Energy and Heat Equipment Industry	**5**
Other Steel Service Centers	**4**
General Manufacturing Industry	**3**
Electrical and Electronic Machinery and Equipment Industry	**1**

ERDEMİR Romania S.R.L.

In order to make timely deliveries and offer top quality services to customers in Romania, the Steel Service Center started to cooperate with a warehouse in the Port of Constanta. Products shipped to the warehouse by sea are delivered to customers by land.

Mining

In 2011, 1.477 million tons of pellet and 1.427 million tons of other ores (lump ore, fine ore, intermediary products and magnetite) were sold, totaling 2.904 million tons of iron ore. As such, total sales were up 4.7% from the year 2010.

Logistics Services

In 2011, ERDEMİR Lojistik shipped 577.4 million tons by sea and 175 thousand tons by train ferry, as well as 117 containers.

"ERDEMİR Group purchases raw materials whenever market dynamics present favorable conditions."

There has been an increase in the domestic procurement of raw materials.

ERDEMİR Group's central procurement unit is in charge of the management of the supply cost which accounts for a large portion of product cost. The central management approach provides significant advantages for the Group, particularly price and cost management over the consolidated supply volume, as well as the creation of a global supplier portfolio.

ERDEMİR Group's procurement policies and practices aim at sharpening its competitive edge by devising business models corresponding to market conditions. ERDEMİR Group purchases from supply security firms that provide supply security at standards suitable for production purposes at the most favorable terms and conditions, maintains an optimum level of inventory and shapes its procurement policies and practices in line with local and global economic developments.

At ERDEMİR's procurement group, risk is managed through a holistic approach. All strategic, financial, operational and other factors which might pose a risk to the Company's short and long-term goals are evaluated and managed according to the Company's risk profile and ultimately taken into consideration by decision making processes.

ERDEMİR 1. Port

Procurement, raw materials planning and logistics operations have come to play a critical role, due to constant change and development in global trade. Taking into account the fact that procurement costs represent 65-75% of total costs in the iron and steel industry, it becomes evident that the procurement department plays a crucial role in establishing a competitive edge.

ERDEMİR's central procurement group utilizes as much local raw materials as possible, since this offers a considerable cost advantage. In 2011, the Ereğli plant purchased around 700 thousand tons of iron ore from domestic resources. The Group procured 360 thousand tons of coking coal and injection coal from the regions of Zonguldak and Armutçuk and transferred 170 thousand tons of this volume to its plant in İskenderun. İskenderun plant procured 3.3 million tons of domestic iron ore during 2011.

As part of efforts to obtain the maximum amount of ore and coal from domestic resources, local iron ore procurement increased 13.4% over the year 2010 to reach 4 million tons. In the regions of Zonguldak and Armutçuk, the Group purchased from Turkish Hardcoal Enterprise (TTK) and private firms as much coal as their physical capacities permitted.

ERDEMİR Group procures a large amount of its raw materials from overseas. In this regard, developments in neighboring nations such as Ukraine and Russia; those countries key in setting raw materials prices in the market, such as China, Brazil and Australia; as well as the African continent, Indonesia and Colombia are closely monitored to generate alternative resources.


FAS
Much

"We change by gearing up.
Always conscientious about on-time production and delivery, **ERDEMİR Group** devises new projects to speed up business processes in order to become a **much faster** company each year."

Investments

“ ERDEMİR Group continues its investments with a focus on technology, productivity, quality and customers.”

At the İskenderun plant, 4th Blast Furnace was put into service in 2011.

İSDEMİR 4th Blast Furnace

Since its establishment, ERDEMİR has made use of cutting-edge technologies. It has employed state-of-the-art technology to increase its capacity in order to meet the nation's flat steel demand. Since the early 2000s, ERDEMİR has acquired established plants and founded new companies, transforming itself into a group of companies and has invested massively in these facilities before achieving its current market leading position.

The Group's main investment strategies are oriented toward boosting competitiveness, increasing domestic market share and becoming more efficient in the international market.

In 2011, ERDEMİR Group's investment expenditure reached US$ 159 million, with US$ 102 million of this total financed by shareholders' equity and the remaining US$ 57 million with loans.

Completed Investments
The recently launched Advanced Planning and Scheduling System is an optimization software, which jointly evaluates the production capacities of the Ereğli and İskenderun plants, makes detailed planning to ensure their operation in the most efficient and profitable manner and allows the formulation of future forecasts.

At the Ereğli plant, CPL-TCM Automation Modernization was introduced in the 2nd Cold Rolling Plant and the Fenol Purification Plant in the Coke Plants.

As part of the Modernization and Transformation Investments at the İskenderun plant, the 2nd Sinter Plant and 4th Blast Furnace commenced operations and work on the projects Waste Recycling (I. Level) and Modernization of Current Boilers Automation System was completed.

İSDEMİR Hot Strip Mill

In September, the Ekinbaşı Iron Ore Plant, with a production capacity of 5.4 million tons, commenced operations to provide raw materials for ERMADEN's pelletizing plant. With the opening of this new facility, the total reserve of raw materials provided to the ERMADEN pelletizing plant reached 15.2 million tons.

Ongoing Investments

ERDEMİR Group views investments in innovation and technological advancement as an integral part of its corporate development. The Group's main investments in its Ereğli plant include:

- 4th Coke Oven Battery
- New Turbo Blower
- 7th Air Separation Plant
- 2nd Blast Furnace Reline Investment and Improvements in Other Iron Production Facilities
- Investments in BOF and Other Plants Depending on Reline
- Replacement of the Combined Rolling Engines at 1st Hot Rolling Mill
- 2nd Slab Furnace Modernization and Cooling System (ECS) Upgrade
- Modernization of Tinplate Line Automation Systems
- Installation of Dust Collection System at Coke Oven Batteries and Replacement of Cars
- Galvanizing Line Air Knife Modernization
- Replacement of Level 1 and 2 Systems at BOF and Continuous Casters 3-4 Plants
- Investment Projects Raw Material Warehouses

In order to reinforce distribution channels and thus boost sales to such industries as automotive, white goods and others and increase product diversity, a Steel Service Center will be established under the umbrella of ERDEMİR. The center will be established in Karadeniz Ereğli on a covered area of 19,020 m², feature cold slitting, cold oblique cutting, cold multiple cutting, hot slitting and hot cut-to-length lines and produce an estimated 650 thousand tons of products per year.

The ongoing investments at the İskenderun plant, include Expansion Finished Product Stock Yards, 4th Coke Oven Battery Modernization, Improvements of Desulphurization, Reladling Pit and Changing Crane Girders and Environmental Investments.

Majority of the legal authorizations required for the Iron Ore Concentration and Pelletizing Plant planned to be installed at ERMADEN in Hasançelebi have been obtained and the remainder of the process will be completed in 2012. Technological and laboratory tests were carried out on a pilot scale in order to formulate the process parameters and flow charts required to manufacture pellet which can be processed by blast furnaces. The facility is planned to commence operations in 2015.


More
APPE

We change by viewing individuals as our 'wealth.'
With the firm belief that a company's most important asset is its human resources, **ERDEMİR Group** continues to become a **more appealing** employer every year by offering exemplary working conditions and career opportunities.

MAIN ONGOING INVESTMENTS IN 2011

Investment Projects	Planned Date of Commissioning									
	2012				2013		2014		2015	
	1st Q	2nd Q	3rd Q	4th Q	1st H	2nd H	1st H	2nd H	1st H	2nd H
I - Ereğli Plant										
1) 2nd Slab Furnace Modernization and Cooling System (ECS) Upgrade		■								
2) Investment Projects Material Warehouses		■								
3) Replacement of the Combined Rolling Engines at 1st Hot Rolling Mill			■							
4) 2nd Blast Furnace Reline Investment and Improvements in Other Iron Production Facilities			■							
5) Investments in BOF and Other Plants Depending on Reline				■						
6) Ereğli Steel Service Center					■					
7) New Turbo Blower					■					
8) Replacement of Level 1 and 2 Systems at BOF and Continuous Casters 3-4					■					
9) Galvanizing Line Air Knife Modernization					■					
10) Installation of Dust Collection System at Coke Batteries and Replacement of Cars						■				
11) 7th Air Separation Plant							■			
12) Modernization of Tinplate Line Automation Systems							■			
13) 4th Coke Oven Battery								■		
II - İskenderun Plant										
1) Expansion of Finished Product Stock Yards		■								
2) 4th Coke Oven Battery Modernization		■								
3) Improvements of Desulphurization			■							
4) Reladling Pit and Changing Crane Girders			■							
5) Environmental Investments					■					
III - Mining										
1) Hasançelebi Iron Ore Concentration and Pelletizing Plant										■

Q: Quarter
H: Half Year

“ERDEMİR Group makes progress with its skilled and well-experienced employees who internalize the corporate culture.”

The Group is a leader in employment with its 13,433 strong workforce.

As a corporation active in an industry with very competitive market conditions, ERDEMİR Group designs its human resource policies and practices to create, develop and maintain a highly qualified workforce composed of employees who produce information, formulate solutions, take responsibility and lead the way, while remaining open to self-development and teamwork.

In line with this main objective, the Group strives to recruit employees that suit best for its strategies and goals and to provide training opportunities for enhancing the competencies and know-how of current employees.

Performance Management System
ERDEMİR Group's Performance Management System is designed to determine the value created by blue and white collar employees in line with Company goals, to identify their training and development needs and to carry out placement and approval processes in an impartial manner so as to maximize productivity at work.

EMPLOYEES BY CATEGORY	NUMBER	%
White Collar	3,388	25
Blue Collar	9,933	74
Contracted	112	1
	13,433	**100**

EMPLOYEES BY LOCATION	NUMBER	%
Ereğli	6,701	50
İskenderun	5,846	44
Other	886	6
	13,433	**100**

EMPLOYEES BY EDUCATION	NUMBER	%
Primary School	2,923	22
High School and Equivalent	6,920	52
Vocational High School	1,375	10
University Graduate	2,215	16
	13,433	**100**

EMPLOYEES BY SENIORITY	NUMBER	%
0-10 Years	9,862	73
11-21 Years	2,902	22
22-24 Years	383	3
25 & Above	286	2
	13,433	**100**

EMPLOYEES BY AGE	NUMBER	%
19-30 Years	1,810	13
31-40 Years	7,214	54
41-50 Years	4,021	30
51-54 Years	255	2
55 & Above	133	1
	13,433	**100**

Employee Profile

As one of Turkey's largest employers, ERDEMİR Group had a workforce of 13,433 as of December 31, 2011, made up of 9,933 blue collar, 3,388 white collar and 112 contracted employees.

Collective Labor Agreement

Talks for the 23rd collective labor agreement at the Ereğli plant for the period 01.09.2010-31.08.2012 started on 07.12.2010 with an agreement reached on 05.05.2011. ERDEMİR was represented by the Turkish Metal Industrialists' Association (MESS) and employees by the authorized trade union Türk Metal. The 23rd collective labor agreement brought salary increases and additional benefits for the year 2011.

The 24th collective labor agreement for the İskenderun plant signed with the authorized trade union Çelik-İş covers the period 01.01.2011-31.12.2012 and includes salary increases for the first and second halves of the year 2011.

In line with the 4th collective labor agreement signed at the ERDEMİR Steel Service Center covering the period 01.07.2009-30.06.2011, salaries were increased during the fourth six-monthly period 01.01.2011-30.06.2011. The 5th collective labor agreement for the period 01.07.2011-31.08.2012 was signed on 02.12.2011 and stipulates a salary increase for the period 01.07.2011-31.12.2011.

In line with the collective labor agreement valid in ERDEMİR Romania for the period 01.01.2011-31.12.2011, salaries were increased by 10% for the period 01.01.2011-30.06.2011 and by 30 Ron/person for the period 01.07.2011-31.12.2011.

Since the trade union Maden-İş could not obtain collective labor agreement authorization for ERMADEN, talks for the new period were not started. Personnel on hourly wages benefited from a salary increase of 5% on 01.01.2010, of 5% on 01.07.2010, of 5% on 01.01.2011 and of 5.5% on 01.07.2011, which will be included in the new collective labor agreement.

Health Services
At ERDEMİR Group, providing a healthy and safe workplace is among its top priorities. To this end, fully equipped health centers at ERDEMİR and İSDEMİR deliver services such as preventive medicine, health check up at the commencement of work, preemptive measures to avoid work accidents and occupational illnesses, follow-up for employees on sick leave, first aid and emergency treatments. In addition, employees are offered certified first aid training.

Training Activities
At ERDEMİR Group, the most important key to gaining a competitive advantage is developing a workforce that has the professional experience and competencies required by the position and that is collaborative and creative. The Group places great emphasis on providing personal and professional training opportunities to employees from the day they start work and at every stage of their employment.

In 2011, the Group organized training seminars while making maximum use of internal resources effectively and efficiently. As a result, 17,157 participants received 358,741 hours of training at the Ereğli plant; 32,499 participants received 309,447 hours of training at the İskenderun plant; 285 employees received 6,056 hours of training at ERMADEN; and 173 participants received 2,550 hours of training at ERENCO.

During the year, employees at the Ereğli plant received training that totaled 53 hours per person; employees at İskenderun plant averaged 52.82 hours per person; ERMADEN employees received 21.25 hours per person; and ERENCO averaged 14.74 hours of training per person.

In the area of General Occupational Health and Safety (OHS), 9,282 participants received a total of 40,938 hours of training at the Ereğli plant in 2011. Training in OHS accounted for 11.4% of total training in 2011 and reached an average of 5.96 hours of training per employee, a clear indication of ERDEMİR Group's commitment to this critical area.

At the İskenderun plant, 6,656 participants received a total of 32,068 hours of OHS training inside and outside the Company. The share of OHS training in total training reached 10.36%; average OHS training per employee reached 5.46 hours.

During the year, 559 employees from the Ereğli plant and 338 employees from the İskenderun plant participated in various congresses, conferences and seminars.

In 2011, the Group held seven training seminars that were attended by 264 executives to enhance their skills and knowledge and raise their awareness in competition law.

Under the Ereğli plant's In-Unit Training System (ITS), 41 new booklets were written during 2011. As a result, the total number of ITS booklets increased to 2,201 and the number of active trainers rose to 1,094. At the İskenderun plant, 54 new ITS booklets were completed; the total number of booklets reached 334 and ITS trainers numbered 197. In 2011, 4,488 Group employees received ITS training.

Thanks to the Open Education Project under way at the Ereğli plant, 28 employees received primary school diplomas and four employees received high school diplomas. Currently, 549 employees are enrolled in this program, 189 at the primary school level and 360 at the high school level.

At the Ereğli and İskenderun plants, 4,481 employees participated in training in cost and energy savings in 2011. In addition, 20 engineers received Industrial Energy Management Certification.

Two employees from ERENCO and two from İSDEMİR received Industrial Energy Management Certification following seminars held at ERENCO during 2011. At the following training program, 11 additional employees from İSDEMİR received certification.

Social Services
ERDEMİR Group, with its large organizational structure and strong corporate culture, is a vast family. In 2011, the Group continued to operate its own social facilities including employee housing, cultural centers, guesthouses, fitness centers, restaurants, beaches, swimming pools and child care centers. Thanks to the wide array of social facilities, ERDEMİR Group reinforces its corporate identity and communications among its employees while enhancing the quality of life of personnel and their families.

Quality and Technology

“ERDEMİR Group maintains its competitive edge by prioritizing product development.”

ERDEMİR constantly expands its product range by developing new steel qualities.

In addition to its upgrading and capacity increasing investments, ERDEMİR Group channels a large part of its budget to R&D and quality studies to make its competitive advantage sustainable. The Group developed nine galvanized product qualities, two cold rolled product qualities and one hot rolled product quality targeting the automotive industry at the Ereğli plant in 2011. In addition, the Group developed one cold rolled product quality and three hot rolled product qualities for construction steel. ERDEMİR added 16 qualities to its product range in 2011 and the total number of steel qualities increased to 351.

As part of efforts to harmonize with EU regulations, the ERDEMİR plant renewed its CE certification for pressure vessels and British and French Lloyd quality certifications for normal and high resistance ship plates in 2011. In addition, the Group completed scope expansion initiatives undertaken jointly with American Lloyd; certification efforts carried out in conjunction with Norwegian Lloyd passed to the testing stage, following the successful completion of the factory inspection.

The Group continued its homologation initiatives at the request of leading automobile companies. ERDEMİR received homologation approval from Oyak Renault for an exterior panel plate, from FIAT Auto for seven different qualities and from Renault France for six different qualities.

In addition, the Group received a large number of samples of varying qualities from domestic and overseas automobile and white goods companies; industrial testing was undertaken accordingly.

ERDEMİR continued its joint project with TÜBİTAK TEYDEB for the reuse of iron and carbon containing waste from the iron and steel industry in processing through briquetting. The Group established the pilot briquetting plant, commenced production and started to replace iron raw materials with waste in these plants.

The total number of billet qualities produced at the İskenderun plant rose to 246 in 2011 with three new billet qualities developed during the year. In addition, six wire road qualities were developed for long end-products while 22 slab qualities were developed, bringing the total number of slab qualities up to 101. Fifteen new hot rolled end-product qualities were also developed during the year.

Drilling efforts were undertaken in the C-Plaseri hematite and Dumluca magnetite iron ore fields operated by ERMADEN in Divriği, to increase reserves. Following the drilling, the visible reserves in the field were recalculated in the light of data from the previous periods and additional reserves were identified.

ERMADEN joined forces with various universities to enrich the 28% Fe low tenor ore in its field located in the Sarıkaya district of Yozgat.

Approximately 1.8 million tons of 40-47% Fe tenor hematite ore, previously extracted and stored in the Kafa B Open Operation Field situated in Divriği, is currently being enriched for use in iron and steel production.

ERMADEN

“ ERDEMİR Group supports its business processes with advanced information technology.”

ERDEMİR Group uses latest IT solutions to further strengthen its organizational structure.

ERDEMİR plant operates every day 24/7. To enhance its business processes, the Group has invested extensively in IT operating systems, information security, rapid and easy access to data and the establishment of a new technological infrastructure in 2011.

ERDEMİR also replaced the units that power its business systems and acquired and installed new firewall systems.

ERDEMİROnline's communications and internet infrastructure was accelerated and virtualization allowed the transfer of applications from 30 to just seven physical servers. Mainframe software was also upgraded as part of this initiative.

The ERDEMİROnline export project has also been completed. New projects were initiated to enable the marketing of long products via ERDEMİROnline.

ERDEMİR joined forces with Microsoft to transition to a new domain and to Microsoft Exchange; the planning and testing phases, and the training of the project team, were completed during the year. Work is currently underway to procure the project equipment and software in order to start operations.

Work on the replacement of infrastructure topology is also under way at ERDEMİR and is in the process of making a transition to state-of-the-art technology.

ERDEMİR has installed all the necessary software to centralize the management of productivity limits, to slit and label a single coil when two different orders are received and to package tinplate products from 10-14.

As part of ERDEMİR's Advanced Planning and Scheduling System project, the Company has completed Level 4 - Level 3 - Level 2 integrations. At İSDEMİR, the required software has been installed to enable the integration of the Production Management System with the Advanced Planning and Scheduling System.

At ERDEMİR's Level 3 systems, RKK 1-2-3-4 Stock Fields, CCR2 Stock Fields, 2. Cold Rolling Plant Continuous Annealing Line and 2. Cold Rolling Plant Tandem Line Modernization Project Java Transformation have been completed and commissioned.

In order to optimize charge and production data used in cost calculations, ERDEMİR installed Iron Production Control System and BOF Level 3 Integration software. In addition, the Company completed the Iron Production Control System's Coal Manipulation Sub-System, the BOF Desulphurization and Burnt Lime Plant Level 3 projects.

Preliminary work at İSDEMİR for the launch of the Iron Production Management System, which enables instantaneous monitoring of stocks, is now complete.

İSDEMİR's Coil Stock Field Management Level 3 system, as well as the Laboratory Management System Project, which will centralize the management of all laboratories, have been completed and the Wire Rod Mill's system software has been upgraded.

Under ERDEMİR Group's Corporate Resource Planning Project, the web site was improved and expanded.

At the Steel Service Center, the Electronic Data Interchange launched in 2011 to enable data exchange with the automotive industry.

Sustainability

“ ERDEMİR Group is an exemplary corporate citizen, widely known for its commitment to social development.”

ERDEMİR Group supplements its effective business processes with signature sustainability projects.

Sustainability creates harmony between humankind and the environment, protecting the vital needs of current and future generations.

OYAK Group places great importance on social, environmental and economic factors in all its operations and decision-making processes. The Group undertakes all of its activities with the awareness that quality of life, well-being, economic competitiveness, employment and security are entirely dependent on respect to its common natural heritage.

OYAK Group strives to bring its business processes and decision-making mechanisms in line with the principles of sustainability; its operations are developed bearing in mind the values of social and environmental responsibility, accountability, integrity and transparency. To this end, the Group regularly improves its environmental, social and economic performance to establish an efficient model of sustainability.

ERDEMİR Group's sustainable corporate structure is based on the following capacities:

- Efficient resource management;
- Capability to develop new products, services and technology that will meet the requirements of the future;
- Production performance sensitive to the environment, employee safety and professional development;
- Viewing corporate social responsibility as an integral part of business operations;
- Running business operations in line with workplace ethics and shareholder expectations.

ERDEMİR commenced production in 1965 and has steadily increased its capacity ever since. The Company's presence is crucial for the sustainability of Turkish industry as a whole. Since its inception, the Group has continued to develop in a direction sustainable for all of its stakeholders, with superior economic performance, environmental awareness and due concern to meet the expectations of employees and the public at large. In all Group operations, water, soil and air resources are used in an optimal manner; technology in use releases the least possible amount of waste back into the environment; the environmental impact of all operations are constantly monitored; and recycling efforts are regularly enhanced.

At all locations in which it operates, ERDEMİR Group strives to contribute to improving the quality of life. As a result, Group companies have not only delivered products and services at international standards, but have also supported social and economic development in their communities and assumed responsibility for the protection and preservation of natural resources. ERDEMİR Group sees sustainable development for society at large as the key to the corporate sustainability of the Company.

ERDEMİR Group determines its strategies and objectives with due consideration for stakeholder expectations and outlooks; it also encourages stakeholder participation by developing its business processes guided by the principles of accountability and transparency.

With a long history and a pioneering role in Turkish industry, ERDEMİR Group has a wide circle of influence and tirelessly supports other industrial corporations, universities and NGOs to contribute to the development of Turkey.

ERDEMİR Group bases all of its business processes and relationships on the principles of accuracy, integrity, transparency, accountability and responsibility, while paying utmost respect to the highest ethical standards. All employees follow these principles that make up the Group's Code of Ethics.

“Accident-free Steel is the basic principle on which ERDEMİR Group's occupational health and safety practices are built.”

In 2011, ERDEMİR Group companies conducted a total of 77,966 hours of occupational health and safety trainings.

ERDEMİR Group sees occupational health and safety measures as key to boosting employee motivation. As a result, the Group integrates international standards of occupational health and safety into its business processes and strives to improve its work standards every day. With the firm conviction that all accidents can be avoided, Group companies apply a comprehensive range of occupational health and safety measures, from procuring protective equipment that meets global standards to awarding best practices.

ERDEMİR Group views occupational health and safety measures not just as its legal obligation but also, and more importantly, as the foundation of its corporate culture. As a result, the Group closely monitors developments in this field and regularly organizes campaigns to raise awareness of occupational safety.

The OHSAS 18001 Occupational Health and Safety Management System is implemented across Group companies. Activities undertaken under this framework include OHS board meetings, unit OHS committee and subcommittee meetings, scheduled or random security tours, yellow card and 'almost accident' practices, emergency drills, direct appointment of OHS engineers at units and the OHS newsletter.

ERDEMİR Group companies lead the way in best practices across the industry, by hosting or participating in OHS congresses, conferences and workshops. The Group has conducted OHS seminars that totaled 40,938 hours at the Ereğli plant, 32,068 hours at the İskenderun plant, 3,550 hours at ERMADEN and 1,410 hours at ERENCO.

Energy Management

“ ERDEMİR is the first company in its sector to receive Energy Management System Certification.”

ERDEMİR won the “Most Efficient Thermal Plant Award” in 2011.

Energy conservation and development of alternative energy resources now loom large on the global agenda due to the rapid exhaustion of fossil fuel reserves, which meet a large portion of the world's energy demand today, as well as the severe environmental impact of current energy consumption methods.

Since energy accounts for a large proportion of input costs in integrated production facilities, cutting energy spending is also a way to sharpen the competitive edge.

The replacement of primary energy resources with fuel byproducts generated during the production process is very cost efficient.

The Ereğli and İskenderun plants have the in-house capacity to produce almost all the electric power they require; however, market conditions are electronically monitored and cost advantages are regularly calculated. This approach allows the plants to effect significant savings by optimizing their electric power generation and purchasing electricity from outside sources whenever it is more economical.

ERDEMİR Group companies have performed effectively in terms of specific energy consumption, a key performance indicator in the steel industry.

During 2011, the primary energy resources used at the Ereğli plant comprised coal and derivatives with 81%, natural gas with 16.7% and electric power purchased from outside the facility with 2.3%. At the İskenderun plant, energy originated from coal and derivatives with 89%, natural gas with 4% and electric power purchased from the outside with 7%.

In the area of energy conservation, the Ereğli plant has launched energy recycling initiatives based on the reuse of waste heat. Significant energy savings is expected to result from the completion of such projects as the replacement of the main fan and engines systems of the Sinter Plant, evaporative cooling of the slab furnace, descale pump AC driver, additional burning systems in waste heat furnaces of the cogeneration plant, circular cooler at the Sinter Plant and the continuous annealing line waste heat vessel.

ERDEMİR Group sees its workforce as the most important success factor in efficient resource use and energy conservation efforts. As a result, the Group continued to conduct energy savings, efficiency and cost management trainings for employees in 2011. In addition, Applied Steam Energy Efficiency seminars were initiated at ERDEMİR to further improve the technical skills of employees.

ERDEMİR has strived to increase its energy efficiency since 1982. To this end, the Company obtained TS 16001 Energy Management System Certification. Additionally, it is the first company in the sector to implement the Energy Management Standard. İSDEMİR also adopted global standards of energy efficiency during the year and crowned its efforts with TS 16001 Energy Management System Certification. The superior quality standards of ERDEMİR production facilities were once again recognized when the Company received the “Most Efficient Technical Plant Award” at the 17th annual ICCI International Energy and Environment Fair and Conference held for the first time in Turkey.

ERDEMİR Power Plant

Environmental Management

“ ERDEMİR Group leads the industry in environmental protection investments.”

ERMADEN received the “Most Environmentally-Friendly Industrial Corporation” award in 2011.

ERDEMİR Group fully embraces the concept of sustainable development to help preserve current and future generations. To this end, the Group's operations strike a balance between technological advancement and increasing employment with the use of natural resources; as a result, the Company works to protect the environmental habitat of humanity. The Group designs all of its business processes to maximize efficient resource use and energy efficiency.

The Group operates with an environmental approach that well exceeds legal and regulatory requirements. All processes comply with fundamental principles that include protecting exhaustable natural resources, maximizing recycling and minimizing the discharge of waste into the environment. The Group undertakes investments with clean production technologies and open communications with all stakeholders. This approach translates into a significant competitive advantage for the Group.

ERDEMİR Group companies set an example within the steel industry with their environmental performance. The companies closely monitor international developments in this area, identify new guidelines and standards, leading the way for other Turkish industrial corporations with their extensive know-how and best practices.

The environmental performance of ERDEMİR Group's production facilities is built on a broad foundation which starts with conducting environmental impact assessments, using natural resources efficiently, adopting measures to avoid a negative impact on nature, complying with legal regulations and finally arriving at the prevention of waste production and extensive recycling efforts. One other indication of the Group's success in this area is the progress made in ISO 14001 Environmental Management System audits.

The Group's ERDEMİR, İSDEMİR and ERDEMİR Romania S.R.L. plants are managed by the ISO 14001 Environmental Management System. After assessments of possible environmental impacts and the measurement of their intensity, the companies set specific targets to minimize any adverse impact on the environment. Subsequently, compliance with these targets is monitored through a continuous improvement approach. Another Group company, Steel Service Center has initiated efforts to obtain ISO 14001 Environmental Management System Certification.

Keenly aware that quality of life is closely associated with the presence and continuity of natural resources, ERDEMİR Group places great importance on the recycling of waste. Thanks to initiatives in collecting and recycling valuable waste efficiently, the Ereğli plant generated TL 4,176,650 of additional revenue in 2011.

During the year, ERDEMİR made a breakthrough in its recycling efforts, by constructing a pilot scale briquetting plant that recycles the pellet powder with high iron (Fe) content that exits production processes. The electro filter at the Sinter Plant was also modernized.

At the Ereğli plant, harmonization with the EU's environmental standards is a top priority. In 2011, the Coke Factory Ammonia Stripping Column project was completed. This project allows an annual ammonium sulfate production capacity of 2 thousand tons and the discharge of waste water at specifications well below requirements.

The Group's awards are clear indicators of its successful environmental initiatives and investments. In 2011, the Governorship of Sivas presented ERMADEN with the "The Most Environmentally-Friendly Industrial Corporation Award," thanks to its projects and efforts to protect and improve the environment and avoid environmental pollution.

ERDEMİR Head Office

ERDEMİR PLANT RECYCLING RATE (%)	
2011	**71.3**
2010	63.6
2009	59.5
2008	68.5
2007	72.0

ERDEMİR PLANT RECIRCULATION WATER CONSUMPTION RATE (%)	
2011	**89.0**
2010	89.8
2009	91.0
2008	90.9
2007	91.2

İSDEMİR PLANT RECYCLING RATE (%)	
2011	**74.8**
2010	58.0
2009	56.5
2008	51.2
2007	53.3

İSDEMİR PLANT RECIRCULATION WATER CONSUMPTION RATE (%)	
2011	**94.4**
2010	94.0
2009	92.7
2008	91.5
2007	90.8


More
PARTIC

"**We change by remaining transparent.**
Placing great importance on team synergy and open dialogue between units, **ERDEMİR Group** continues to foster a **more participative** management style by encouraging employees to take part in production and decision-making processes."

Quality Management Systems

"ERDEMİR Group makes its organizational structure more effective with its total quality management approach."

ERDEMİR Group's Suggestion Systems has transformed employees into active agents in its business processes.

As a result of the systematic application of strategies centered on total quality culture and shareholder expectations while using a continuous development approach, ERDEMİR Group's business results increase each year.

Another competitive advantage of ERDEMİR is its total quality culture which is adopted across the Group, and which results in strong synergy. This synergy generated among employees allows ERDEMİR Group companies to advance toward their common goals in a coordinated manner.

ERDEMİR Group companies have received the following quality certifications:

ERDEMİR
- ISO 9001 Quality Management System Certification
- ISO 14001 Environmental Management System Certification
- ISO / TS 16949 Quality Management System Certification for the Automobile Industry
- OHSAS 18001 Occupational Health and Safety Management System Certification
- TS 16001 Energy Management System Certification

İSDEMİR
- ISO 9001 Quality Management System Certification
- ISO 14001 Environmental Management System Certification
- OHSAS 18001 Occupational Health and Safety Management System Certification
- ISO 17025 Laboratory Management System Certification
- TS 16001 Energy Management System Certification
- ISO / TS 16949 Quality Management System Certification for the Automobile Industry*

ERENCO
- ISO 9001 Quality Management System Certification

ERMADEN
- OHSAS 18001 Occupational Health and Safety Management System Certification

ERDEMİR Romania S.R.L.
- ISO 9001 Quality Management System Certification
- ISO 14001 Environmental Management System Certification
- OHSAS 18001 Occupational Health and Safety Management System Certification

ERDEMİR Çelik Servis Merkezi
- ISO 9001 Quality Management System Certification
- ISO / TS 16949 Quality Management System Certification for the Automobile Industry*
- ISO 14001 Environmental Management System Certification*
- OHSAS 18001 Occupational Health and Safety Management System Certification*

Under the ERÖS (ERDEMİR Suggestion System) program, which employees can use to help improve the Company's business operations, 66,800 suggestions were taken under evaluation; of these, some 25 thousand were put into practice. These suggestions have yielded total savings of US$ 194,499,735 by the end of 2011. Revenue generated through ERÖS totaled US$ 5,557,050 in 2011.

The İSÖS (İSDEMİR Suggestion System) program has an employee participation rate of 90% as of end-2011. The total number of such suggestions received since the launch of the system is 77,081.

** The certification process is underway.*

“ ERDEMİR Group is a progressive enterprise which sees contribution to society at large as essential.”

ERDEMİR Group contributes to social development through social initiatives in education and sports.

While creating value for the national economy and the regional economies in which our companies operate, ERDEMİR Group is engaged in a wide range of social development initiatives that are an integral part of our business.

Through employment opportunities created, taxes paid and the high quality products that support the development of the national industry, ERDEMİR Group gives a significant boost to the country's economic advancement. The companies are recognized annually with awards by various organizations and agencies for their contributions to the bussiness community.

As the Group is committed to providing active and voluntary support in a range of social issues, it has joined forces with government agencies and NGOs to undertake a number of social responsibility campaigns in 2011. These initiatives include the enrichment of the equipment and physical facilities of numerous education and health institutions; charity work; sponsorship of culture, arts and sports events; support to scientific research by universities; and internship opportunities for university and vocational high school students.

Aware of its responsibility in the development of the country's youth, who make up a large proportion of the Turkish population, ERDEMİR Group places great importance on its social responsibility activities in education. The Group especially supports initiatives that help young people develop into creative and knowledgeable individuals with a high sense of civic duty, well-developed moral values and critical thinking skills. To this end, the OYAK High School Mathematics Competition was held in Zonguldak, Hatay and Sivas with the support of ERDEMİR, İSDEMİR and ERMADEN. In 2011, the Group companies also continued to provide educational support to those students in need.

ERDEMİR Group companies also joined forces with a number of foundations, associations, business chambers and universities to provide material and moral support to blood donation campaigns, social assistance initiatives and research and rescue efforts in the aftermath of natural disasters.

ERDEMİR Group stands out among other industrial companies for its well-known corporate support to sports. In 2011, the Group continued its support to the clubs ERDEMİRSPOR and İskenderun Demir Çelik Spor, which are active in a number of fields with their professional teams and athletes.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. BOARD OF DIRECTORS

Ünal Tayyan Oğuz Özgen Fatma Canlı Nihat Karadağ Fatih Tar Dinç Kızıldemir Arzu Atik Ertuğrul Aydın Ahmet Anayurt

Fatih Tar
Chairman and Managing Director
Term of Office
09.03.2010-

Nihat Karadağ
Vice Chairman and Managing Director
Term of Office
30.09.2009-

Arzu Atik
Board Member
Term of Office
26.02.2008-

Dinç Kızıldemir
Board Member and Managing Director
Term of Office
27.02.2006-

Ertuğrul Aydın
Board Member
Term of Office
31.03.2008-

Fatma Canlı
Board Member
Term of Office
09.03.2010-

Oğuz Özgen
General Manager and Board Member
Term of Office
17.07.2006-

Ahmet Anayurt
Statutory Auditor
Term of Office
09.03.2010-

Ünal Tayyan
Statutory Auditor
Term of Office
31.03.2011-

GENERAL MANAGERS

Sedat Orhan | Fikret Başbuğ | Oğuz Özgen | Fatih Tar | İsmail Akçakmak | Cemal Erdoğan Günay | Burak Büyükfırat

Fatih Tar
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.
Chairman and Managing Director
Term of Office
09.03.2010-

Oğuz Özgen
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.
Board Member and General Manager
Term of Office
17.07.2006-

İsmail Akçakmak
İskenderun Demir ve Çelik A.Ş. Board Member and General Manager
Term of Office
05.05.2006-

Cemal Erdoğan Günay
ERDEMİR Romania S.R.L.
General Manager
Term of Office
27.09.2010-

Sedat Orhan
ERDEMİR Madencilik Sanayi ve Ticaret A.Ş.
General Manager
Term of Office
12.10.2006-

Fikret Başbuğ*
ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.
General Manager
Term of Office
01.10.2011-

Burak Büyükfırat
ERDEMİR Çelik Servis Merkezi Sanayi ve Ticaret A.Ş.
General Manager
Term of Office
21.04.2010-

** As of 01.10.2011, Fikret Başbuğ has replaced İlhami Acar as General Manager of ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. Mr. Acar served as Board Member and General Manager of ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. from 23.06.2006 until 24.02.2011 and as General Manager of ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. from 24.02.2011 until 01.10.2011.*

COORDINATORS

Öner Songül | Bülent Beydüz | Fatih Tar | Ayhan Kalmukoğlu | Şafak Çapar

Fatih Tar
Chairman and Managing Director
Term of Office
09.03.2010-

Ayhan Kalmukoğlu
ERDEMİR Group Marketing and Sales Coordinator (Acting)
Term of Office
12.07.2010-

Şafak Çapar**
ERDEMİR Group Procurement Coordinator
Term of Office
23.03.2011-

Öner Songül
ERDEMİR Group Information Technologies Coordinator
Term of Office
12.08.2010-

Bülent Beydüz*
ERDEMİR Group Chief Financial Officer
Term of Office
11.04.2011-

** As of 28.03.2011, an ERDEMİR Group Chief Financial Officer position was created and ERDEMİR Chief Financial Officer Bülent Beydüz has been appointed to this position as of 11.04.2011*

*** Şafak Çapar, who has served as ERDEMİR Acting Group Procurement Coordinator since 23.03.2011, was appointed ERDEMİR Group Procurement Coordinator on 05.08.2011.*

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. MANAGEMENT

Müçteba Bekcan   Samim Şaylan   Oğuz Özgen   Esat Günday   Nezih Tunalıtosunoğlu

Oğuz Özgen
Board Member and General Manager
Term of Office
13.07.2006-

Esat Günday
Assistant General Manager
Operations
Term of Office
13.07.2006-

Samim Şaylan
Assistant General Manager
Human Resources and Administrative Affairs
Term of Office
13.07.2006-

Nezih Tunalıtosunoğlu*
Assistant General Manager
Finance
Term of Office
11.04.2011-

Müçteba Bekcan**
Assistant General Manager
Technical Services and Investments
Term of Office
14.07.2010-

Samim Şaylan***
Assistant General Manager (Acting)
Procurement
Term of Office
23.03.2011-

** As of 11.04.2011, Nezih Tunalıtosunoğlu was appointed Assistant General Manager - Finance.*

*** Müçteba Bekcan, who has served as Acting Assistant General Manager - Technical Services and Investments since 14.07.2010, became Assistant General Manager - Technical Services and Investments on 14.03.2011.*

**** The position of Assistant General Manager - Procurement became vacant due to the resignation of Ozan Bekçi on 22.03.2011; Samim Şaylan was appointed Acting Assistant General Manager - Procurement on 23.03.2011.*

İSKENDERUN DEMİR VE ÇELİK A.Ş. MANAGEMENT

Coşkun Okutan Erkan Eser İsmail Akçakmak Uğur Yılmaz Recep Özhan

İsmail Akçakmak
Board Member and General Manager
Term of Office
05.05.2006

Uğur Yılmaz
Assistant General Manager
Operations
Term of Office
06.02.2002-

Coşkun Okutan
Assistant General Manager
Human Resources
Term of Office
01.03.2006

Recep Özhan
Assistant General Manager
Finance
Term of Office
07.01.2005-

Erkan Eser*
Assistant General Manager
Technical Services (Acting)
Term of Office
17.11.2011-

Coşkun Okutan**
Assistant General Manager
Procurement (Acting)
Term of Office
10.08.2011-

** Following Fikret Başbuğ, who served as Assistant General Manager - Technical Services 06.02.2002-01.10.2011, was appointed ERENCO General Manager; firstly, Recep Özhan served as Assistant General Manager - Technical Services (Acting) from 01.10.2011 until 17.11.2011 and then Erkan Eser was appointed to this position as of 17.11.2011.*

*** After Şafak Çapar, who served as Assistant General Manager - Procurement from 16.12.2008 until 10.08.2011, was appointed Group Procurement Coordinator, Coşkun Okutan became Assistant General Manager - Procurement (Acting) as of 10.08.2011.*

ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş. MANAGEMENT

Erol Saydam Fikret Başbuğ Sadullah Şener

Fikret Başbuğ*
General Manager
Term of Office
01.10.2011-

Erol Saydam**
Assistant General Manager
Technology and Project Development
Term of Office
19.12.2011-

Sadullah Şener***
Assistant General Manager
Planning and Contracts
Term of Office
19.12.2011-

ERDEMİR MADENCİLİK SANAYİ VE TİCARET A.Ş. MANAGEMENT

Mahmut Kurt Sedat Orhan Mustafa Aydın

Sedat Orhan
General Manager
Term of Office
12.10.2006-

Mustafa Aydın
Assistant General Manager
Financial and Administrative Affairs
Term of Office
15.04.2006-

Mahmut Kurt****
Consultant to the General Manager
Term of Office
03.02.2010-

** As of 01.10.2011, Fikret Başbuğ has replaced İlhami Acar as General Manager of ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. Mr. Acar served as a Board Member and General Manager of ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. from 23.06.2006 until 24.02.2011 and as General Manager of ERDEMİR Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. from 24.02.2011 until 01.10.2011.*

*** Erol Saydam, who has served as Assistant General Manager - Projects since 23.06.2006, was appointed Assistant General Manager -Technology and Project Development as of 19.12.2011, since the position was renamed.*

**** Sadullah Şener, who has served as Assistant General Manager - Financial, Commercial and Administrative Affairs since 25.09.2006, was appointed Assistant General Manager - Planning and Contracts on 19.12.2011, since the position was renamed.*

***** Mahmut Kurt, who served as Chief Financial Officer from 15.04.2004 until 15.04.2006 and as Assistant General Manager - Operations from 15.04.2006 until 03.02.2010, was appointed Consultant to the General Manager as of 03.02.2010.*

Corporate Governance

“Transparency is an integral part of ERDEMİR's corporate culture.”

ERDEMİR complies with all its legal obligations in a complete and timely manner.

General View of ERDEMİR

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. is aware of its responsibilities toward its stakeholders as a pioneer and a leader in Turkish industry and as one of the most widely publicly-held companies of Turkey. Transparency, management accountability, compliance with ethical rules, laws and regulations have become the integral parts of corporate management at the Company, and ERDEMİR has always fulfilled all statutory requirements in an appropriate and timely manner.

Our Company assigned personnel having 'Advanced License for Capital Market Activities' and 'Corporate Management Ranking Specialist's License', which are compulsory as per the Capital Markets Board Communiqué Serial: IV No: 41, to ensure coordination in increasing the level of commitment to the 'Principles of Corporate Governance' and of harmony in fulfillment of its liabilities arising from the Capital Market Law.

In 2011, the Company paid strict attention to the compliance of compulsory or optional regulations of Corporate Governance Principles, that was revised in 2005, the details of which are given below. Additionally, in the same period, the Company began preliminary preparation for compliance with Communiqué Serial: IV, No: 56 on Principles Regarding Determination and Application of Corporate Governance Principles which was published in the Official Gazette dated 30.12.2011 and numbered 28158 by the CMB. Compliance with the abovementioned compulsory regulations is underway and will be accomplished within the deadlines stated in the Communiqué and CMB declarations.

"ERDEMİR Group operates with a responsible management approach."

ERDEMİR Group carries out relations with its stakeholders on an accountability basis.

I. RELATIONSHIPS WITH SHAREHOLDERS
Relationships with our partners, corporate investors and analysts are systematically carried out, while supporting the corporate values. For this purpose, meetings are organized with domestic and foreign investors, material disclosures are announced to the public immediately, responsibilities towards regulatory authorities such as the ISE and CMB are fulfilled, and questions of our partners, analysts and portfolio managers are responded to promptly.

Requests for information come from our shareholders via telephone and mail within the year, such as stock updates, entry into the registration system, general meeting and dividend distribution; the queries are shared with independent auditors of the Company and required answers are provided when and where necessary depending on the nature of the information needed.

Our Company's financial statements and footnote explanations along with material disclosures are announced to investors on the ISE and to the public by means of the Public Disclosure Platform; also, financial statements and footnotes are published on the Company's web site.

Relationships with shareholders are carried out by the Investor Relations Department and contact information is available in the annual report and on the Company's website.

Investor Relations Department
E-mail: erdemir_ir@erdemir.com.tr

General Assembly:
The Ereğli Demir ve Çelik Fabrikaları T.A.Ş. General Meeting is held at least once a year subsequent to the year-end of the Company's accounting period. The meeting date is announced to the Capital Markets Board and the İstanbul Stock Exchange when ascertained by The Board of Directors. All of our partners are invited to attend the General Meeting via the web site of our Company; the press, are also informed about the agenda.

The Annual General Meeting of our Company for the year 2010 was held on 31.03.2011, at which 50.28% of the Company's shares were represented. The balance sheet, income statement, The Board of Directors' and Auditor's Reports as of 2010 were submitted to our shareholders for review at our Headquarters and regional directorate from 16.03.2011 and a copy of these documents was provided upon request.

Our shareholders who wanted to raise their concerns out of the agenda at the Annual General Meeting asked questions about the Company's performance and strategies, which were responded to by the Assembly President and relavant executives under the President's guidance. Minutes of the Meeting and the List of Attendees were released on our Company's web site.

Amendments in the Articles of Association within the Period:

The amendment in the articles of association executed on 31.03.2011 is as follows:

PREVIOUS TEXT	**NEW TEXT**
Purpose and Scope:	**Purpose and Scope:**
Article 4-The purpose and scope of the Company are as follows:	Article 4-The purpose and scope of the Company are as follows:
A. to purchase, lease or otherwise acquire, including mortgage and lease, any immovable property directly or indirectly related to the purpose and scope of the Company, along with all associated rights of use;	A. to purchase, lease or otherwise acquire real estate directly or indirectly relating to the objectives and subject-matter of the Company together with all rights thereon in connection of use thereof including establishing any lien thereon and renting out the same, and to sell any redundant real estate;
B. to construct, purchase and operate all facilities and equipment inland and abroad whether by itself or by establishing partnerships to that end, which are necessary or relating to the manufacture of any type, nature and size of iron and steel rolling products, alloyed or pure iron, steel and pig cast iron, cast and press products as well as inputs and byproducts necessary for the manufacture thereof;	B. to construct, purchase and operate all facilities and equipment inland and abroad whether by itself or by establishing partnerships to that end, which are necessary or relating to the manufacture of any type, nature and size of iron and steel rolling products, alloyed or pure iron, steel and pig cast iron, cast and press products as well as inputs and byproducts necessary for the manufacture thereof;
C. to purchase, lease or otherwise acquire other raw materials, derivatives as well as any type and nature of mineral ores that are directly or indirectly necessary for the manufacture and production of the products as indicated in subparagraph (B) above, and to discover, explore, extract, process and produce mines;	C. to purchase, lease or otherwise acquire other raw materials, derivatives as well as any type and nature of mineral ores that are directly or indirectly necessary for the manufacture and production of the products as indicated in subparagraph (B) above, and to discover, explore, extract, process and produce mines;
D. to purchase, construct, establish and operate any facilities and equipment that are directly or indirectly necessary for the further process and use of the byproducts, wastes, and scraps obtained at any process or stage of the products or processes as indicated in subparagraphs (B) and (C) above;	D. to purchase, construct, establish and operate any facilities and equipment that are directly or indirectly necessary for the further process and use of the byproducts, wastes, and scraps obtained at any process or stage of the products or processes as indicated in subparagraphs (B) and (C) above;
E. to establish generating plants and generate electric and heat energy, mainly for the purpose of meeting its own needs for electric and heat energy within the auto producer license, in accordance with the legislation relating to the Electricity Market and, in case of surplus generation, to sell generated electric and heat energy and/or capacity to other legal entities having the pertinent license and free consumers within the framework of the referenced legislation, and to engage in such activities relating to obtain all equipment and fuels necessary for the electric generating plants, provided that such activities shall not be of a commercial nature;	E. to establish generating plants and generate electric and heat energy, mainly for the purpose of meeting its own needs for electric and heat energy within the auto producer license, in accordance with the legislation relating to the Electricity Market and, in case of surplus generation, to sell generated electric and heat energy and/or capacity to other legal entities having the pertinent license and free consumers within the framework of the referenced legislation, and to engage in such activities relating to obtain all equipment and fuels necessary for the electric generating plants, provided that such activities shall not be of a commercial nature;
F. to establish Research Centers, and to provide national and international laboratory services of any kind as well as training and consultancy services;	F. to establish Research Centers, and to provide national and international laboratory services of any kind as well as training and consultancy services;
G. to operate ports and piers by constructing, purchasing and landing them for the purpose of shipping the products and supplying the inputs inland and abroad, and to provide pilotage, marine towing, storage and transportation services by letting other individuals and companies use such ports and piers, and to engage in land and sea transport activities inland and abroad or to establish separate companies and/or partnerships to that end;	G. to operate ports and piers by constructing, purchasing and landing them for the purpose of shipping the products and supplying the inputs inland and abroad, and to provide pilotage, marine towing, storage and transportation services by letting other individuals and companies use such ports and piers, and to engage in land and sea transport activities inland and abroad or to establish separate companies and/or partnerships to that end;
H. to perform any kind of financial, commercial and industrial procedures directly or indirectly relating to the foregoing including but without limited to the below referenced authorities;	H. to perform any kind of financial, commercial and industrial procedures directly or indirectly relating to the foregoing including but without limited to the below referenced authorities;
I. to carry out borrowing, financing and cash management procedures and use any kind of risk management instruments by means of using any kind of money and capital market instruments in terms of Turkish Lira and/or foreign currencies inland or abroad without being limited to certain amounts for or in connection with any of the subject of the activity of the Company, provided that the Company shall not act as an intermediary and/or a portfolio manager;	I. to carry out borrowing, financing and cash management procedures and use any kind of risk management instruments by means of using any kind of money and capital market instruments in terms of Turkish Lira and/or foreign currencies inland or abroad without being limited to certain amounts for or in connection with any of the subject of the activity of the Company, provided that the Company shall not act as an intermediary and/or a portfolio manager;
J. save for all rights vested to Group A by virtue of Article 22 hereof, to lend and receive deeds and/or bank letters of guarantee as security in connection with any subject of activity of the Company, provided that this shall not be contrary to legislation relating to lending procedures; to establish current accounts; to provide pecuniary, non-cash or personal guarantees for the financial liabilities of third parties, provided that the Company shall make necessary disclosures in accordance with the procedures set forth by the Capital Markets Board;	J. save for all rights vested to Group A by virtue of Article 22 hereof, to lend and receive deeds and/or bank letters of guarantee as security in connection with any subject of activity of the Company, provided that this shall not be contrary to the legislation relating to lending procedures; to establish current accounts; to provide pecuniary, non-cash or personal guarantees for the financial liabilities of third parties, provided that the Company shall make necessary disclosures in accordance with the procedures set forth by the Capital Markets Board;
K. to carry out all procedures relating to its own interests in accordance with provisions of Article 329 of the Turkish Commercial Code;	K. to carry out all procedures relating to its own interests in accordance with provisions of Article 329 of the Turkish Commercial Code;

L. to participate and purchase domestic or foreign companies which engage in the production or consumption of iron and steel products or which directly or indirectly provided services in respect thereof inland and abroad, or to establish new companies to that end, provided that the last article 15 of the Capital Market Law shall be reserved;	L. to participate and purchase domestic or foreign companies which engage in the production or consumption of iron and steel products or which directly or indirectly provided services in respect thereof inland and abroad, or to establish new companies to that end, provided that the last article 15 of the Capital Market Law shall be reserved;
M. to provide its personnel with training both in Turkey and foreign countries so that they have technical knowledge and skills in various specialization areas of the iron and steel industry; to establish training facilities and provide training and consultancy services;	M. to provide its personnel with training both in Turkey and foreign countries so that they have technical knowledge and skills in various specialization areas of the iron and steel industry; to establish training facilities and provide training and consultancy services;
N. to make license, know-how and similar agreements with domestic and foreign companies; to participate in tenders and commitments in respect of establishment of factories, and to purchase or sell information and technology;	N. to make license, know-how and similar agreements with domestic and foreign companies; to participate in tenders and commitments in respect of establishment of factories, and to purchase or sell information and technology;
O. to construct/cause to be constructed pipe lines and facilities for the purpose of purchasing, selling, storing and distributing natural gas;	O. to construct/cause to be constructed pipe lines and facilities for the purpose of purchasing, selling, storing and distributing natural gas;
P. to perform any kind of corporate activities and procedures both in Turkey and foreign countries, which are directly or indirectly relating to the subjects of activity of the Company, in accordance with the pertinent laws;	P. to perform any kind of corporate activities and procedures both in Turkey and foreign countries, which are directly or indirectly relating to the subjects of activity of the Company, in accordance with the pertinent laws;
R. to act and to grant rights others to act as a representative office, agency, distributor, authorized dealer; and to receive and give commission, in connection with its objectives and subject-matter;	R. to act and to grant rights others to act as a representative office, agency, distributor, authorized dealer; and to receive and give commission, in connection with its objectives and subject-matter;
S. to acquire, use, lease, rent out, transfer and sell authorizations, permits, patents, patent rights, trademark rights, licenses and royalties as well as any kind of industrial and/or intellectual property rights in connection with its objectives and subject-matter, and to take and give mortgages thereon;	S. to acquire, use, lease, rent out, transfer and sell authorizations, permits, patents, patent rights, trademark rights, licenses and royalties as well as any kind of industrial and/or intellectual property rights in connection with its objectives and subject-matter, and to take and give mortgages thereon;
T. to purchase, lease, take over and transfer and dispose of any kind of land, air and sea transport vehicles in order to achieve its objectives and subject-matter, and to sell the surplus quantity thereof; to engage in any kind of activity directly or indirectly relating to the objectives and subjects of activity as set forth herein above;	T. to purchase, lease, take over and transfer and dispose of any kind of land, air and sea transport vehicles in order to achieve its objectives and subject-matter, and to sell the surplus quantity thereof; to engage in any kind of activity directly or indirectly relating to the objectives and subjects of activity as set forth herein above;
U. without prejudice to the rights conferred upon Group A by the Article 22 of the present Articles of Association; any business regarded to be useful and necessary for the Company in the future other than those mentioned in the paragraphs above shall be submitted for approval in the General Assembly upon the proposal of Board of Directors, and the Company shall be able to perform such business after a decision is made to that effect and the amendment to the articles of association is entered in trade registry. Necessary permissions stipulated in the legislation for implementation of the decision, which is in form of a modification in the articles of association, shall be obtained from related bodies and authorities.	U. to carry out Engineering and Architectural activities for any kind of studies, calculations, designs and technical drawings relating to the projects for which the Company may be in need in relation with its subjects of activity; and to follow up the implementation thereof;
	V. save for all rights vested to the Group A by virtue of article 22 hereof, in case other than those set forth herein above, the Company wishes to engage in such activities that may be deemed useful and necessary, then this shall be submitted to the General Meeting of Shareholders for approval upon the proposal of the Board of Directors, and the Company will be able to engage in such activities after a relation is adopted to that end, and the amendment to the articles of association is registered with the trade registry office. For the enforcement of such resolution considered an amendment to the articles of association, necessary permits will be obtained from appropriate authorities and offices in accordance with the pertinent legislations.
Capital:	**Capital:**
Article 7 - The Company has adopted the Registered Capital System in accordance with provisions of the Capital Markets Law as amended by the law no. 3794, and started to use this system with the permission of the Capital Markets Board no. İDİD/150/2416 dated 15.08.1983.	Article 7 - The Company has adopted the Registered Capital System in accordance with provisions of the Capital Markets Law as amended by the law no. 3794, and started to use this system with the permission of the Capital Markets Board no. İDİD/150/2416 dated 15.08.1983.
The upper limit of the registered capital of the Company is TL 5,000,000,000.00 (five billion Turkish Liras). The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, between the years 2008 and 2012, in accordance with the requirements as set forth herein.	The upper limit of the registered capital of the Company is TL 5,000,000,000.00 (five billion Turkish Liras). The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, between the years 2008 and 2012, in accordance with the requirements as set forth herein.

The permission granted by the Capital Markets Board in respect of the upper limit of the registered capital is valid for the years between 2008 and 2012 (5 years). Even if the upper limit of the registered capital as permitted is not reached by the end of the year 2012, in order to adopt a resolution for increasing the capital after 2012, the board of directors shall be required to obtain authority from the general meeting of shareholders for a new period by means of gaining permission from the Capital Markets Board for the upper limit preciously permitted or a new upper limit. In case of the failure to obtain such authority, the Company shall be deemed to have quit the registered capital system.	The permission granted by the Capital Markets Board in respect of the upper limit of the registered capital is valid for the years between 2008 and 2012 (5 years). Even if the upper limit of the registered capital as permitted is not reached by the end of the year 2012, in order to adopt a resolution for increasing the capital after 2012, the board of directors shall be required to obtain authority from the general meeting of shareholders for a new period by means of gaining permission from the Capital Markets Board for the upper limit preciously permitted or a new upper limit. In case of the failure to obtain such authority, the Company shall be deemed to have quit the registered capital system.
The Board of Directors is authorized to restrict the rights of the shareholders to receive new shares, and also authorized to issue shares at such prices greater than their nominal values.	The Board of Directors is authorized to restrict the rights of the shareholders to receive new shares, and also authorized to issue shares at such prices greater than their nominal values.
Each share has 1 voting right.	Each share has 1 voting right.
Company's issued capital is 844.018.500,00- YTL (eighthundred forty four million eighteenthousand five hundred New Turkish Liras), and is fully paid in. This capital consists of 84,401,850,000 (eighty four billion four hundred one million eight hundred fifty thousand) shares each in a nominal value of 1 New Kuruş (one Ykr).	The Issued Capital of the Company is TL 2,150,000,000.00 (two billion one hundred and fifty million Turkish Liras), all of which is paid. This capital is composed of 215,000,000,000 (two hundred and fifteen billion) shares each with a nominal value of 1 Kurus (One Kurus).
Shares representing the capital shall be traced in records in accordance with the basis of dematerialization.	Shares representing the capital shall be traced in records in accordance with the basis of dematerialization.
This capital is divided into shares in group A and B. Group A contains 1 (one) registered share covering a capital in amount of 1 Ykr (one New kuruş) and Group B contains 84.401.849.999 (eighty four billion four hundred one million eight hundred forty nine thousand nine hundred ninety nine) shares covering a capital in amount of 844.018.499,99. YTL (eighthundred forty four million eighteen thousand four hundred ninety nine new Turkish Liras ninety nine New Kuruş).	This capital is divided into Group A and B shares. Out of such shares, 1 (one) registered share corresponding to the capital in the amount of 1 Kr (one Kurus) shall constitute the Group A, and 214,999,999,999 (two hundred and fourteen billion nine hundred and ninety-nine million nine hundred and ninety-nine thousand nine hundred and ninety-nine) shares corresponding to the capital in the amount of TL 2,149,999,999.99 (two billion one hundred and forty-nine million nine hundred and ninety-nine thousand nine hundred and ninety-nine Turkish Liras, ninety-nine Kurus) shall constitute the Group B.
A beneficial right is to be established on the Group A shares in the name of the Directorate of Privatization Administration, which shall be valid until otherwise decided by the High Board of Privatization. All voting rights pertaining to the Group A shares shall be exercised by the beneficial owner ("beneficial right").	A beneficial right is to be established on the Group A shares in the name of the Directorate of Privatization Administration, which shall be valid until otherwise decided by the High Board of Privatization. All voting rights pertaining to the Group A shares shall be exercised by the beneficial owner ("beneficial right").
Powers of the Board of Directors:	**Powers of the Board of Directors:**
Article 13 - The Board of Directors shall manage and represent the Company. Except for the managing and representing rights as determined by the Resolution of the Board of Directors in respect of the appointment of a managing director or directors in accordance with the last sentence of subparagraph 1 of article 12 of the Articles of Association, no documents to be issued and no agreements to be made by the Company shall be valid unless signed by at least two persons authorized to represent and bind the Company, which signatures shall be affixed below the corporate name of the Company.	Article 13 - The Board of Directors shall manage and represent the Company. Except for the managing and representing rights as determined by the Resolution of the Board of Directors in respect of the appointment of a managing director or directors in accordance with the last sentence of subparagraph 1 of article 12 of the Articles of Association, no documents to be issued and no agreements to be made by the Company shall be valid unless signed by at least two persons authorized to represent and bind the Company, which signatures shall be affixed below the corporate name of the Company.
The Board of Directors shall determine, register and announce the persons who are to be authorized to sign on behalf of the Company, and how they affix their signatures on behalf of the Company.	The term of office of the general manager, assistant general managers, managers and other employees authorized to sign on behalf of the Company shall not be limited to the term of office of the Members of the Board of Directors.
	The Board of Directors shall determine, register and announce the persons who are to be authorized to sign on behalf of the Company, and how they affix their signatures on behalf of the Company. and the following article has been inserted to the Articles of Association:
	Provisional Article 2- While the nominal value of the shares was TL 500, it first changed to 1 New Kurus in accordance with the Law No. 5274 on Amendment to the Turkish Commercial Code, and then to 1 Kurus since the word "New" was removed from the words "New Turkish Lira" and "New Kurus" on 1 January 2009, in accordance with the Decree of the Council of Ministers no. 2007/11963 dated 4 April 2007. For the reason of such change, the number of total shares was reduced, and a share with nominal value of 1 (New) Kurus was given in consideration of 20 shares with a value of TL 500. The rights of the shareholders arising from the shares held by them shall be reserved in respect of the said change.
	The words "Turkish Liras" contained herein are the words changed by the above mentioned Decree of the Council of Ministers.

Dividend Distribution Policy and Timing:
Our Company's policy on dividend distribution is outlined in article 37 titled 'Calculation and Distribution of Profit'. As for estimation of the rate to be allocated to our shareholders in cash and/or in form of bonus shares from the Net Distributable Profit for the Period estimated according to the legislation in force and to the procedure described in the related clause of the Articles of Association, Our Company aims for maximum distribution of profit to the extent allowed by financial leverage rates in accordance with principles of corporate management, making efforts to balance the financial burden resulting from investment expenditures with the Corporate Management expectations of the partners. Dividend distribution is performed within legal periods and principles regarding dividend distribution are disclosed to the knowledge of shareholders at the General Assembly.

Transfer of Shares:
There is no restriction regarding transfer of our Company's shares, and provisions of Turkish Commercial Code shall be applicable on the issue.

II. PUBLIC DISCLOSURE AND TRANSPARENCY

Our web site includes introductory and important information, financial statements and the corporate governance compliance report both in Turkish and English. An e-mail address is given for investors to submit any questions and requests.

Our Company immediately discloses any progress included in scope of our Company's Material Disclosure Communiqué under the responsibility of being a publicly held company, and continuously updates and discloses any changes and progresses to the public. A total of 51 material disclosures were made by the Company in 2011.

With the ERDEMİR Group Regulation on Principles Regarding Public Disclosure enforced on 03.03.2009 and revised on 24.11.2010, our Company aims to provide equal, concurrent, transparent and accurate information actively to all "stakeholders" such as domestic/foreign shareholders, beneficiaries, investors and capital market institutions regarding the past performance and future expectations of our Company.

Disclosure activities are carried out in compliance with our Company's Disclosure Policy, Capital Markets Legislation, decisions of the Capital Markets Board and other related legislations, and the issues to be explained are disclosed to the public in an exact, correct and timely manner.

In line with this objective; it is essential to ensure that the necessary information and explanations except commercial secrets are forwarded to all beneficiaries including shareholders, investors, employees and customers in a timely, accurate, correct, comprehensible, easy manner at the lowest cost under equal conditions.

All employees who are able to access to the information which might affect our Company's capital market instruments, disclose to the public any purchase-sales transactions they perform with the capital market instruments issued by the Company.

With a view to inform the public, Company's web site (www.erdemir.com.tr) is actively in use, containing annual assessment messages of the Chairman of the Board of Directors and the CEO, Corporate Governance, Corporate Governance Principles and Management Declaration, Board of Directors, Executive Management, Capital Structure, Trade Registry Information, Articles of Association, Minutes of General Assembly, Information about Golden Share, List of Attendants, Safe Harbour Statement, Stock Price Information, Ratings, Annual Reports, Analyst Meeting Reports and Presentations, Interim Reports, Financial Statements, Summary Information for Investors, Financial and Operational Highlights and ISE Disclosures, Dividend Payments and Capital Increases, Analyst Information, Disclosure Policy and General Assembly Proxy Form under the title of Investor Relations.

III. BENEFICIARIES

Written or verbal information is provided for beneficiaries such as the Company's employees, customers, suppliers, labour unions, Non-governmental organizations, government and potential investors, when they request for information on issues concerning themselves in addition to the information available in financial statements and reports disclosed to the public as per CMB (Capital Markets Board).

The Company's employees are informed through monthly released news bulletin and announcements containing Company's practices on the intranet.

Improved product qualities and sizes, and any changes to the sales conditions are immediately disclosed to all of our customers with Customer Information Notes. Demands and expectations of our customers are received through customer visits, and new quality improvement activities are carried out depending on the changing demand in the market. Customer complaints are handled accordingly and necessary corrective actions are taken.

Tender method is applied in all domestic goods and service purchases and announced via fax/ e-mail; specifications are announced on the web site of our company. Cooperation activities are in progress for development of manufacturer suppliers in our region.

Our Company exchanges ideas with potential customers and suppliers during its participation in exhibitions.

Opinions and suggestions of our employees are received with ERDEMİR Suggestion System (ERSS) and Performance Management System and necessary improvements and developments are put into effect.

Our Company also fulfills its responsibilities towards the surrounding social environment.

IV. BOARD OF DIRECTORS

Board of Directors consists of minimum five and maximum nine members to be selected by the General Assembly among shareholders under the provisions of Turkish Commercial Code. Members of the Board of Directors are selected for one year. Seven members were selected at the General Assembly of Shareholders dated 31.03.2011. Our Chairman and Vice Chairman of Board are Managing Directors, and the General Manager of our Company is also a Member of the Board. In addition, a Member of our Board of Directors was authorized as the Managing Director. The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting are subject to provisions of Turkish Commercial Code. An Audit Board is constituted within the body of the Board of Directors, consisting of two members and responsible for taking all necessary measures for adequate and transparent execution of any internal and independent audit. Our Company is audited by minimum one and maximum three auditors to be elected by the General Board for a period of one year. Two auditors were elected at the Annual General Meeting dated 31.03.2011.

Six meetings of the Board of Directors were held in 2011. There is no change realized in the Board of Directors within the year. Ünal TAYYAN was appointed as a Board Member of Auditors for one year on General Assembly dated 31.03.2011 as a substitution for Ali Güner TEKİN who completed his term of office.

Internal Audit Mechanism:

The proficiency and functioning of internal control systems of our Company are monitored by the Account Controlling Group affiliated to the Chair of the Board of Directors.

Our Company's basic code of conduct is ascertained with the rules of code of ethics. The code of ethics contain common values of our company along with the change in legal, social and economic conditions.

Moreover, the rules of issues such as the working order within our Company, managerial hierarchy, responsibility, compliance with the Company's interests, relationships with customers and employers, compulsory attendance, assignment and transfer, confidentiality, prohibition of commercial activities and employment out of the company, kinship, releases and declarations about the Company, security, wishes and complaints are set out in the Personnel Regulation.

RISK MANAGEMENT

In accordance with the Risk Management Regulation, ERDEMIR Group has been continuing management of all risks defined, primarily those including the market risks encountered by the Group as it has performed raw material purchases mostly from international markets, used foreign-currency loans from domestic and foreign markets for ongoing extensive investment projects and position risks from different currencies. Internal systems developed to measure and manage financial risks and credit risks, and value at risk model have actively been in use. Hedging strategies are developed and derivative transactions are executed with a view to control the value at risk obtained upon estimations performed under the risk tolerance of our Board of Directors and to protect stakeholders' assets.

(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
AT 31 DECEMBER 2011 TOGETHER WITH
INDEPENDENCE AUDITOR'S REPORT

Güney Bağımsız Denetim ve
SMMM AŞ
Büyükdere Cad. Beytem Plaza
No:22 K:9-10, 34381 - Şişli
İstanbul - Turkey

Tel: +90 212 315 30 00
Fax: +90 212 230 82 91
www.ey.com

(Convenience translation into English of a report originally issued in Turkish – see additional paragraph below for convenience translation)

**Independent Auditor's report on
for the period January 1 – December 31, 2011**

To the Shareholders of
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

We have audited the accompanying consolidated financial statements of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated balance sheet as at December 31, 2011, and consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

GManagement is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Financial Reporting Standards published by Capital Markets Board of Turkey (CMB). This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud and/or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by CMB. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its subsidiaries as at December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with Financial Reporting Standards published by CMB.

Other matter

As explained in detail in note 15 to the accompanying consolidated financial statements, the lawsuits, which were commenced by the Privatization Administration of the Turkish Republic for the cancellation of the resolution of the Company's General Assembly dated March 30, 2006 regarding to the dividend distribution and by the CMB's claim that the Company prepared its December 31, 2005 financial statements in accordance with International Financial Reporting Standards instead of the Communiqué Serial XI, No:25 on "Accounting Standards in Capital Markets" without the permission of the CMB, are pending as of the date of this report.

Additional paragraph for convenience translation into English:

As also disclosed in Note 33 to the accompanying financial statements, as of December 31, 2011, the accounting principles described in Note 2 (defined as CMB Financial Reporting Standards) to the accompanying consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting and the presentation of the basic financial statements and the notes to them. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Ethem Kutucular, SMMM
Engagement Partner

February 15, 2012
İstanbul, Turkey

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

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries

Consolidated Balance Sheet

as of 31 December 2011

(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

	Note	(Audited) Previous Period 31 December 2011	(Audited) Previous Period 31 December 2010
ASSETS			
Current Assets		**6.026.987.737**	**6.324.667.258**
Cash and Cash Equivalents	4	1.102.710.213	2.877.790.271
Financial Investments	5	9.232.974	5.010.226
Trade Receivables	8	1.141.698.002	715.838.070
Due From Related Parties	*29*	*9.723.604*	*78.337.709*
Other Trade Receivables	*8*	*1.131.974.398*	*637.500.361*
Other Receivables	9	277.962	34.197.110
Inventories	10	3.628.497.829	2.502.954.372
Other Current Assets	18	144.570.757	177.378.552
		6.026.987.737	6.313.168.601
Non Current Assets Held for Sale	26	-	11.498.657
Non Current Assets		**7.365.849.568**	**7.216.305.378**
Trade Receivables	8	-	2.621.888
Due From Related Parties	*29*	-	*1.141.524*
Other Trade Receivables	*8*	-	*1.480.364*
Other Receivables	9	219.483	26.105.907
Financial Investments	5	47.541.529	1.427.186
Investment Properties	11	46.577.264	46.577.264
Property, Plant and Equipment	12	6.911.644.581	6.779.994.776
Intangible Assets	13	164.152.691	143.656.814
Deferred Tax Assets	27	110.735.816	150.892.360
Other Non Current Assets	18	84.978.204	65.029.183
TOTAL ASSETS		**13.392.837.305**	**13.540.972.636**

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

	Note	(Audited) Previous Period 31 December 2011	(Audited) Previous Period 31 December 2010
LIABILITIES			
Current Liabilities		**2.472.663.550**	**3.763.668.823**
Financial Liabilities	6	1.487.868.881	3.053.838.952
Other Current Financial Liabilities	7	558.936	4.793.603
Trade Payables	8	533.658.160	359.941.902
Due to Related Parties	*29*	*9.852.395*	*9.911.442*
Other Trade Payables	*8*	*523.805.765*	*350.030.460*
Other Payables	9	65.949.154	40.320.600
Due to Related Parties	*29*	*2.489.906*	*1.715.000*
Other Payables	*9*	*63.459.248*	*38.605.600*
Current Tax Liabilities	27	44.693.617	7.115.721
Provisions	15	77.424.150	70.677.783
Other Current Liabilities	18	262.510.652	226.980.262
Non Current Liabilities		**3.632.625.683**	**3.086.059.488**
Financial Liabilities	6	3.289.928.316	2.797.402.328
Other Non Current Financial Liabilities	7	10.400.444	26.468.954
Provisions for Employment Benefits	17	218.122.934	168.289.071
Deferred Tax Liabilities	27	113.234.445	93.065.154
Other Non Current Liabilities	18	939.544	833.981
EQUITY	**19**	**7.287.548.072**	**6.691.244.325**
Equity attributable to equity holders of the parent		**7.086.723.062**	**6.511.030.270**
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		27.228.155	25.241.672
Cash Flow Hedging Reserves		(14.783.355)	(24.396.817)
Foreign Currency Translation Reserves		(489.005)	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		1.005.562.503	765.999.660
Non-controlling Interests		**200.825.010**	**180.214.055**
TOTAL LIABILITIES AND EQUITY		**13.392.837.305**	**13.540.972.636**

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

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

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries

Consolidated Statement of Income

for the Year Ended 31 December 2011

(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

	Note	(Audited) Current Period 1 January- 31 December 2011	(Audited) Previous Period 1 January- 31 December 2010
OPERATING INCOME			
Revenue	20	8.920.544.781	6.632.827.541
Cost of Sales (-)	20	(6.848.422.807)	(5.318.466.643)
GROSS PROFIT		**2.072.121.974**	**1.314.360.898**
Marketing, Sales and Distribution Expenses (-)	21	(105.057.371)	(61.843.270)
General Administrative Expenses (-)	21	(187.430.193)	(122.062.014)
Research and Development Expenses (-)	21	(1.400.733)	(750.423)
Other Operating Income	23	89.081.061	110.889.684
Other Operating Expenses (-)	23	(142.169.899)	(119.255.111)
OPERATING PROFIT		**1.725.144.839**	**1.121.339.764**
Finance Income	24	528.487.361	148.343.822
Finance Expense (-)	25	(956.618.752)	(295.799.664)
PROFIT BEFORE TAX		**1.297.013.448**	**973.883.922**
Tax Expense	27	(257.885.271)	(177.536.780)
-Current Corporate Tax Expense		(200.150.105)	(27.784.836)
-Deferred Tax Expense		(57.735.166)	(149.751.944)
PROFIT FOR THE PERIOD		**1.039.128.177**	**796.347.142**
-Non-Controlling Interests		33.565.674	30.347.482
-Equity Holders of the Parent		1.005.562.503	765.999.660
EARNINGS PER SHARE (TRY 1 Nominal value per share)	**28**	**0,4677**	**0,3563**

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

	Note	(Audited) Current Period 1 January- 31 December 2011	(Audited) Current Period 1 January- 31 December 2011
PROFIT FOR THE PERIOD		**1.039.128.177**	**796.347.142**
Other Comprehensive Income/(Expense):			
Change in Revaluation Reserves of Fixed Assets		1.986.483	(628.231)
Change in Cash Flow Hedging Reserves		10.372.793	(18.345.240)
Change in Foreign Currency Translation Reserves		(5.334.398)	737.181
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD (AFTER TAX)	**27**	**7.024.878**	**(18.236.290)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1.046.153.055**	**778.110.852**
Distribution of Total Comprehensive Income			
-Non-controlling Interests		34.325.005	29.139.332
-Equity Holders of the Parent		1.011.828.050	748.971.520

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

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

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries

Consolidated Statement of Changes in Equity
for the Year Ended 31 December 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
(Audited)													
1 January 2011		**1.600.000.000**	**731.967.735**	**(57.692.172)**	**231.020.042**	**25.241.672**	**(24.396.817)**	**4.845.393**	**1.696.170.542**	**2.303.873.875**	**6.511.030.270**	**180.214.055**	**6.691.244.325**
Net profit for the period		-	-	-	-	-	-	-	-	1.005.562.503	**1.005.562.503**	33.565.674	**1.039.128.177**
Other comprehensive income/ (loss)		-	-	-	-	1.986.483	9.613.462	(5.334.398)	-	-	**6.265.547**	759.331	**7.024.878**
Total comprehensive income/ (loss)		**-**	**-**	**-**	**-**	**1.986.483**	**9.613.462**	**(5.334.398)**	**-**	**1.005.562.503**	**1.011.828.050**	**34.325.005**	**1.046.153.055**
Dividends paid (*)		-	-	-	-	-	-	-	-	(436.135.258)	**(436.135.258)**	(13.714.050)	**(449.849.308)**
Capital increase	19	550.000.000	-	(16.945.797)	-	-	-	-	-	(533.054.203)	**-**	-	**-**
Transfers from retained earnings	19	-	-	-	-	-	-	-	61.300.151	(61.300.151)	**-**	-	**-**
31 December 2011	**19**	**2.150.000.000**	**731.967.735**	**(74.637.969)**	**231.020.042**	**27.228.155**	**(14.783.355)**	**(489.005)**	**1.757.470.693**	**2.278.946.766**	**7.086.723.062**	**200.825.010**	**7.287.548.072**
(Audited)													
1 January 2010		**1.600.000.000**	**731.967.735**	**(57.692.172)**	**231.020.042**	**25.869.903**	**(7.259.727)**	**4.108.212**	**1.688.196.335**	**1.545.848.422**	**5.762.058.750**	**156.635.276**	**5.918.694.026**
Net profit for the period		-	-	-	-	-	-	-	-	765.999.660	**765.999.660**	30.347.482	**796.347.142**
Other comprehensive income/ (loss)		-	-	-	-	(628.231)	(17.137.090)	737.181	-	-	**(17.028.140)**	(1.208.150)	**(18.236.290)**
Total comprehensive income/ (loss)		**-**	**-**	**-**	**-**	**(628.231)**	**(17.137.090)**	**737.181**	**-**	**765.999.660**	**748.971.520**	**29.139.332**	**778.110.852**
Dividends paid		-	-	-	-	-	-	-	-	-	**-**	(5.560.553)	**(5.560.553)**
Transfers from retained earnings	19	-	-	-	-	-	-	-	7.974.207	(7.974.207)	**-**	-	**-**
31 December 2010	**19**	**1.600.000.000**	**731.967.735**	**(57.692.172)**	**231.020.042**	**25.241.672**	**(24.396.817)**	**4.845.393**	**1.696.170.542**	**2.303.873.875**	**6.511.030.270**	**180.214.055**	**6.691.244.325**

(*) 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, approval date of dividend distribution, dividends per its own shares are netted off under dividends paid. TRY 809.843 of dividends has not been paid yet as of 31 December 2011.

	Note	(Audited) Current Period 1 January- 31 December 2011	(Audited) Previous Period 1 January- 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and non-controlling interests		1.297.013.448	973.883.922
Adjustments to reconcile net profit before tax to net cash provided by operating activities:			
Depreciation and amortization expenses	20/22	308.959.778	298.585.922
Provision for employee termination benefits	17	52.179.422	51.617.775
Provision for seniority incentive premium	17	13.018.352	3.618.888
Gain on sale of property plant and equipment	23	(588.310)	(159.277)
Income from sale of financial assets	23	(7.962.073)	(15.992.680)
Loss on write off of property plant and equipment	23	4.413.261	9.710.519
Increase in provision for doubtful receivables	8/9	25.841.306	18.559.118
Increase in the allowance for inventories	10	14.743.957	26.538.233
Increase in provision for unpaid vacations	18	7.365.380	7.885.329
Increase in provision for pending claims and lawsuits	15	44.520.823	12.562.031
Increase in penalty provision for obligatory employment shortage of disabled people	15	630.247	270.756
Increase in personel provisions	15	-	12.000.000
Decrease in provisions for tax related contingencies	15	(21.556.149)	(21.073.070)
Increase in provision for state right on mining activities	15	3.527.716	1.755.048
Interest expenses	25	267.296.164	230.123.313
Interest income	24	(159.663.247)	(133.158.624)
Unrealized foreign currency loss/(gain) of financial liabilities		672.680.166	11.837.108
(Gain)/loss on fair value changes of derivative financial instruments	24/25	(65.455.513)	(7.791.875)
Net cash provided by operating activities before changes in working capital		**2.456.964.728**	**1.480.772.436**
Changes in working capital	33	(1.310.043.960)	(898.978.084)
Interest paid		(258.394.458)	(237.073.393)
Interest received		168.384.424	124.515.439
Lawsuits paid	15	(5.434.448)	(7.442.765)
Penalty paid for the employment shortage of disabled people	15	(1.363.482)	(1.327.014)
Taxes paid	27	(162.572.209)	(23.054.866)
Employee termination benefits paid	17	(13.840.519)	(8.296.670)
State rights paid for mining activities	15	(1.578.340)	-
Provision paid for wages and salaries	15	(12.000.000)	-
Seniority incentive premium paid	17	(1.523.392)	(521.486)
Net cash provided by operating activities		**858.598.344**	**428.593.597**
CASH FLOWS FROM INVESTING ACTIVITIES			
Changes in marketable securities held for trading	5	-	22.588
Changes in financial assets held as available for sale	5	(9.405)	(15.015)
Proceeds from sale of financial assets	26	51.744.050	15.420.900
Cash used in the purchase of tangible assets	12	(422.511.835)	(303.340.519)
Cash used in the purchase of intangible assets	13	(4.872.982)	(1.261.832)
Cash provided by fixed asset sales	12/13/23	2.390.581	1.435.601
Net cash used in investing activities		**(373.259.591)**	**(287.738.277)**
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings		2.358.790.309	4.477.747.352
Repayment of borrowings		(4.160.799.817)	(2.811.094.824)
Dividends paid		(435.325.415)	-
Dividends paid to non-controlling interests		(13.714.050)	(5.560.553)
Net cash (used in)/provided by financing activities		**(2.251.048.973)**	**1.661.091.975**
NET CHANGES IN CASH AND CASH EQUIVALENTS		**(1.765.710.220)**	**1.801.947.295**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4**	**2.866.694.086**	**1.063.284.367**
Currency translation difference, net		(648.661)	1.462.424
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4**	**1.100.335.205**	**2.866.694.086**
Accrued interest income	4	2.375.008	11.096.185
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD INCLUDING ACCRUED INTEREST INCOME	**4**	**1.102.710.213**	**2.877.790.271**

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

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 nearly sixty 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).

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	100
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Iron and Steel	100	100
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100	100
Erdemir Çelbor Çelik Çekme Boru San. ve Tic. A.Ş. (*)	Turkey	Iron and Steel	-	100

(*) 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. The merger activities have been concluded at 31 March 2011. 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.

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

	31 December 2011 Personnel	31 December 2010 Personnel
Monthly paid personnel (A)	3.368	3.378
Hourly paid personnel (B)	8.640	7.859
Candidate worker (C)	1.293	2.173
Contractual personnel (D)	20	18
Contractual personnel (SZ)	112	125
Total	**13.433**	**13.553**

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"). The financial statements are prepared on cost basis, except the derivative financial instruments carried on fair value (Note 5 and Note 7).

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 to1 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".

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 15 February 2012 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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 2-BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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.

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.

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 equipment 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

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 (Note5, Note 7, Note 30).

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)

2.6.4 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 economic 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.

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

Assumptions about discount rates, inflation rates, future salary increases and employee turnover rates are made to calculate Group's provision for employee benefits. 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 December 2011 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2011 summarized below. These standards, amendments 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 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction— Prepayments of a Minimum Funding Requirement (Amended)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IAS 32 Financial Instruments: Presentation-Classifications on Rights Issues (Amended)

IAS 24 Related Party Disclosures (Revised)

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. These changes have no impact on the financial performance of the Group. The revised standards are as below.

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: Financial Instruments: Disclosures
IAS 1: Presentation requirements for an analysis of other comprehensive income
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

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)

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.

IAS 1 (Amended) 'Presentation of Financial Statements-Presentation of Items of Other Comprehensive Income' (Effective for annual periods beginning on or after 1 July 2012, but earlier application is permitted). 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 (Amended) 'Deferred Taxes: Recovery of Underlying Assets' (Effective for annual periods beginning on or after 1 January 2012, but earlier application is permitted). 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 19 (Amended) 'Employee Benefits' (Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required). This amendment has not yet been endorsed by the EU. The Group is assessing the effects of the amendment.

IAS 27 (Amended) 'Separate Financial Statements' (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). 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 28 (Amended) 'Investments in Associates and Joint Ventures' (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). 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 32 (Amended) 'Financial Instruments: Presentation-Offsetting Financial Assets and Financial liabilities' (These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014). The Group does not expect that this amendment will have a major impact on the financial position or performance of the Group.

IFRS 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.

IFRS 7 (Amended) 'Financial Instruments: Disclosures-Offsetting Financial Assets and Financial Liabilities' (The amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods). This standard 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

IFRS 9 'Financial Instruments: Classification and measurement' (Effective for annual periods beginning on or after 1 January 2015): The standard has not been endorsed by EU yet. The Group is assessing the effects of the amendment.

IFRS 10 'Consolidated Financial Statements' (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This amendment has not yet been endorsed by the EU. The Group is assessing the effects of the standard.

IFRS 11 'Joint Arrangements' (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). This standard has not yet been endorsed by the EU. The Group does not expect that this standard will have an impact on the financial position or performance of the Group.

IFRS 12 'Disclosure of Interests in Other Entities' (Effective for annual periods beginning on or after 1 January 2013 and are applied on a modified retrospective basis). 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.

IFRS 13 'Fair Value Measurement' (Effective for annual periods beginning on or after 1 January 2013 and will be adopted prospectively). This amendment has not yet been endorsed by the EU. The Group is considering the impact on the financial position or performance of the Group.

IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine' (Effective for annual periods beginning on or after 1 January 2013 with earlier application permitted). The Group is considering the impact on the financial position or performance of the Group.

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.

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. Any increase arising from the revaluation of the existing assets is recorded under the revaluation reserve, in the shareholders' equity. 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.

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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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)

2.9.3 Property, plant and equipment (cont'd)

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 equipment	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%

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 at 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 are accounted for on a prospective basis.

The amortization rates of the intangible assets are stated below:

	Rates
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 subject to depreciation and amortization are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of net selling price and value in use. 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 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.

NOTE 2-BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

2.9.7 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.

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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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)

2.9.7 Financial instruments (cont'd)

Impairment of financial assets (cont'd)

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.

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.

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.

NOTE 2-BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

2.9.7. Financial instruments (cont'd)

Derivative financial instruments and hedge accounting (cont'd)

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.

2.9.8 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.

2.9.9 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.

2.9.10 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 occur requiring an adjustment, the Group adjusts the amounts recognized in its consolidated financial statements to reflect the adjustments after the balance sheet date.

2.9.11 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.

NOTE 2-BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

2.9.12 Related parties

A related party is a person or entity that is related to reporting entity, the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2.9.13 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.

2.9.14 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.

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.

NOTE 2-BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

2.9.14 Taxation and deferred income taxes (cont'd)

Deferred tax (cont'd)

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.

2.9.15 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").

The termination indemnities accounted in the balance sheet and seniority incentive premium in accordance with the union agreements in force 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 makes certain assumptions about discount rates, inflation rates, future salary increases and employee turnover rates in calculation of provisions for employee benefits. The present value of employee benefits as of 31 December 2011 is calculated by an independent actuary and some changes are done in accounting assumptions used in calculations. The impact of the changes in assumptions is recognized in the consolidated statement of income. The details related with the defined benefit plans are stated in Note 17.

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.

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 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.

2.9.17 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.

2.9.18 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 December 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.

NOTE 3-SEGMENTAL REPORTING

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 December 2011 and 31 December 2010 is as follows:

	31 December 2011	31 December 2010
Cash	41.790	31.355
Banks-demand deposits	84.343.351	24.553.743
Banks-time deposits	1.018.325.072	2.853.205.173
	1.102.710.213	2.877.790.271
Time deposit interest accruals (-)	(2.375.008)	(11.096.185)
Cash and cash equivalents excluding interest accruals	**1.100.335.205**	**2.866.694.086**

The breakdown of demand deposits is presented below:

	31 December 2011	31 December 2010
US Dollars	49.734.756	6.936.301
TRY	30.710.792	7.020.913
EURO	3.189.345	9.669.081
Romanian Lei	532.391	907.542
GB Pound	24.026	19.624
Japanese Yen	152.041	282
	84.343.351	**24.553.743**

The breakdown of time deposits is presented below:

	31 December 2011	31 December 2010
US Dollars	877.785.945	1.130.764.952
TRY	124.546.150	1.703.861.484
EURO	15.290.338	18.023.995
Romanian Lei	702.639	554.742
	1.018.325.072	**2.853.205.173**

NOTE 5-FINANCIAL INVESTMENTS

Current financial investments:

	31 December 2011	31 December 2010
Derivative financial assets at fair value through income statement (*)	9.232.974	5.010.226
Total	**9.232.974**	**5.010.226**

Non-current financial investments:

	31 December 2011	31 December 2010
Available for sale financial assets:	66.086	56.681
Derivative financial assets at fair value through other comprehensive income statement (*)	47.475.443	1.370.505
Total	**47.541.529**	**1.427.186**

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

NOTE 5-FINANCIAL INVESTMENTS (cont'd)

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

Company	Rate %	31 December 2011	Rate %	31 December 2010
Erdemir Gaz San. ve Tic. A.Ş. (*)	100	66.086	100	56.681

(*) The financial statements of Erdemir Gaz San. ve Tic. A.Ş., which has a total asset of TRY 2.854 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.

NOTE 6-FINANCIAL LIABILITIES

Breakdown of financial liabilities is as follows:

	31 December 2011	31 December 2010
Short term financial liabilities	394,588,121	939,424,278
Current portion of long term financial liabilities	1,093,280,760	2,114,414,674
Total short term financial liabilities	1,487,868,881	3,053,838,952
Long term financial liabilities	3,289,928,316	2,797,402,328
Total long term financial liabilities	3,289,928,316	2,797,402,328
	4,777,797,197	**5,851,241,280**

As of 31 December 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 December 2011
No interest	TRY	-	1.726.390	-	1.726.390
Fixed	TRY	10,60	109.383.453	927.777.779	1.037.161.232
Fixed	US Dollars	1,95	751.270.745	25.757.727	777.028.472
Floating	US Dollars	Libor+2,18	500.485.839	1.757.301.180	2.257.787.019
Floating	EURO	Euribor+0,33	95.021.329	429.361.325	524.382.654
Floating	Jap. Yen	JPY Libor+0,22	29.981.125	149.730.305	179.711.430
			1.487.868.881	**3.289.928.316**	**4.777.797.197**

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
			3.053.838.952	**2.797.402.328**	**5.851.241.280**

NOTE 6-FINANCIAL LIABILITIES (cont'd)

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

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term Portion	31 December 2011
US Dollars	2,38	25.474.382	63.585.894	89.060.276
US Dollars	3,29	12.847.838	44.945.655	57.793.493
US Dollars	3,28	27.091.672	13.473.527	40.565.199
US Dollars	1,09	25.663.313	64.012.278	89.675.591
US Dollars	4,47	86.320.936	386.365.909	472.686.845
US Dollars	4,46	6.602.483	65.252.909	71.855.392
EURO	2,18	5.911.534	17.725.829	23.637.363
EURO	1,82	1.496.538	739.797	2.236.335
EURO	1,75	2.776.405	2.772.153	5.548.558
EURO	1,79	1.209.043	2.999.046	4.208.089
US Dollars (*)	7,22	18.777.561	101.800.109	120.577.670
EURO (**)	10,65	31.695.819	157.669.001	189.364.820
		245.867.524	**921.342.107**	**1.167.209.631**

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

Type of Currency	Fixed rate of interest (%)	Short Term Portion	Long Term 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
		338.606.078	**400.766.688**	**739.372.766**

(*) 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 80.193.601, 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.

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

	31 December 2011	31 December 2010
Within 1 year	1.487.868.881	3.053.838.952
Between 1-2 years	827.447.833	521.002.564
Between 2-3 years	771.380.960	568.846.604
Between 3-4 years	712.334.875	522.902.322
Between 4-5 years	610.130.802	475.092.682
Five years or more	368.633.846	709.558.156
	4.777.797.197	**5.851.241.280**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOT 7-OTHER FINANCIAL LIABILITIES

	31 December 2011	31 December 2010
Other current financial liabilities		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	-	2.955.109
Derivative financial liabilities at fair value through income statement (*)	558.936	1.838.494
	558.936	**4.793.603**
Other non-current financial liabilities		
Derivative financial liabilities at fair value through other comprehensive income statement (*)	10.400.444	26.468.954
	10.400.444	**26.468.954**

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

NOTE 8-TRADE RECEIVABLES AND PAYABLES

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

	31 December 2011	31 December 2010
Short term trade receivables		
Trade receivables	1.174.653.003	677.682.925
Due from related parties (Not 29)	9.723.604	78.337.709
Notes receivables	2.201.537	1.871.477
Discount on receivables (-)	(3.460.040)	(959.830)
Provision for doubtful trade receivables (-)	(41.420.102)	(41.094.211)
	1.141.698.002	**715.838.070**

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

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	41.094.211	26.949.521
Provision for the period	7.294.692	28.947.072
Doubtful receivables collected (-)	(1.864.654)	(3.921.085)
Provision released (-)	(8.884.584)	(10.844.485)
Translation loss/(gain)	3.780.437	(36.812)
Closing balance	41.420.102	41.094.211

	31 December 2011	31 December 2010
Long term trade receivables		
Trade receivables	1.619.793	3.402.087
Due from related parties (Note 29)	-	1.141.524
Discount on receivables (-)	-	(301.930)
Provision for doubtful trade receivables (-)	(1.619.793)	(1.619.793)
	-	**2.621.888**

NOTE 8-TRADE RECEIVABLES AND PAYABLES (cont'd)

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

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	1.619.793	1.619.793
Closing balance	**1.619.793**	**1.619.793**

According to the market conditions and product types, a certain interest charge is applied for deferred trade receivables and overdue interest is applied for overdue trade receivables.

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 December 2011	31 December 2010
Short term trade payables		
Trade payables	524.975.798	350.708.057
Due to related parties (Note 29)	9.852.395	9.911.442
Discount on trade payables (-)	(1.170.033)	(677.597)
	533.658.160	**359.941.902**

NOTE 9-OTHER RECEIVABLES AND PAYABLES

Other current receivables

	31 December 2011	31 December 2010
Deposits and guarantees given	252.962	185.110
Due from related parties (Note 29)	25.000	-
Receivable from sale of financial assets (Note 26)	-	34.012.000
	277.962	**34.197.110**

Other non-current receivables

	31 December 2011	31 December 2010
Receivables from Privatization Authority	52.458.346	51.708.110
Deposits and guarantees given	219.483	251.852
Provision for other doubtful receivables (-)	(52.458.346)	(25.854.055)
	219.483	**26.105.907**

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

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	25.854.055	26.578.327
Provision for the period	27.431.198	456.531
Other doubtful receivables collected (-)	(826.907)	(1.180.803)
Closing balance	**52.458.346**	**25.854.055**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikalari T.A.Ş. and its Subsidiaries
Notes To The Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 9-OTHER RECEIVABLES AND PAYABLES (cont'd)

Other current payables

	31 December 2011	31 December 2010
Social security deductions payable	38.454.834	16.851.054
Taxes and funds payable	17.995.565	16.191.374
Deposits and guarantees received	4.754.217	5.049.640
Non trade payables to related parties (Note 29)	2.489.906	1.715.000
Deferred and installed payables to public institutions	2.254.632	513.532
	65.949.154	**40.320.600**

NOTE 10-INVENTORIES

	31 December 2011	31 December 2010
Raw materials	1.046.863.873	673.659.216
Work in progress	531.166.124	431.177.699
Finished goods	976.530.545	472.339.939
Spare parts	358.331.015	314.505.754
Goods in transit	550.025.922	507.020.136
Other inventories	219.105.353	143.032.674
Allowance for impairment on inventories (-)	(53.525.003)	(38.781.046)
	3.628.497.829	**2.502.954.372**

The movement of the allowance for impairment on inventories:

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	38.781.046	12.242.813
Provision for the period (Note 20)	19.186.222	32.266.202
Provision released (-) (Note 20)	(4.442.265)	(5.727.969)
Closing balance	**53.525.003**	**38.781.046**

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 recognized under cost of sales (Note 20).

NOTE 11-INVESTMENT PROPERTIES

	1 January- 31 December 2011	1 January- 31 December 2010
Cost		
As of 1 January	46.577.264	46.577.264
As of 31 December	**46.577.264**	**46.577.264**
Book value	**46.577.264**	**46.577.264**

According to the recent valuation reports, the fair value of the Group's investment properties is TRY 198.409.000 (31 December 2010: TRY 203.749.000). The fair values of the investment properties have been determined in reference to the valuation of an independent valuation firm 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 the year ended 31 December 2011, the Group recognized rent income amounting to TRY 89.347 (31 December 2010: TRY 79.907) under other operating income.

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
Cost									
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	1.153.402	-	1.429.621	3.402.990	132.410	-	291.047	319.670	6.729.140
Additions [*]	4.073.121	3.071.760	5.311.017	77.250.230	10.906.226	4.732.131	617.095	363.533.808	469.495.388
Disposals	-	(1.201.281)	-	(26.237.328)	(2.983.626)	(1.396.262)	(72.670)	-	(31.891.167)
Transfers from CIP [**]	-	46.446.550	254.241.886	551.950.006	4.061.808	8.445.397	50.189	(902.853.372)	(37.657.536)
Closing balance as of 31 December 2011	**99.970.596**	**1.502.021.260**	**2.371.470.716**	**9.939.412.661**	**669.521.997**	**322.062.397**	**15.692.249**	**303.035.174**	**15.223.187.050**
Accumulated Depreciation									
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	-	-	(447.267)	(2.303.806)	(71.932)	-	(184.852)	-	(3.007.857)
Charge for the period	-	(24.758.362)	(43.538.062)	(196.403.938)	(19.635.691)	(13.908.863)	(312.839)	-	(298.557.755)
Disposals	-	893.404	-	21.632.180	2.848.338	1.100.329	65.341	-	26.539.592
Closing balance as of 31 December 2011	-	(1.016.431.739)	(1.545.595.586)	(5.225.691.075)	(353.940.724)	(156.076.545)	(13.806.800)	-	(8.311.542.469)
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 December 2011	**99.970.596**	**485.589.521**	**825.875.130**	**4.713.721.586**	**315.581.273**	**165.985.852**	**1.885.449**	**303.035.174**	**6.911.644.581**

[*] The amount of capitalized financial expense is TRY 46.983.553 for the current period (The capitalized financial expenses for the year ended 31 December 2010 is TRY 13.678.911).
[**] TRY 37.657.536 is transferred to intangible assets (Note 13).

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

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
Cost									
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	(431.033)	-	(534.239)	(1.225.163)	(44.727)	-	(108.743)	(97.230)	(2.441.135)
Additions [*]	10.034	718.923	922.084	24.977.356	1.592.868	3.613.609	436.639	284.747.917	317.019.430
Disposals	-	(7.931.547)	(248.574.852)	(9.289.549)	(2.394.466)	(5.883.487)	(575.305)	-	(274.649.206)
Transfers from CIP [*]	-	2.665.356	471.432	41.447.459	1.819.704	2.781.352	407.145	(65.854.163)	(16.261.715)
Closing balance as of 31 December 2010	**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**
Accumulated Depreciation									
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	-	-	144.998	790.087	28.342	-	66.465	-	1.029.892
Charge for the period	-	(21.792.463)	(63.883.526)	(187.175.527)	(17.016.352)	(13.219.825)	(864.341)	-	(303.952.034)
Disposals	-	7.799.280	240.210.898	8.376.654	2.068.565	5.272.017	198.840	-	263.926.254
Closing balance as of 31 December 2010	-	(992.566.781)	(1.501.610.257)	(5.048.615.511)	(337.081.439)	(143.268.011)	(13.374.450)	-	(8.036.516.449)
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 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**

[*] TRY 16.261.715 is transferred to intangible assets (Note 13).

NOTE 12-PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

	31 December 2011	31 December 2010
Cost of sales	237.957.958	253.412.014
Capitalized on inventories	44.797.497	34.278.145
General administrative expenses	8.598.404	15.577.691
Marketing, sales and distribution expenses	7.203.896	684.184
	298.557.755	**303.952.034**

NOTE 13-INTANGIBLE ASSETS

	Rights	Exploration costs and other assets with specific useful life	Other intangible assets	Total
Cost				
Opening balance as of 1 January 2011	167.280.421	61.593.885	5.123.670	233.997.976
Translation difference	50.245	-	182.566	232.811
Additions	3.181.221	-	1.691.761	4.872.982
Disposals	-	-	(2.085.045)	(2.085.045)
Transfers from CIP	10.926.476	26.731.060	-	37.657.536
Closing balance as of 31 December 2011	**181.438.363**	**88.324.945**	**4.912.952**	**274.676.260**
Accumulated amortization				
Opening balance as of 1 January 2011	(47.821.557)	(38.665.482)	(3.854.123)	(90.341.162)
Translation difference	(29.190)	-	(85.770)	(114.960)
Charge for the period	(14.141.130)	(6.129.019)	(1.018.386)	(21.288.535)
Disposals	-	-	1.221.088	1.221.088
Closing balance as of 31 December 2011	**(61.991.877)**	**(44.794.501)**	**(3.737.191)**	**(110.523.569)**
Net book value as of 31 December 2010	**119.458.864**	**22.928.403**	**1.269.547**	**143.656.814**
Net book value as of 31 December 2011	**119.446.486**	**43.530.444**	**1.175.761**	**164.152.691**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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
Cost				
Opening balance as of 1 January 2010	150.893.966	61.949.696	4.073.415	216.917.077
Translation difference	(18.776)	-	(68.061)	(86.837)
Additions	143.516	-	1.118.316	1.261.832
Disposals	-	(355.811)	-	(355.811)
Transfers from CIP	16.261.715	-	-	16.261.715
Closing balance as of 31 December 2010	**167.280.421**	**61.593.885**	**5.123.670**	**233.997.976**
Accumulated amortization				
Opening balance as of 1 January 2010	(37.560.044)	(36.049.539)	(3.031.870)	(76.641.453)
Translation difference	3.976	-	10.421	14.397
Charge for the period	(10.265.489)	(2.707.863)	(832.674)	(13.806.026)
Disposals	-	91.920	-	91.920
Closing balance as of 31 December 2010	**(47.821.557)**	**(38.665.482)**	**(3.854.123)**	**(90.341.162)**
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 December 2010	**119.458.864**	**22.928.403**	**1.269.547**	**143.656.814**

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

	31 December 2011	31 December 2010
Cost of sales	19.198.618	12.227.639
Capitalized on inventories	904.715	537.555
General administrative expenses	1.141.236	1.035.390
Marketing, sales and distribution expenses	43.966	5.442
	21.288.535	**13.806.026**

NOTE 14-GOVERNMENT GRANTS AND INCENTIVES

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

	1 January-31 December 2011	1 January-31 December 2010
Research and development grants	821.679	368.210
Social security grants	460.792	424.401
	1.282.471	**792.611**

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 46.016.899, deductable 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 (31 December 2010: TRY 40.604.341).

NOTE 15-PROVISIONS

	31 December 2011	31 December 2010
Provision for lawsuits	68.484.650	29.398.275
Penalty provision for employment shortage of disabled personnel	5.235.076	5.968.311
Provision for state right on mining activities	3.704.424	1.755.048
Provision for tax exposures	-	21.556.149
Provision for wages and salaries	-	12.000.000
	77.424.150	**70.677.783**

The movement of the provision for tax exposures is follows:

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	21.556.149	42.629.219
Provision released (-)	(21.556.149)	(21.073.070)
Closing balance	**-**	**21.556.149**

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

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	29.398.275	24.279.009
Provision for the period	56.114.000	15.550.196
Payments for lawsuits (-)	(5.434.448)	(7.442.765)
Provision released (-)	(11.593.177)	(2.988.165)
Closing balance	**68.484.650**	**29.398.275**

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

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	5.968.311	7.024.569
Paid penalty for the employment shortage of disabled personnel (-)	2.314.048	2.078.128
Payments for lawsuits (-)	(1.363.482)	(1.327.014)
Provision released (-)	(1.683.801)	(1.807.372)
Closing balance	**5.235.076**	**5.968.311**

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

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	1.755.048	-
Provision for the period	3.704.424	1.755.048
State rights paid (-)	(1.578.340)	-
Provisions released (-)	(176.708)	-
Closing balance	**3.704.424**	**1.755.048**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 15-PROVISIONS (cont'd)

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 sales profit. %25 of the state right is paid to Special Provincial Administration and %25 is paid to Village Service Association while remaining %50 is paid to Government Treasury.

The movement of the provision for wages and salaries is as follows:

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	12.000.000	-
Provision for the period	38.621.555	12.000.000
Salary increases paid (-)	(35.559.974)	-
Provision released (-)	(15.061.581)	-
Closing balance	**-**	**12.000.000**

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

	31 December 2011	31 December 2010
Lawsuits filed by the Group		
TRY	79.312.909	51.747.049
US Dollars	95.389.450	81.795.465
	174.702.359	**133.542.514**

Provision for lawsuits filed by the Group		
TRY	3.161.033	6.264.631
US Dollars	-	4.495.465
	3.161.033	**10.760.096**

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

	31 December 2011	31 December 2010
Lawsuits filed against the Group		
TRY	62.418.405	78.871.445
US Dollars	140.203.558	108.640.318
	202.621.963	**187.511.763**

Provision for lawsuits filed by the Group		
TRY	55.202.748	18.948.314
US Dollars	13.281.902	10.449.961
	68.484.650	**29.398.275**

Competition Board, decided by its decision no. 08-27/313-M of 2 April 2008 that ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş., Borçelik Çelik San. ve Tic. A.Ş. and the Company had breached the Article 4 of the Law on the Protection of Competition no. 4054 within flat iron and steel products market by signing and implementing some shareholders' agreements amongst themselves, and gave the Company a fine equal to 0,4% of its gross revenue of 2008 which amounts to TRY 20.114.464,98, and also asked the Company to dissolve its partnerships in ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. and Borçelik Çelik San. ve Tic. A.Ş. The Company challenged this decision before 13th Chamber of the Council of State on 23 October 2009 (E. 2009/7029). This case is still pending. Meanwhile the Company paid the aforementioned fine, by enjoying a prepayment discount right, as TRY 15.085.848 on 26 October 2009. This payment was recorded as an expense. The partnership between the Company and Borçelik Çelik San. ve Tic. A.Ş was dissolved on 4 November 2010, and the partnership between the Company and ArcelorMittal Ambalaj Çeliği San. ve Tic. A.Ş. was dissolved on 28 February 2011 (Note 26).

NOTE 15-PROVISIONS (cont'd)

The Company, prepared its interim consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 according to CMB's Communiqué Serial XI No 25 on "Accounting Standards to be implemented in Capital Markets" which is not in effect today, whereas its consolidated financial statements of 31 December 2005 was prepared according to International Financial Reporting Standards by virtue of the Article 726 and Temporary Article 1 of the aforementioned Communiqué, and CMB's letter no. SPK.017/83-3483 dated 7 March 2006, sent to the Company Management. The aforementioned Communiqué (Serial XI No. 25 on the "Accounting Standards to be implemented in Capital Markets"), and Communiqués inserting some provisions thereto together with the Communiqués amending it, became effective starting with the consolidated financial statements of the first interim period ending after 1 January 2005.

CMB asked the Company to prepare its consolidated financial statements of 31 December 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated 5 May 2006 that the Company's changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (UFRS) caused decrease amount of TRY 152.329.914 on the period income.

The Company challenged the aforementioned decision before the 11th Administrative Court of Ankara (E. 2006/1396). This lawsuit was rejected on 29 March 2007, but the Company appealed this rejection on 11 September 2007. 13th Chamber of the Council of State rejected the appeal on 12 May 2010; however the Company also appealed this rejection on 2 September 2010. Therefore the case is still pending before the Council of State (E. 2010/4196).

Meanwhile, Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 2005, which were prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit before the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673.249 allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3th Commercial Court of Ankara once again. Therefore the case is still pending (E. 2011/551).

CMB, prepared the Company's consolidated financial statements as of 31 December 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.329.914, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that "Article 726 and Temporary Provision 1 of CMB's Communiqué Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 'permission' No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending". The Company challenged CMB's aforementioned decision by a separate lawsuit on 10 October 2006. 11th Administrative Court of Ankara rejected this case on 25 June 2007. The Company appealed this rejection 11 October 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber's decision on 6 September 2010. The case is still pending before the Council of State since then (E. 2010/4405).

Had the Company 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 December 2011 and 31 December 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. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of 2 July 2009 and "Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197" drafted by and between Enerjia and the Company. However the process stopped upon the Company's objection to Enerjia's request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on 27.03.2010 claiming that the objection should be overruled and US Dollars 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on 23 June 2011. Enerjia appealed this rejection, and the file was sent to the Court of Appeals. Therefore the case is still pending. The Company does not allocate any provision for that lawsuit as of 31 December 2011.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

NOTE 16-COMMITMENTS AND CONTINGENCIES

The guarantees received by the Group are as follows:

	31 December 2011	31 December 2010
Letters of guarantees received	1.150.323.715	865.668.485
	1.150.323.715	**865.668.485**

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

	31 December 2011	31 December 2010
A. Total CPM given for the Company's own legal entity	104.831.403	99.285.751
B. Total CPM given in favour of subsidiaries consolidated on line-by-line basis	3.223.049.554	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	-	-
	3.327.880.957	**3.205.219.573**

As of 31 December 2011, the ratio of the other CPM given by the Group to shareholders equity is 0% (31 December 2010: 0%). Total CPM given in favor of subsidiaries consolidated on line-by-line basis amounting to TRY 3.223.049.554 has been given as collateral for financial liabilities explained in Note 6.

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

	31 December 2011	31 December 2010
US Dollars	1.751.124.659	1.958.447.651
TRY	998.772.894	704.068.880
EURO	481.334.789	454.938.549
Japanese Yen	95.477.706	86.645.822
Romanian Lei	1.170.909	1.118.671
	3.327.880.957	**3.205.219.573**

NOTE 17-PROVISIONS FOR EMPLOYMENT BENEFITS

	31 December 2011	31 December 2010
Provisions for employee termination benefits	199.372.291	161.033.388
Provisions for seniority incentive premium	18.750.643	7.255.683
	218.122.934	**168.289.071**

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 December 2011, the amount payable consists of one month's salary limited to a maximum of TRY 2.731,85 (31 December 2010: TRY 2.517,00).

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

NOTE 17-PROVISIONS FOR EMPLOYMENT BENEFITS (cont'd)

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. The obligation as of 31 December 2011 has been calculated by an independent actuary. The method used in calculation is "Projected Unit Credit Method". The actuarial assumptions used in the calculation of the present value of the future probable obligation are as follows:

	31 December 2011	31 December 2010
Discount rate	%9.2-%11.55 (floating)	%10 (fixed)
Inflation rate	%4.5-%8.75 (floating)	%5,1 (fixed)
Salary increase	reel %1.5	reel %1.5
Maximum liability increase	%4.5-%8.75 (floating)	%5,1 (fixed)

Discount rates are determined considering the expected duration of the retirement obligations and the currency in which the obligations will be paid. In calculations as of 31 December 2011, discount rates floating over years are used. Long term inflation estimates are made using an approach consistent with discount rate estimates and long term inflation rates floating over years are used.

The anticipated rate of resignation which do not result in the payment of employee benefits is also considered in the calculation. The anticipated rate of resignation is assumed to be related with the past experience, therefore past experiences of employees are analyzed and considered in the calculation. In the actuarial calculation as of 31 December 2011, the anticipated rate of resignation is considered to be inversely proportional to the past experience. The anticipated rate of resignation is between 2%-0% for the employees with past experience between 0-15 years or over. The probability of retirement is assumed as 99,43% as of 31 December 2010.

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

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	161.033.388	117.712.283
Service cost	17.426.490	28.290.256
Interest cost	15.156.754	5.469.835
Actuarial loss	19.596.178	17.857.684
Termination benefits paid	(13.840.519)	(8.296.670)
Closing balance	**199.372.291**	**161.033.388**

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 is as follows:

	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	7.255.683	4.158.281
Provision for the period	13.018.352	3.618.888
Incentive premium paid	(1.523.392)	(521.486)
Closing balance	**18.750.643**	**7.255.683**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

NOTE 18-OTHER ASSETS AND LIABILITIES

Other current assets

	31 December 2011	31 December 2010
Other VAT Receivable	91.518.318	104.236.142
Prepaid expenses	29.425.273	16.673.349
Advances given	13.081.557	42.025.211
VAT carried forward	4.382.712	4.163.009
Prepaid taxes and funds	1.798.153	2.945.856
Due from personnel	241.247	902.704
Job advances given	56.744	129.693
Income accruals	-	1.184.826
Other current assets	4.066.753	5.117.762
	144.570.757	**177.378.552**

Other non-current assets

	31 December 2011	31 December 2010
Prepaid expenses	46.535.047	51.418.209
Advances given for fixed assets	38.322.455	13.248.585
Other non-current assets	120.702	362.389
	84.978.204	**65.029.183**

Other current liabilities

	31 December 2011	31 December 2010
Advances received	133.778.985	137.846.609
Provision for unpaid vacations	55.055.727	47.690.347
Due to personnel	43.851.477	23.338.388
VAT payable	25.351.881	13.776.894
Expense accruals	896.361	618.788
Deferred income	212.410	317.518
Other VAT payable	-	301.866
Other current liabilities	3.363.811	3.089.852
	262.510.652	**226.980.262**

Other non-current liabilities

	31 December 2011	31 December 2010
Deferred income	-	85.019
Other non-current liabilities	939.544	748.962
	939.544	**933.981**

NOTE 19-EQUITY

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

Shareholders	(%)	31 December 2011	(%)	31 December 2010
Ataer Holding A.Ş.	49,29	1.059.632.159	49,29	788.563.515
Quoted in Stock Exchange	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	100,00	2.150.000.000	100,00	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)
		2.807.329.766		**2.274.275.563**

The Company is subject to registered capital limit. The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, which is TRY 5.000.000.000 in accordance with the requirements as set forth herein.

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. 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.

Other equity items	31 December 2011	31 December 2010
Share premium	231.020.042	231.020.042
Revaluation reserves	27.228.155	25.241.672
-Revaluation reserves of property, plant & equipment	*27.228.155*	*25.241.672*
Cash flow hedging reserves	(14.783.355)	(24.396.817)
Foreign currency translation reserves	(489.005)	4.845.393
Restricted reserves assorted from profit	1.757.470.693	1.696.170.542
-Legal reserves	*550.543.376*	*489.243.225*
-Statutory reserves	*1.206.927.317*	*1.206.927.317*
Retained earnings	1.273.384.263	1.537.874.215
-Extraordinary reserves	*646.873.464*	*537.873.352*
-Accumulated profit	*626.510.799*	*1.000.000.863*
	3.273.830.793	**3.470.755.047**

NOTE 19-EQUITY (cont'd)

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.

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 25 February 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 27 January 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.

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.

Other sources which might be used in dividend distribution, except the profit for the period, in statutory books of the Company are equal to TRY 2.448.860.832 as of 31 December 2011 (31 December 2010: TRY 3.143.063.948).

The legal reserves and the share premium, which is regarded as legal reserve in accordance with TCC Article 466, are presented using their amounts in statutory records. 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.

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.

NOTE 19-EQUITY (cont'd)

Revaluation reserve of property, plant and equipment 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.

NOTE 20-SALES AND COST OF SALES

	1 January- 31 December 2011	1 January- 31 December 2010
Sales Revenue		
Domestic sales	7.284.201.903	5.675.999.524
Export sales	1.490.884.512	875.921.137
Other revenues (*)	186.741.095	97.705.782
Sales returns (-)	(9.955.679)	(3.076.564)
Sales discounts (-)	(31.327.050)	(13.722.338)
	8.920.544.781	6.632.827.541
Cost of Sales (-)	**(6.848.422.807)**	**(5.318.466.643)**
Gross profit	**2.072.121.974**	**1.314.360.898**

(*) The total amount of by product exports in other revenues is TRY 64.846.393 (31 December 2010: TRY 13.799.921).

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

	1 January- 31 December 2011	1 January- 31 December 2010
Raw material usage	(5.123.236.874)	(3.688.230.622)
Personnel expenses	(859.273.214)	(649.381.276)
Auxiliary material expenses	(475.916.132)	(374.586.690)
Energy expenses	(442.728.678)	(342.322.916)
Depreciation and amortization expenses	(291.972.276)	(281.283.215)
Inventory write-downs within the period (Note 10)	(19.186.222)	(32.266.202)
Change of finished goods and work in progress inventories"	593.292.519	253.588.651
Reversal of inventory write-downs (Note 10)	4.442.265	5.727.969
Other	(233.844.195)	(209.712.342)
	(6.848.422.807)	**(5.318.466.643)**

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 December 2011 and 1 January-31 December 2010 is as follows:

	1 January- 31 December 2011	1 January- 31 December 2010
Marketing, sales and distribution expenses (-)	(105.057.371)	(61.843.270)
General administrative expenses (-)	(187.430.193)	(122.062.014)
Research and development expenses (-)	(1.400.733)	(750.423)
	(293.888.297)	**(184.655.707)**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

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 December 2011 and 1 January-31 December 2010 is as follows:

	1 January-31 December 2011	1 January-31 December 2010
Personnel expense (-)	(55.907.796)	(22.521.985)
Depreciation and amortization(-)	(7.247.862)	(689.626)
Other (-)	(41.901.713)	(38.631.659)
	(105.057.371)	**(61.843.270)**

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

	1 January-31 December 2011	1 January-31 December 2010
Personnel expense (-)	(116.125.848)	(74.513.502)
Depreciation and amortization (-)	(9.739.640)	(16.613.081)
Other (-)	(61.564.705)	(30.935.431)
	(187.430.193)	**(122.062.014)**

NOTE 23-OTHER OPERATING INCOME/(EXPENSE)

	1 January-31 December 2011	1 January-31 December 2010
Other operating income		
Provisions released	37.713.880	39.606.349
Revenue from sale of financal assets (Note 26)	7.962.073	15.992.680
Income from water line construction	-	19.596.651
Service income	6.702.305	3.547.087
Maintenance and repair income	6.285.846	2.230.721
Indemnity and penalty detention income	3.451.744	2.691.190
Insurance indemnity income	1.494.369	5.052.237
Client deposits income	1.952.952	2.477.181
Gain on sale of fixed assets	588.310	159.277
Rent income	461.870	3.528.586
Other income and gains	22.467.712	16.007.725
	89.081.061	**110.889.684**

	1 January-31 December 2011	1 January-31 December 2010
Other operating expenses (-)		
Provisions expenses	(85.324.726)	(46.603.149)
Penalty expenses	(12.602.196)	(15.496.192)
Lawsuit compensation expenses	(4.919.457)	(13.641.013)
Loss on disposal of fixed assets	(4.413.261)	(9.710.519)
Service expenses	(4.227.438)	(6.292.302)
Rent expenses	(2.312.872)	(1.959.382)
Other expenses and losses	(28.369.949)	(25.552.554)
	(142.169.899)	**(119.255.111)**

NOTE 24-FINANCE INCOME

	1 January- 31 December 2011	1 January- 31 December 2010
Foreign exchange gains from trade receivables and payables (net)	145.664.835	-
Foreign exchange gains from bank deposits (net)	139.620.362	-
Interest income on bank deposits	106.524.740	88.555.387
Fair value differences of derivative financial instruments	65.455.513	7.791.875
Interest income from sales with maturity	53.138.507	44.603.237
Foreign exchange gains from forward contracts	3.057.409	-
Discount income	-	1.727.664
Other financial income	15.025.995	5.665.659
	528.487.361	**148.343.822**

NOTE 25-FINANCE EXPENSES

	1 January- 31 December 2011	1 January- 31 December 2010
Foreign exchange loss from financial liabilities (net)	(682.635.390)	(5.462.063)
Interest expenses on financial liabilities	(267.296.164)	(230.123.313)
Foreign exchange loss from bank deposits (net)	-	(34.010.427)
Foreign exchange loss from trade receivables and payables (net)	-	(8.351.712)
Foreign exchange loss from forward contracts	-	(3.695.859)
Discount expense	(1.652.685)	-
Other financial expenses	(5.034.513)	(14.156.290)
	(956.618.752)	**(295.799.664)**

During the period, TRY 44.268.944 of financial expenses related to foreign currency translation losses and TRY 2.714.609 of interest expenses in total TRY 46.983.553, have been capitalized as part of the Group's property, plant and equipment (1 January-31 December 2010: the foreign currency translation losses of TRY 9.461.902, the interest expenses of TRY 4.217.009, in total TRY 13.678.911 has been capitalized).

NOTE 26-NON CURRENT ASSETS HELD FOR SALE

Company	Ratio %	31 December 2011	Ratio %	31 December 2010
ArcelorMittal Ambalaj Çeliği Tic. A.Ş. (*)	25	-	25	11.498.657
		-		**11.498.657**

(*) 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). The gain from the sale of the shares is TRY 15.992.680 and recognised under other operating income (Note 23). US Dollars 11.000.000 (TRY 15.420.900) was collected in 2010 and US Dollars 22.000.000 (TRY 35.043.800) was collected in 2011.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ("TRY") unless otherwise indicated.)

NOTE 27-TAX ASSETS AND LIABILITIES

	31 December 2011	31 December 2010
Corporate tax payable:		
Current corporate tax provision	200.150.105	27.784.836
Prepaid taxes and funds (-)	(155.456.488)	(20.669.115)
	44.693.617	**7.115.721**

	1 January- 31 December 2011	1 January- 31 December 2010
Taxation:		
Current corporate tax expense	200.150.105	27.784.836
Deferred tax expense	57.735.166	149.751.944
	257.885.271	**177.536.780**

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 December 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 162.572.209 (31 December 2010: TRY 23.054.866).

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.

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.

NOTE 27-TAX ASSETS AND LIABILITIES (cont'd)

Corporate tax (cont'd)

Regarding the cancellation decision taken by the Constitutional Court, an amendment was made in the 69th 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.

	31 December 2011	31 December 2010
Deferred tax assets:		
Carry forward tax losses[*]	(159.246.770)	(152.001.407)
Provision for employee benefits	(43.624.587)	(33.657.814)
Tangible and intangible fixed assets	(9.233.224)	(15.529.249)
Inventories	(30.132.341)	(14.136.332)
Provision for unpaid vacations	(11.011.145)	(9.538.069)
Investment incentive	(9.203.380)	(8.120.868)
Provision for lawsuits	(13.696.930)	(5.879.655)
Fair values of the derivative financial instruments	(591.063)	(4.976.365)
Provision for other doubtful receivables	(10.491.669)	(5.170.811)
Prepaid expenses	(1.410.058)	-
Other	(7.094.479)	(6.324.608)
	(295.735.646)	**(255.335.178)**
Deferred tax liabilities:		
Tangible and intangible fixed assets	272.804.755	178.603.233
Amortized cost adjustment on loans	12.695.491	15.452.593
Prepaid expenses	-	278.917
Fair values of the derivative financial instruments	9.740.870	-
Other	2.993.159	3.173.229
	298.234.275	**197.507.972**
	2.498.629	**(57.827.206)**

[*] 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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

NOTE 27-TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (cont'd)

	31 December 2011	31 December 2010
1 year	-	-
2 year	-	-
3 year	(740.554.728)	-
4 year	-	(762.148.565)
5 year	(56.904.175)	-
	(797.458.903)	**(762.148.565)**

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.

Presentation of deferred tax (assets)/liabilities:	31 December 2011	31 December 2010
Deferred tax (assets)	(110.735.816)	(150.892.360)
Deferred tax liabilities	113.234.445	93.065.154
	2.498.629	**(57.827.206)**

Deferred tax asset movements:	1 January- 31 December 2011	1 January- 31 December 2010
Opening balance	(57.827.206)	(202.899.442)
Deferred tax expense	57.735.166	149.751.944
The amount netted under equity	2.593.198	(4.586.311)
Translation difference	(2.529)	(93.397)
Closing balance	**2.498.629**	**(57.827.206)**

Reconciliation of tax provision:	1 January- 31 December 2011	1 January- 31 December 2010
Profit before tax	1.297.013.448	973.883.922
Effective tax rate	%20	%20
Calculated tax acc. to effective tax rate	259.402.690	194.776.784
Reconciliation between the tax provision and calculated tax:		
-Non-deductible expenses	6.765.853	6.279.573
-Non-taxable income	(2.178.200)	(2.201.130)
-Effect of non-taxable adjustments	(3.776.176)	(23.367.830)
-Effect of unused deferred tax assets	63.122	1.921.682
-Effect of the different tax rates due to foreign subsidiaries	(21.214)	817.517
-Other	(2.370.804)	(689.816)
Tax expense in income statement	**257.885.271**	**177.536.780**

NOTE 27-TAX ASSETS AND LIABILITIES (cont'd)

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

	1 January-31 December 2011		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	1.986.483	-	1.986.483
Change in cash flow hedging reserves	12.965.991	(2.593.198)	10.372.793
Change in foreign currency translation reserves	(5.334.398)	-	(5.334.398)
	9.618.076	**(2.593.198)**	**7.024.878**

	1 January-31 December 2010		
Other comprehensive income/(loss) in the current period	**Amount before tax**	**Tax income/ (expense)**	**Amount after tax**
Change in revaluation reserves of fixed assets	(628.231)	-	(628.231)
Change in cash flow hedging reserves	(22.931.551)	4.586.311	(18.345.240)
Change in foreign currency translation reserves	737.181	-	737.181
	(22.822.601)	**4.586.311**	**(18.236.290)**

NOTE 28-EARNINGS/(LOSS) PER SHARE

	1 January-31 December 2011	1 January-31 December 2010
Number of shares outstanding (*)	215.000.000.000	215.000.000.000
Net profit attributable to equity holders-TRY	1.005.562.503	765.999.660
Profit per share with 1 TRY nominal value TRY %	0,4677/%46,77	0,3563/%35,63

(*) 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.

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

	31 December 2011	31 December 2010
Due from related parties (short term)		
Oyak Renault Otomobil Fab. A.Ş. (3)	6.481.336	6.017.296
Bolu Çimento Sanayi A.Ş.(2)	1.619.752	151.938
Adana Çimento Sanayi T.A.Ş.(2)	1.467.240	-
ArcelorMittal Amb. Çel. San. ve Tic. A.Ş.(1) (*)	-	72.010.724
Other	155.276	157.751
	9.723.604	**78.337.709**

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

NOTE 29-RELATED PARTY DISCLOSURES (cont'd)

	31 December 2011	31 December 2010
Due from related parties (long term)		
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[2]	-	1.141.524
	-	**1.141.524**

[1] Investment in associate
[2] Subsidiaries of the parent company
[3] Investment in associates of the parent company

The trade receivables from related parties mainly arise from sales of iron, steel and by-products.

Due to related parties (short term)	31 December 2011	31 December 2010
Omsan Denizcilik A.Ş.[2]	2.232.146	581.339
Oyak Pazarlama Hizmet ve Turizm A.Ş.[2]	2.151.205	1.763.229
Omsan Lojistik A.Ş.[2]	1.921.699	1.748.199
Omsan Logistica SRL[2]	606.069	590.783
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[2]	546.664	-
Oyak Telekomünikasyon A.Ş.[2]	88.610	144.886
Oyak Beton A.Ş.[2]	63.720	182.930
Adana Çimento Sanayi T.A.Ş. [2]	-	1.222.847
Other	2.242.282	3.677.229
	9.852.395	**9.911.442**

Trade payables to related parties mainly arise from purchased service transactions.

	31 December 2011	31 December 2010
Non trade payables due to related parties (short term)		
Dividend payables to shareholders	2.489.565	1.709.879
Other	341	5.121
	2.489.906	**1.715.000**

	1 January- 31 December 2011	1 January- 31 December 2010
Major sales to related parties		
Oyak Renault Otomobil Fab. A.Ş.[3]	49.218.980	27.387.464
Adana Çimento Sanayi T.A.Ş.[2]	10.253.227	13.159.343
Bolu Çimento Sanayi A.Ş.[2]	8.199.398	1.645.789
ArcelorMittal Amb.Çel. San. ve Tic. A.Ş.[1] [*]	7.087.445	149.992.805
Ünye Çimento Sanayi ve Ticaret A.Ş.[2]	1.150.923	2.027.136
Oytaş İç ve Dış Ticaret A.Ş.[2]	697.559	1.679.086
Aslan Çimento A.Ş.[2]	47.039	1.169.355
Borçelik Çelik San. Tic. A.Ş.[4] [*]	-	70.369.054
	76.654.571	**267.430.032**

[1] Investment in associate
[2] Subsidiaries of the parent company
[3] Investment in associates of the parent company
[4] Financial asset

[*] 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. Sales amounts refer to the revenue from sales realized till the date of share transfer.

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

NOTE 29-RELATED PARTY DISCLOSURES (cont'd)

	1 January- 31 December 2011	1 January- 31 December 2010
Major purchases from related parties		
Omsan Denizcilik A.Ş.[2]	46.725.931	321.382
Omsan Lojistik A.Ş.[2]	22.938.285	6.290.701
Oyak Pazarlama Hizmet ve Turizm A.Ş.[2]	17.957.360	15.748.997
Omsan Logistica SRL[2]	12.321.641	8.209.431
Oyak Savunma ve Güvenlik Sistemleri A.Ş.[2]	7.756.387	4.374.529
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş.[2]	5.177.073	778.284
Oyak Beton A.Ş.[2]	1.724.247	359.172
Oyak Telekomünikasyon A.Ş.[2]	733.820	1.433.724
Oyak Genel Müdürlüğü	526.130	641.900
Innovation Resources B.V.[2]	-	8.783.034
Other	2.136.227	442.917
	117.997.101	**47.384.071**

[2] 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 non-secured, interest free and their collections will be done in cash. As of 31 December 2011, the Group provides no provision for the receivables from related parties (31 December 2010: none).

Salaries, bonuses and other benefits of the key management

For the year ended 31 December 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 12.713.002 (31 December 2010: TRY 7.220.654).

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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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)

(a) Capital risk management

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

	Note	31 December 2011	31 December 2010
Total financial liabilities	6	4.777.797.197	5.851.241.280
Less: Cash and cash equivalents	4	1.102.710.213	2.877.790.271
Net debt		3.675.086.984	2.973.451.009
Total adjusted equity (*)		7.302.331.427	6.715.641.142
Total resources		**10.977.418.411**	**9.689.092.151**
Net debt/Total adjusted equity ratio	**19**	**%50**	**%44**
Distribution of net debt/total adjusted equity		**33/67**	**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".

(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.

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

	Receivables					
	Trade receivables		Other receivables			
31 December 2011	Related Party	Third Party	Related Party	Third Party	Bank Deposits	Derivative financial instruments
Maximum credit risk exposure as of balance sheet date [*] (A+B+C+D+E)	9.723.604	1.131.974.398	25.000	472.445	1.102.668.423	56.708.417
-Secured part of the maximum credit risk exposure via collateral etc.	-	1.037.498.382	-	-	-	-
	-	-	-	-	-	-
A. Net book value of the financial assets that are neither overdue nor impaired	9.723.604	1.130.749.701	25.000	472.445	1.102.668.423	56.708.417
	-	-	-	-	-	-
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	-	1.224.697	-	-	-	-
-secured part via collateral etc.	-	1.224.697	-	-	-	-
	-	-	-	-	-	-
D. Net book value of impaired financial assets	-	-	-	-	-	-
-Overdue (gross carrying amount)	-	43.039.895	-	52.458.346	-	-
-Impairment (-)	-	(43.039.895)	-	(52.458.346)	-	-
-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)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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)

(e) Credit risk management (cont'd)

	Receivables					
	Trade receivables		Other receivables			
31 December 2010	Related Party	Third Party	Related Party	Third Party	Bank Deposits	Derivative financial instruments
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	538.451.326	-	-	-	-
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.

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:

	Receivables					
31 December 2011	**Trade receivables**	**Other receivables**	**Bank deposits**	**Derivative financial instruments**	**Other**	**Total**
Overdue 1-30 days	1.224.697	-	-	-	-	1.224.697
Overdue 1-3 months	-	-	-	-	-	-
Overdue 3-12 months	-	-	-	-	-	-
Overdue 1-5 years	-	-	-	-	-	-
Overdue 5 years or more	-	-	-	-	-	-
Total overdue receivables	**1.224.697**	**-**	**-**	**-**	**-**	**1.224.697**
Secured part via collateral etc.	**1.224.697**	**-**	**-**	**-**	**-**	**1.224.697**

	Receivables					
31 December 2010	**Trade receivables**	**Other receivables**	**Bank deposits**	**Derivative financial instruments**	**Other**	**Total**
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**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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 December 2011, the foreign currency position of the Group in terms of original currency is as follows:

	31 December 2011				
	TRY (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original currency)
1. Trade Receivables	859.689.568	451.515.152	2.574.695	21.761.408	304
2a. Monetary financial assets	946.176.451	491.037.483	7.561.864	6.246.549	8.237
2b. Non-monetary financial assets	-	-	-	-	-
3. Other	7.117.464	3.763.488	3.524	-	-
4. Current assets (1+2+3)	**1.812.983.483**	**946.316.123**	**10.140.083**	**28.007.957**	**8.541**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-	-
7. Other	27.774.470	7.303.997	5.701.334	1.850.000	-
8. Non-current assets (5+6+7)	**27.774.470**	**7.303.997**	**5.701.334**	**1.850.000**	**-**
9. Total assets (4+8)	**1.840.757.953**	**953.620.120**	**15.841.417**	**29.857.957**	**8.541**
10. Trade payables	354.424.226	187.547.723	-	-	56.679
11. Financial liabilities	1.376.759.037	662.690.764	38.882.613	1.231.763.542	-
12a. Other monetary financial liabilities	64.263.192	33.914.986	82.321	-	-
12b. Other non-monetary financial liabilities	-	-	-	-	-
13. Current liabilities (10+11+12)	**1.795.446.455**	**884.153.473**	**38.964.934**	**1.231.763.542**	**56.679**
14. Trade payables	74.562	39.474	-	-	-
15. Financial liabilities	2.362.150.538	943.966.810	175.694.134	6.151.614.847	-
16a. Other monetary financial liabilities	516.294	273.330	-	-	-
16b. Other non-monetary financial liabilities	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**2.362.741.394**	**944.279.614**	**175.694.134**	**6.151.614.847**	**-**
18. Total liabilities (13+17)	**4.158.187.849**	**1.828.433.087**	**214.659.068**	**7.383.378.389**	**56.679**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**320.526.672**	**61.687.385**	**83.478.750**	**-**	**-**
19a. Off-balance sheet foreign currency derivative financial assets	320.526.672	61.687.385	83.478.750	-	-
19b. Off-balance sheet foreign currency derivative financial liabilities	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.996.903.224)**	**(813.125.582)**	**(115.338.901)**	**(7.353.520.432)**	**(48.138)**
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.352.321.830)**	**(885.880.452)**	**(204.522.509)**	**(7.355.370.432)**	**(48.138)**
22. Fair value of derivative financial instruments used in foreign currency hedge	47.048.393	12.009.961	9.969.219	-	-
23. Hedged foreign currency assets	-	-	-	-	-
24. Hedged foreign currency liabilities	320.526.672	61.687.385	83.478.750	-	-
25. Exports	1.555.730.905	855.271.379	75.513.067	-	-
26. Imports	5.583.434.612	3.445.541.072	3.659.131	-	-

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 (Functional currency)	US Dollars (Original currency)	EURO (Original currency)	Jap. Yen (Original currency)	GB Pound (Original 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
4. Current assets (1+2+3)	**1.854.115.696**	**1.169.082.663**	**22.750.939**	**3.535.768**	**11.726**
5. Trade receivables	-	-	-	-	-
6a. Monetary financial assets	-	-	-	-	-
6b. Non-monetary financial assets	-	-	-	-	-
7. Other	8.420.261	2.936.026	1.747.172	15.900.000	-
8. Non-current assets (5+6+7)	**8.420.261**	**2.936.026**	**1.747.172**	**15.900.000**	**-**
9. Total assets (4+8)	**1.862.535.957**	**1.172.018.689**	**24.498.111**	**19.435.768**	**11.726**
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	-	-	-	-	-
13. Current liabilities (10+11+12)	**1.589.121.560**	**938.775.605**	**48.744.776**	**1.998.942.681**	**19.080**
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	-	-	-	-	-
17. Non-current liabilities (14+15+16)	**2.348.151.290**	**1.158.840.863**	**204.594.058**	**7.254.509.745**	**-**
18. Total liabilities (13+17)	**3.937.272.850**	**2.097.616.468**	**253.338.834**	**9.253.452.426**	**19.080**
19. Net asset/liability position of off-balance sheet derivative financial instruments (19a-19b)	**314.008.128**	**74.024.862**	**97.391.875**	**-**	**-**
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	-	-	-	-	-
20. Net foreign currency asset/liability position (9-18+19)	**(1.760.728.765)**	**(851.572.917)**	**(131.448.848)**	**(9.234.016.658)**	**(7.354)**
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	**(2.164.616.900)**	**(980.740.379)**	**(230.949.029)**	**(9.249.916.658)**	**(10.864)**
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	-	-

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 December 2011	31 December 2010
Foreign Currency Position Parametric VAR	34.998.091	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.

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 December 2011 asset and liability balances are translated by using the following exchange rates: TRY 1,8889 = US $ 1,TRY 2,4438 = EUR 1 and TRY 0,0243= JPY 1 (31 December 2010: TRY 1,5460 = US $ 1,TRY 2,0491 = EUR 1 and TRY 0,0189 = JPY 1)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2011	**Appreciation of foreign currency against**	**Depreciation of foreign currency against**
1-US Dollars net asset/liability	(165.243.421)	165.243.421
2-Hedged portion from US Dollars risk (-)	11.652.130	(11.652.130)
3-Effect of capitalization (-)	-	-
4-US Dollars net effect (1+2+3)	(153.591.291)	153.591.291
5-EURO net asset/liability	(48.587.058)	48.587.058
6-Hedged portion from EURO risk (-)	20.400.537	(20.400.537)
7-Effect of capitalization (-)	1.221.900	(1.221.900)
8-EURO net effect (5+6+7)	(26.964.621)	26.964.621
9-Jap. Yen net asset/liability	(17.898.469)	17.898.469
10-Hedged portion from Jap. Yen risk (-)	-	-
11-Effect of capitalization (-)	-	-
12-Jap. Yen net effect (9+10+11)	(17.898.469)	17.898.469
13-Other currencies net asset/liability	-	-
14-Hedged portion from other currency risk (-)	-	-
15-Effect of capitalization (-)	-	-
16-Other currencies net effect (13+14+15)	-	-
TOTAL (4+8+12+16)	**(198.454.381)**	**198.454.381**

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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 (cont'd)

	Profit/(loss) after capitalization on tangible assets and before tax and non-controlling interest	
31 December 2010	**Appreciation of foreign currency against**	**Depreciation of foreign currency against**
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
TOTAL (4+8+12+16)	**(161.107.960)**	**161.107.960**

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

31 December 2011	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Cross currency and interest rate swap agreements:						
TRY sale/US Dollars purchase	1,4568	89.863.099	61.687.385	89.863.099	67.177.484	22.685.615
TRY sale/EURO purchase	2,0825	173.843.160	83.478.750	173.843.160	149.480.382	24.362.778
More than 5 years						
						47.048.393

31 December 2010	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Cross currency and interest rate swap agreements:						
TRY sale/US Dollars purchase	1,4568	107.835.718	74.024.862	107.835.718	106.486.712	1.349.006
TRY sale/EURO purchase	2,0825	202.817.020	97.391.875	202.817.020	225.001.406	(22.184.386)
More than 5 years						
						(20.835.380)

Forward agreements

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

31 December 2011	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
EURO sale/US Dollars purchase	1,3838	38.520.000	53.220.574	94.135.176	87.724.410	6.410.766
US Dollars sale/EURO purchase	1,3479	3.369.750	2.500.000	6.365.121	6.620.123	(255.002)
Less than 3 months						
EURO sale/US Dollars purchase	1,3619	18.412.803	25.335.830	44.997.208	42.175.000	2.822.208
US Dollars sale/EURO purchase	1,3478	4.043.250	3.000.000	7.637.699	7.941.633	(303.934)
3-6 months						
						8.674.038

31 December 2010	Average agreement exchange rate	Sales with original currency	Purchases with original currency	Original currency (TRY equivalent)	Agreement value (TRY equivalent)	Fair value
Forward agreements:						
TRY sale/US Dollars purchase	1,4827	111.202.500	75.000.000	111.202.500	106.255.344	4.947.156
US Dollars sale/TRY purchase	1,5310	75.000.000	114.354.500	115.950.000	117.752.445	(1.802.445)
EURO sale/US Dollars purchase	1,3380	2.410.000	3.224.580	4.938.331	4.911.310	27.021
Less than 3 months						
						3.171.732

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 are 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 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

	31 December 2011	31 December 2010
Floating interest rate financial instruments		
Financial liabilities	1.794.671.472	3.544.835.301

In addition to these, as of 31 December 2011, the amount of the Group's financial loans is TRY 1.167.209.631 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 8.564.518 (31 December 2010: TRY 21.811.516).

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 December 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	%1,87	327.771.624	(5.206.901)
More than 5 years	%1,37	544.003.200	(4.766.493)
		871.774.824	**(9.973.394)**

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)
		471.146.629	**(7.218.178)**

(*) 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 871.774.824 (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 (7.548.947) (31 December 2010: TRY (5.476.236)).

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 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)

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

Cross currency and interest rate swap agreements

31 December 2011

Unrealized agreements with fixed payments and floating interest receipts	Average fixed interest rate of the agreements	Nominal amount[*]	Fair Value
TRY sale/US Dollars purchase	%7,22	89.863.099	22.685.615
Over 5 years			
TRY sale/EURO purchase	%10,65	173.843.160	24.362.778
Over 5 years			
		263.706.259	**47.048.393**

31 December 2010

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

[*] 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 263.706.259 (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 (7.234.408) (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.

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 2011

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Borrowings from banks	4.777.797.197	5.425.640.574	220.981.276	1.401.912.625	3.423.854.220	378.892.453
Trade payables	533.658.160	534.828.193	209.559.162	325.269.031	-	-
Other financial liabilities (*)	188.173.615	188.173.615	165.871.553	22.212.299	89.763	-
Total liabilities	**5.499.628.972**	**6.148.642.382**	**596.411.991**	**1.749.393.955**	**3.423.943.983**	**378.892.453**
Derivative financial liabilities						
Derivative cash inflows	56.708.417	687.940.218	106.987.584	166.805.142	414.147.492	-
Derivative cash outflows	(10.959.380)	(449.425.721)	(101.178.862)	(46.858.278)	(301.388.581)	-
	45.749.037	**238.514.497**	**5.808.722**	**119.946.864**	**112.758.911**	**-**

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

31 December 2010

Contractual maturity analysis	Book value	Total cash outflow per agreement (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
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	-	-
Total liabilities	**6.381.716.358**	**6.946.332.166**	**1.852.057.708**	**1.878.833.235**	**2.468.055.946**	**747.385.277**
Derivative financial liabilities						
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)
	(24.881.826)	**(108.902.016)**	**2.362.335**	**(31.501.595)**	**(77.272.817)**	**(2.489.939)**

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

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

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

31 December 2011	Cash and cash equivalent	Loans and receivables	Available for sale financial assets	Held for trading financial instruments	Financial liabilities at amortized cost	Derivative financial instruments through other comprehensive income/loss	Derivative financial instruments through profit/loss	Carrying value	Note
Financial Assets									
Cash and cash equivalents	1.102.710.213	-	-	-	-	-	-	1.102.710.213	4
Trade receivables	-	1.141.698.002	-	-	-	-	-	1.141.698.002	8
Financial investments	-	-	66.086	-	-	-	-	66.086	5
Other financial assets	-	497.445	-	-	-	-	-	497.445	9
Derivative financial instruments	-	-	-	-	-	47.475.443	9.232.974	56.708.417	5
	-							-	
Financial Liabilities									
Financial liabilities	-	-	-	-	4.777.797.197	-	-	4.777.797.197	6
Trade payables	-	-	-	-	533.658.160	-	-	533.658.160	8
Other liabilities	-	-	-	-	188.173.615	-	-	188.173.615	9/18
Derivative financial instruments	-	-	-	-	-	10.400.444	558.936	10.959.380	7
31 December 2010									
Financial Assets									
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
Financial Liabilities									
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.

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)

Financial asset and liabilities at fair value		Fair value level as of reporting date		
	31 December 2011	Level 1	Level 2	Level 3
Financial assets and liabilities at fair value through profit/loss				
Financial assets held for trading	-	-	-	-
Derivative financial assets	9.232.974	-	9.232.974	-
Derivative financial liabilities	(558.936)	-	(558.936)	-
Financial assets and liabilities at fair value through other comprehensive income/expense				
Derivative financial assets	47.475.443	-	47.475.443	-
Derivative financial liabilities	(10.400.444)	-	(10.400.444)	-
Total	**45.749.037**	**-**	**45.749.037**	**-**

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

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.

(Convenience Translation into English of Consolidated Financial Statements Originally Issued in Turkish – See Note 33)
Ereğli Demir ve Çelik Fabrikaları T.A.Ş. and its Subsidiaries
Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2011
(Amounts are expressed as Turkish Lira ["TRY"] unless otherwise indicated.)

NOTE 32-SUBSEQUENT EVENTS

None

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- 31 December 2011	1 January- 31 December 2010
Current trade receivables	(428,050,477)	(41,418,719)
Inventories	(1,129,400,902)	(865,439,990)
Other short term receivables / current assets	27,460,395	98,864,346
Non current trade receivables	2,621,888	(261,147)
Other long term receivables / non current assets	(67,598,733)	(10,126,737)
Current trade payables	173,716,258	4,937,559
Other short term payables / liabilities	127,170,558	(103,209,525)
Other long term payables / liabilities	(15,962,947)	17,676,129
	(1,310,043,960)	**(898,978,084)**

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

Account	(Previously reported) 1 January- 31 December 2010	(Restated) 1 January- 31 December 2010	Difference
Cost of sales (-) [1]	(5.313.245.896)	(5.318.466.643)	5.220.747
Marketing, sales and distribution expenses (-) [1]	(67.064.017)	(61.843.270)	(5.220.747)
General administrative expenses (-) [3]	(120.746.438)	(122.062.014)	1.315.576
Research and development expenses (-) [3]	(2.065.999)	(750.423)	(1.315.576)
Other operating income [2]	110.960.631	110.889.684	70.947
Other operating expense (-) [2]	(119.326.058)	(119.255.111)	(70.947)
Total			-

[1] Transportation expenses of TRY 5.220.747 which are previously reported in "Marketing, sales and distribution expenses" are reclassified to "Cost of sales (-)".
[2] Loss on sales of fixed assets of TRY 70.947 which are previously reported in "Other operating expenses (-)" are netted off under "Other operating income".
[3] Personnel and other expenses amount of TRY 1.315.576 which is previously reported in "Research and development expenses" is reclassified to "General administrative 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.

AUDIT REPORT
(01.01.2011 - 31.12.2011)

TO THE GENERAL BOARD OF EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş

Details about the Partnership;

Title	:	Ereğli Demir ve Çelik Fabrikaları T.A.Ş.
Headquarters	:	Ankara
Issued Capital	:	TL 2,150,000,000
Scope of Activity	:	Production and Sales of Iron and Steel
Details about the Auditors;	:	
Name, Surname	:	Ahmet Türker ANAYURT
Term of Office	:	March 2011 - March 2012
Partnership Status	:	Not a Partner
Name, Surname	:	Ünal TAYYAN
Term of Office	:	March 2011 - March 2012
Partnership Status	:	Not a Partner
Board of Directors and Audit Committee Meetings	:	Board of Directors held six meetings during the calendar year 2011 and Audit Committee attended all of these meetings.
Results of the Counts and Audit Required by the Turkish Commercial Code:	:	Audits performed on documents and automation entries by the sampling method on various dates between 01.01.2011 - 31.12.2011 have revealed that legal ledgers of the Partnership were kept in compliance with the provisions of Turkish Commercial Code and Tax Procedure Law and that the securities received and kept in the vault were in compliance with the entries.
Complaints and Corruption Claims Received by the Audit Committee	:	No such complaint or claim has been received by the Audit Committee.

We have examined the accounts and transactions of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. for the period between January 1, 2011 and December 31, 2011 as per the Turkish Commercial Code, Articles of Association of the Partnership and other legislation, as well as generally accepted accounting principles and standards.

In our opinion, the enclosed Balance Sheet as of December 31, 2010, whose contents we confirm, reflect the Partnership's financial status on the date mentioned in a truthful and accurate fashion; and the Income Statement of the period between January 1, 2011 and December 31, 2011 reflects the Partnership's operational results in the period in a truthful and accurate fashion. We hereby propose the approval of the Balance Sheet and the Income Statement and the acquittal of the Board of Directors.

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.
AUDIT COMMITTEE

Ünal TAYYAN
Statutory Auditor

Ahmet Türker ANAYURT
Statutory Auditor

Contact Details

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.
Web: www.erdemir.com.tr

Head Office
Eskişehir Devlet Yolu No: 12 06530
Söğütözü / ANKARA
Tel: 0 312 292 66 40
Fax: 0 312 287 44 39

General Directorate and Facilities
Uzunkum Cad. No: 7 67330
Kdz. Ereğli / ZONGULDAK
Tel: 0 372 323 25 00
Fax: 0 372 316 39 69-
316 03 01- 323 57 55
e-mail: iletisim@erdemir.com.tr

Investor Relations
Merdivenköy Yolu Cad. No: 2
Küçükbakkalköy 34750
Ataşehir / İSTANBUL
Tel: 0 216 578 80 61
Fax: 0 216 469 48 20
e-mail: erdemir_ir@erdemir.com.tr

İSKENDERUN DEMİR VE ÇELİK A.Ş.
İSDEMİR 31319 İskenderun / HATAY
Tel: 0 326 758 40 40 (Operator PBX)
Fax: 0 326 755 11 84 -
758 53 51 - 758 38 38
Web: www.isdemir.com.tr
e-mail: info@isdemir.com.tr

ERDEMİR MADENCİLİK SAN. VE TİC. A.Ş.
Cürek Yolu 5. km Divriği / SİVAS
Tel: 0 346 419 11 21 (5 lines)
Fax: 0 346 419 11 50
Web: www.erdemirmaden.com.tr
e-mail:ermaden@erdemirmaden.com.tr

ERDEMİR MÜHENDİSLİK YÖNETİM VE DANIŞMANLIK HİZMETLERİ A.Ş.
19 Mayıs Mahallesi Atatürk Cad. Sıtkı Bey
Plaza No: 82/A Kozyatağı 34742 Kadıköy
İSTANBUL
Tel: 0 216 468 80 72
Fax: 0 216 469 48 30
Web:www.erenco.com.tr
e-mail: erenco@erenco.com.tr

ERDEMİR ROMANİA S.R.L.
18, Soseaua Gaesti, Targoviste 130087
Dambovita County / ROMANIA
Tel: 0 245 60 71 00 (10 lines)
Fax: 0 245 60 60 70
Web:www.erdemir.ro
e-mail: office@erdemir.ro

ERDEMİR ÇELİK SERVİS MERKEZİ SAN. VE TİC. A.Ş.
Organize Sanayi Bölgesi 700. Sk. No: 724
Gebze / KOCAELİ
Tel: 0 262 679 27 27
Fax: 0 262 679 27 87
Web: www.ersem.com.tr
e-mail: info@ersem.com.tr

ERDEMİR LOJİSTİK A.Ş.
19 Mayıs Mah. Atatürk Cad. Sıtkı Bey Plaza
No: 82 K. 8 Kozyatağı / İSTANBUL
Tel: 0 216 468 80 90
Fax: 0 216 468 80 91
Web: www.erdemirlojistik.com.tr
e-mail: info@erdemirlojistik.com.tr

MORE EFFICIENT...PROFITABLE...APPEALING...PARTICIPATIVE...MUCH
CLOSER...FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE...APPEALING...PARTICIPATIVE... MUCH CLOSER...FASTER...
MORE EFFICIENT...PROFITABLE...APPEALING...PARTICIPATIVE...MUCH
CLOSER...FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE...APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE...APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE... APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE...APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE... APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE... APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER...
MORE EFFICIENT... PROFITABLE...
APPEALING... PARTICIPATIVE... MUCH
CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE... APPEALING...

ERDEMİR

www.erdemir.com.tr

PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE...APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE...APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...
PARTICIPATIVE... MUCH CLOSER...FASTER... MORE EFFICIENT...
PROFITABLE...APPEALING...PARTICIPATIVE... MUCH CLOSER...
FASTER... MORE EFFICIENT...PROFITABLE...APPEALING...