

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
ACCORDANCE WITH THE COMMUNIQUE SERIAL:II, NO:14.1**

**1. Period of the Report**

01.01.2013 - 30.09.2013

**2. Title of the Association**

EREGLI IRON AND STEEL WORKS, INC.

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

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors and Auditors are executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership or in Auditors' Board within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next regular general assembly to be approved. The Company's 2012 Regular General Assembly has been executed on 29 March 2013.

According to the Enforcement and Application of Turkish Commercial Code numbered 6103, Article 25, Board Members have resigned and instead of those Board of Director Memberships the election has been made depending on the resolutions of Board of Directors numbered 9163, 9164, 9165 and 9166 under Turkish Commercial Code Article 363 and Articles of Association Article 11.

Fatih Osman TAR who was the representative of Board member ATAER HOLDİNG A.Ş. had resigned on 27 May 2013 and according to the Article 363 of Turkish Commercial Code and depending on the resolution of Board of Directors numbered 9221 an election had been hold to fill this vacancy. The result of this election had been approved by the General Assembly at the Extraordinary General Assembly held on 28 June 2013.

According to the Article 22 of Enforcement and Application of Turkish Commercial Code numbered 6103, The Extraordinary General Assembly held on 28 June 2013 to the adjust the Turkish Commercial Code numbered 6102 and to make the changes in Article of Association and other required regulations.

The active members of the Board of Directors as of 30.09.2013:

<b>Board of Directors</b>	<b>Title</b>	<b>Effective from</b>
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. Represented by: Vacancy (*)	Chairman – Executive Director (1 year from 29.03.2013)	27.05.2013
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman– Executive Director (1 year from 29.03.2013)	12.09.2012
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Mehmet SARITAŞ)	Board Member (1 year from 29.03.2013)	04.01.2013

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OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member - Executive Director (1 year from 29.03.2013)	11.09.2012
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member (1 year from 29.03.2013)	12.09.2012
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member (1 year from 29.03.2013)	13.09.2012
Nazmi DEMİR	Independent Board Member (1 year from 29.03.2013)	29.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member (1 year from 29.03.2013)	29.06.2012
Ali Aydın PANDIR	Independent Board Member (1 year from 29.03.2013)	20.09.2012

**Changes in the Executive Board within the Period**

Depending on the resolution of Board of Directors, dated 04 January 2013 and numbered 9178, it has been resolved to register and notice the assignment of Mehmet SARITAŞ as representative of the Board Member Privatization Administration under Turkish Commercial Code Article 364.

Fatih Osman TAR who was the representative of Board member ATAER HOLDİNG A.Ş. had resigned on 27 May 2013 and he was elected as representative of the Board Member OYTAŞ İç ve Dış Ticaret A.Ş. to fill this vacancy on the same date.

(\*) Erdemir Chairman OYTAŞ İÇ VE DIŞ TİCARET A.Ş. Representative Osman Fatih TAR left all his duties in Erdemir Group as of 14 August 2013.

The active members of the Board of Auditors until 29 March 2013:

Board of Auditors	Title	Effective from
Ahmet Türker ANAYURT	Board of Auditors Member	09.03.2010
Ünal TAYYAN	Board of Auditors Member	31.03.2011

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

According to the Turkish Commercial Code, no election had hold for the Board of Auditors at the Ordinary General Assembly held on 29 March 2013 but it is decided to make one-year agreement with "Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Ernst & Young Global Limited)" for our company's and its subsidiaries' Independent External Audit.

**Powers and Duties of the Members of the Board of Directors' and Auditors'**

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

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**4. Executive Management**

Executive Management	Title	Effective from	Education	Experience
Sedat ORHAN	Chief Executive Officer	16.08.2013	Karadeniz Teknik University – Mechanical Engineering	27 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	33 Years
Kaan BÖKE	Executive Vice President (Human Resources)	02.04.2012	Gazi University – Labor Economics	23 Years
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011	Hacettepe University - Business Administration	27 Years
Sami Nezh TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	30 Years
Başak TURGUT	ERDEMİR Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	16 Years
Şevkinaz ALEMDAR	ERDEMİR Group Procurement Coordinator	18.05.2013	Boğaziçi University – Business Administration	18 Years
Mehmet Müçteba BEKCAN	Executive Vice President (Technical Services and Investments)	14.07.2010	Middle East Technical University – Industrial Engineering	36 Years
Öner SONGÜL	ERDEMİR Group Information Technologies Coordinator	12.08.2010	Middle East Technical University – Industrial Engineering	34 Years
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	30 Years
Mesut Uğur YILMAZ	ERDEMİR Grup Technology Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	33 Years

By reason of the assignment of Ahmet Samim ŞAYLAN as Management Consultant on 18 May 2013, Şevkinaz ALEMDAR was assigned as ERDEMİR Group Procurement Coordinator. Şevkinaz ALEMDAR who had been performing as ERDEMİR Group Procurement Coordinator by proxy was assigned ERDEMİR Group Procurement Coordinator from November 07, 2013.

Başak TAV who had performing as ERDEMİR Group Marketing and Sales Coordinator by proxy since 01 February 2013 was assigned as ERDEMİR Group Marketing and Sales Coordinator from 10 June 2013. Her family name was changed as TURGUT because of her marriage.

Erdemir Chairman OYTAŞ İÇ VE DIŞ TİCARET A.Ş. Representative and Chief Executive Officer (by proxy) Fatih Osman TAR left all his duties in Erdemir Group as of 14 August 2013.

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**5. Compliance With The Corporate Governance Principles**

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity report for the year ending 2012 were met during the period 01.01.2013 – 30.09.2013. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been charged.

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

In the Regular General Assembly Meeting held on March 29, 2013, Article 5 "Head Office of the Company" and "Article 21 "Voting Rights and Form of Representation" of the Company's Articles of Association is amended as following;

*"Head Office of the Company:*

*Article 5 - The head office of company is located in Istanbul. Its Address is Merdivenköy Yolu Caddesi No: 2 34750 - Küçükbakkalköy Ataşehir/İSTANBUL.*

*In case of address change, new address shall be registered in Trade Registry and promulgated in Turkey Trade Registry Gazette and furthermore notified to Ministry of Customs and Trade and Capital Market Board.*

*Written notification served to the registered and promulgated address shall be considered as notification duly served to the company. Although it has moved from the registered and promulgated address into new address which is not registered within its legal period shall be deemed as a reason to terminate the company.*

*Company may open branches or offices in such other suitable places upon the resolution of Board of Directors, provided that the same is notified to Capital Market Board as well as Ministry of Customs and Commerce.*

***Voting Right and Form of Representation:***

*Article 21 - Shareholders and attorneys who attended in the ordinary and extraordinary General Assembly meetings shall have one vote as per share. In the meetings of General Assembly, shareholders may cause to represent themselves through other shareholders or attorneys assigned from outside of the Company. Assignees who are company shareholder have the authority to cast the votes of shareholders to whom they represent, in addition to their own votes.*

*Capital Market Board's regulations on voting by proxy shall be reserved.*

*Attendance in general assembly meetings via electronic means*

*Shareholders may attend in General Assembly meetings via electronic environment pursuant to Article 1527 of Turkish Commercial Code. Company may setup an electronic general assembly system which will enable Shareholders to attend in the General Assembly meetings, to communicate their opinions, to furnish suggestions and exercise their voting rights or may purchase service of systems set up for such purposes pursuant to the provisions of Regulation on General Assembly meetings of Joint-Stock Companies to be held via Electronic Environment.*

*Pursuant to present article of Articles of Association, at all general assembly meetings, shareholders and their proxies shall be allowed to exercise their rights provided in the provisions of said Regulation over such a system set up."*

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In addition, as a result of an increase in the issued capital of our company from TRY 3,090,000,000 to TRY 3,500,000,000, Article 7 (Capital) of our Company's Articles of Association is amended as follows with the resolution no 9205 dated March 12, 2013 of our Board of Directors and became effective following the approval letter no 912/3213 dated March 29, 2013 of Capital Market Board:

**"Capital:**

*Article 7- Company accepted the registered capital system according to provisions of Law No 2499 amended by Law No 3794 and began to implement this system with permission İDİD/150/No 2416 dated August 15, 1983 of Capital Market Board.*

*The registered capital ceiling of the company is TRY 7,000,000,000.00 (seven billion Turkish Liras). When deems it necessary, Board of Directors may increase its capital by issuing share certificates each with a par value of 1 Kr (one Kurush) and all issued to their bearers up to the amount of registered capital between 2012 and 2016, provided that the terms of this Article are complied with.*

*The permission of registered capital ceiling given by Capital Market Board is valid for 5 years between the years 2012 and 2016. Even if permitted registered capital ceiling would have not been reached at the end of 2016, in order for a decision on capital increase to be able to be taken by Board of Directors after 2016, Board of Directors must be empowered by General Assembly on a new period for the ceiling permitted before or a new ceiling after obtaining the permission of Capital Market Board. Should such an empowerment cannot be obtained, company shall be deemed to be removed from registered capital system.*

*Board of Directors is authorized to limit rights of shareholder to acquire new share certificates and issue share certificates above their nominal values.*

*Each share certificate has a 1 voting right.*

*The issued capital of the company is TRY 3,500,000,000.00 (three billion five hundred million Turkish Liras) and all paid-in. This capital consists of 350,000,000,000 (three hundred fifty billion) share certificates, each with a par value of 1 Kr (one Kurush).*

*Shares representing the capital are monitored on records within the framework of registration principles.*

*This capital is divided into shares Group A and Group B. 1 (one) share of certificate, issued to the bearer amounting to 1 Kr (one Kurush) is A group and 349,999,999,999 (three hundred forty nine billion nine hundred ninety nine million nine hundred ninety nine thousand nine hundred ninety nine) share of certificates amounting to 3,499,999,999.99 (three billion four hundred ninety nine million nine hundred ninety nine thousand nine hundred ninety nine Turkish Liras, ninety nine Kurush) is B Group.*

*Beneficial interest shall be established in favor of and to the name of Privatization Administration on the shares of A Group with all rights appertaining thereto unless otherwise decided by Supreme Board of Privatization. All voting rights on the shares of A Group shall be exercised by the holder of beneficial interest. ("beneficial interest")*

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*The Article of Association was wholly amended at the the Extraordinary General Assembly held on 28.06.2013 as follows:*

**EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.  
ARTICLES OF ASSOCIATION**

**SECTION I:**

**Incorporation:**

**Article 1** - A Joint Stock Company was incorporated under the title of "Ereğli Demir ve Çelik Fabrikaları Türk Anonim Şirketi" between the founders with names and addresses written in article 2, in order to perform the following activities and procedures in frame of provisions, terms and conditions contained in the present Articles of Association.

**Founders:**

**Article 2** - The Company's founders are as follows:

NAME	LOCATION
1 Koppers Associates, S.A.	Zurich, Switzerland
2 General Directorate of Türkiye İş Bankası A.Ş.	Ankara
3 General Directorate of Türkiye Demir ve Çelik İşletmeleri A.Ş.	Karabük
4 General Directorate of Sümerbank	Ankara
5 Ankara Chamber of Trade and Industry	Ankara

**Title:**

**Article 3** - The Company's title is "Ereğli Demir ve Çelik Fabrikaları Türk Anonim Şirketi". It shall be hereinafter referred to as the "Company".

The name of the enterprise is "ERDEMİR".

**Purpose and Scope:**

**Article 4** - The objectives and field of operations of the Company are as follows:

- A. To purchase, lease or otherwise acquire real estates directly or indirectly relating to the objectives and subject-matter of the Company together with all rights thereon in connection of use thereof including establishing any lien thereon and renting out the same, and to sell any redundant real estates,
  - B. To construct, purchase and operate all facilities and equipment inland and abroad whether by itself or by establishing partnerships to that end, which are necessary or relating to the manufacture of any type, nature and size of iron and steel rolling products, alloyed or pure iron, steel and pig cast iron, cast and press products as well as inputs and byproducts necessary for the manufacture thereof,
  - C. To purchase, lease or otherwise acquire other raw materials, derivatives as well as any type and nature of mineral ores that are directly or indirectly necessary for the manufacture and production of the products as indicated in the subparagraph (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,
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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 (the production license to be issued in place of auto producer license as per Provisional Article 7 of Electricity Market Law No.6446), in accordance with the legislations relating to the Electricity Market and, in case of surplus generation, to sell generated electric and heat energy and/or capacity to other legal entities having the pertinent license and free consumers within the framework of the said legislations, and to engage in such activities relating to obtain all equipment and fuels necessary for the electric generating plants, provided that such activities shall not be of commercial nature,

F. To establish Research Centers, and to provide national and international laboratory services of any kind as well as training and consultancy services,

G. To operate ports and piers by constructing, purchasing and landing them for the purpose of shipping the products and supplying the inputs inland and abroad, and to provide pilotage, marine towing, storage and transportation services by letting other individuals and companies use such ports and piers, and to engage in land and sea transport activities inland and abroad or to establish separate companies and/or partnerships to that end,

H. To perform any kind of financial, commercial and industrial procedures directly or indirectly relating to the foregoing including but without limited to the below mentioned authorities,

I. To carry out borrowing, financing and cash management procedures and use any kind of risk management instruments by means of using any kind of money and capital market instruments in terms of Turkish Lira and/or foreign currencies inland or abroad without being limited to certain amounts for or in connection with any of the subject of the activity of the Company, provided that such transactions shall not be qualified as the investment services and activities,

J. Save for all rights vested to the Group A by virtue of article 22 hereof, to lend and receive deeds and/or bank letters of guarantee as security in connection with any field of operation of the Company, provided that this shall not be contrary to the legislations relating to lending procedures; to establish current accounts; to provide pecuniary, non-cash or personal guarantees for the financial liabilities of third parties, provided that the Company shall make necessary disclosures in accordance with the procedures set forth by the Capital Market Board,

K. To carry out all procedures relating to its own interests in accordance with provisions of articles 379 and 382 of the Turkish Commercial Code and the other relevant provisions,

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 provisions of the Capital Market Law regarding regulations on hidden profit transfer shall be reserved,

M. To provide its personnel with training both in Turkey and foreign countries so that they have technical knowledge and skills in various specialization areas of the iron and steel industry; to establish training facilities and provide training and consultancy services,

N. To make license, know-how and similar agreements with domestic and foreign companies; to participate in tenders and commitments in respect of establishment of factories, and to purchase or sell information and technology,

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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 field of operation 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 field of activity,

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 field of activity, 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 fields of activity, and to sell the surplus quantity thereof. To engage in any kind of activity directly or indirectly relating to the objectives and fields of operation as set forth hereinabove;

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. Providing that it is not contrary to the regulations of Capital Market Law, governing hidden profit transfer and the provisions of other relevant legislation, the necessary special condition statements are made and the donations made within the year are presented to the information of the shareholders in the general assembly, the company may make any donation and provide any support in a way that does not hinder its own objective and activity scope.

Without prejudice to the rights granted to Group A under Article 22 herein, the Company may also engage in other activities other than those listed herein, which are related to its scope of activity or which the company will deem useful for its scope of activity on the condition that the company fulfills the requirements provided for within the frame of the legislation and such activities are not contrary to the legislation.

**Head Office of the Company:**

**Article 5** - The head office of company is located in Istanbul. Its Address is Merdivenköy Yolu Caddesi No: 2 34750 Küçükbakkalköy Ataşehir/İSTANBUL.

In case of address change, new address shall be registered in Trade Registry and promulgated in Turkey Trade Registry Gazette and furthermore notified to Ministry of Customs and Trade and Capital Market Board.

Written notification served to the registered and promulgated address shall be considered as notification duly served to the company. Although it has moved from the registered and promulgated address into new address which is not registered within its legal period shall be deemed as a reason to terminate the company.

Company may open branches or offices in such other suitable places upon the resolution of Board of Directors, provided that the same is notified to Capital Market Board as well as Ministry of Customs and Trade.

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**Term:**

**Article 6** - The term of the Company is unlimited from the registration and announcement of the present Articles of Association.

**SECTION II:**

**Capital:**

**Article 7**- Company accepted the registered capital system according to provisions of Law No 2499 amended by Law No 3794 and began to implement this system with permission No 2416 dated August 15, 1983 of Capital Market Board.

The registered capital ceiling of the company is TRY 7,000,000,000.00 (seven billion Turkish Liras). When deems it necessary, Board of Directors may increase its capital by issuing share certificates each with a par value of 1 Kr (one Kuruş) and all issued to their bearers up to the amount of registered capital between 2012 and 2016, provided that the terms of this Article are complied with.

The permission of registered capital ceiling given by Capital Market Board is valid for 5 years between the years 2012 and 2016. Even if permitted registered capital ceiling would have not been reached at the end of 2016, in order for a decision on capital increase to be able to be taken by Board of Directors, Board of Directors must be empowered by General Assembly on a new period for the ceiling permitted before or a new ceiling after obtaining the permission of Capital Market Board. Should such an empowerment cannot be obtained, company shall be deemed to be removed from registered capital system.

Board of Directors is authorized to limit rights of shareholder to acquire new share certificates and issue share certificates above their nominal values, provided that it is not contrary to the provisions of Turkish Commercial Code and Capital Market Law.

Each share certificate has a 1 voting right.

The issued capital of the company is TRY 3,500,000,000.00 (three billion five hundred million Turkish Liras) and all paid-in. This capital consists of 350,000,000,000 (three hundred fifty billion) share certificates, each with a par value of 1 Kr (one Kuruş).

Shares representing the capital are monitored on records within the framework of registration principles.

This capital is divided into shares Group A and Group B. 1 (one) share of certificate, issued to the bearer amounting to 1 Kr (one Kuruş) is A group and 349,999,999,999 (three hundred forty nine billion nine hundred ninety nine million nine hundred ninety nine thousand nine hundred ninety nine) share of certificates amounting to 3,499,999,999.99 (three billion four hundred ninety nine million nine hundred ninety nine thousand nine hundred ninety nine Turkish Liras, ninety nine Kuruş) is B Group.

The right of usufruct shall be established in favor of and to the name of Privatization Administration on the shares of A Group with all rights appertaining thereto unless otherwise decided by Supreme Board of Privatization. All voting rights on the shares of A Group shall be exercised by the holder of usufruct. ("usufruct")

**Capital Increase or Decrease:**

**Article 8** - Without prejudice to the rights granted to Group A under article 22 herein, the capital of the company may be increased or decreased within the frame of the provisions of Turkish Commercial Code and Capital Market Legislation, when necessary.

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**Issue of Debt Instruments:**

**Article 9** - The Company may issue any debenture, financial bill, asset-backed commercial paper, other debt instruments, including those drawn up on the basis of discount, the replaceable and purchasable bonds as well as any sort of security and other capital market instruments in the form of debt instrument through the resolution of the Board of Directors in accordance with Turkish Commercial Code and Capital Market legislation.

In the issue of these securities, The Board of Directors is authorized indefinitely pursuant to relevant provisions of Capital Market Law.

**SECTION III:**

**Board of Directors:**

**Article 10** - Company's business and management is governed by the Board of Directors.

Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly of Shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law.

One of the Board members is elected by the General Assembly from among the candidates to be shown by the Directorate of Privatization Administration, which has the right of usufruct in representation of Group A shares.

The number and the qualifications of the independent members that shall take office in the Board of Directors are determined according to the regulations of Capital Market Board regarding corporate management.

General Assembly of Shareholders determines the number of members to be selected for Board of Directors in such a manner to ensure the members to perform effective and creative activities, to take quick and rational decisions and efficiently organize their activities as well as formation of committees.

**Term of Board of Directors:**

**Article 11** - Members of Board of Directors are appointed for three years and the independent members are appointed for 1 year; the members with expired tenure may be re-elected. In case of vacancy in a position of a member for any reason, the Board of Directors shall appoint someone with the qualifications stipulated in Turkish Commercial Code, Capital Markets Board legislation and the present Articles of Association temporarily for this position, and submit to the approval of first coming General Assembly of Shareholders. So the elected member completes the former member's post term.

General Assembly of Shareholders is entitled to change members of the Board of Directors whenever it deems necessary.

In case the duty of the member of Board of Directors representing the Group A shares expires in any way within the term he has been elected for, the substitute member must also be elected among the candidates to be offered by the Privatization Administration as the usufructuary to represent the Group A shares.

**Meetings:**

**Article 12**- Board of Directors gathers at the corporate headquarters or at another location upon the resolution of Board of Directors at least six times a year or whenever deemed necessary for the Company's business. Board of Directors elects a chairman and one vice chairman at least to act as proxy in his absence among the members during the first meeting of each year. The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting, as well as duties, rights and authorities of Board

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of Directors are subject to provisions of Turkish Commercial Code and related legislation. Resolutions of Board of Directors are entered into the official minutes book. It is also signed by the chairman and the members. Without prejudice to the rights conferred upon the Group A by the article 22 of the present Articles of Association; Board of Directors may grant all or some part of the authority of representation and administration to one or several executive directors who are also the members of Board of Directors other than independent board members. The provisions of Article 367 of TCC are reserved in this subject.

Board of Directors shall have to discuss on a detailed report issued by the General Directorate showing the quarterly progress of investment projects, and to pass a resolution upon the suggestions made by the member of Board of Directors as the usufructuary to represent the Group A shares. The development of investment projects is reflected on the annual report of Board of Directors in detail. Furthermore, no resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 37 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the usufructuary to represent the Group A shares.

The member of Board of Directors in the capacity of usufructuary or a person to be addressed by him shall participate in the General Assemblies of Shareholders of Subsidiaries to represent the Group A shares of the Company in Subsidiaries. One of the members of Board of Directors of the Subsidiary shall be elected among the candidates to be shown by that representative or the member of the Board of Directors.

In the event that a resolution is to be passed in General Assemblies of the Subsidiary on issues concerning the rights granted to the Group A shares in the Subsidiary, the affirmative vote of the said representative or the member of the Board of Directors shall be sought.

Resolutions to be passed by the Company's Board of Directors on any rights and obligations regarding the Group A shares in the Subsidiaries shall be passed upon the affirmative vote of the member of Board of Directors in the capacity of the usufructuary.

For the purposes of the present Articles of Association, "Subsidiary" refers to İskenderun Demir ve Çelik Anonim Şirketi and Erdemir Madencilik Sanayi ve Ticaret Anonim Şirketi.

It's mandatory that the member of Board of Directors in the capacity of usufructuary also casts an affirmative vote on resolutions to be passed concerning the rights granted to the Group A shares.

It shall be observed the Corporate Management Principles, the implementation of which is made obligatory by Capital Markets Board. The transactions made and the resolutions passed without observing the obligatory principles are held invalid and deemed contrary to the articles of association.

With regard to the implementation of the Corporate Management Principles, the regulations of Capital Market Board on corporate management are observed in the transactions deemed to have an important nature and any related party transactions of the company, which are of important nature as well as the transactions for giving security and establishing pledge and mortgage in favor of third persons.

If none of the members requests to make a meeting, the resolutions of board of directors can be taken upon the obtainment of the written approval of the majority of the total member number at least for the proposal of one of board members on any issue, which is written in the form of resolution. Such resolution taken in this way can be only valid if the same proposal is made to all members of board of directors. It is not required to have all approvals on the same paper; however, affixation of all papers, where the approval signatures take place, on the resolution of board of directors or transformation of them to a resolution that

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includes the signatures of the approvers and recording it on the resolution book is required for the validity of the resolution.

The resolutions are not valid unless they are in written form and signed.

The board members may neither cast vote in representation of one another nor attend to the meetings through a representative.

In case that the votes are equal, this subject is left to the next meeting. If the votes are equal in the second meeting, as well, such proposal is deemed to be rejected.

**Authorities of the Board of Directors:**

**Article 13** – The Board of Directors shall manage and represent the Company.

Except for the managing and representing rights as determined by the Resolution of the Board of Directors in respect of the appointment of a managing director or directors in accordance with the last sentence of subparagraph 1 of article 12 of the Articles of Association, no documents to be issued and no agreements to be made by the Company shall be valid unless signed by at least two persons authorized to represent and bind the Company, which signatures shall be affixed below the corporate name of the Company.

The term of office of the general manager, assistant general managers, managers and other employees authorized to sign on behalf of the Company shall not be limited to the term of office of the Members of the Board of Directors.

The Board of Directors shall determine, register and announce the persons who are to be authorized to sign on behalf of the Company, and how they affix their signatures on behalf of the Company.

The Board of Directors is entitled to assign the management completely or partially to a couple of board members or a third party according to an internal guideline to be set out, as per Article 367 of Turkish Commercial Code, except for the untransferable duties and authorities defined in Article 375 of Turkish Commercial Code. Also board of directors may assign the representation authority to one or more executive directors or a third party as a manager. At least one board member has to have representative authority.

Such transactions as the acquisition, putting in pledge and securing with a pledge etc. regarding the own shares of the company are carried out by the Board of Directors. The provisions of TCC and relevant legislation are observed in this respect.

**Duties of Board of Directors :**

**Article 14-** The primary duties of Board of Directors are; to fulfill the resolutions of General Assembly of Shareholders, to invite the General Assembly of Shareholders to meeting under the law and articles of association, to execute any kind of disposals deemed necessary and useful for the Company, to purchase and acquire any immovable properties and similar real rights on behalf of and for the possession of the Company; to restrict the Company's immovable properties under a certain real right or execute sales transactions; to lease and hire out any kind of movable and immovable properties that it shall deem as necessary for the interests of the Company; to grant and owe loans on the account and behalf of the Company, whenever necessary to establish liens on the immovable properties of the Company, and to take mortgages form real and legal entities on behalf of the Company and to submit motions of the same; to cancel such mortgages and any and all types of restrictions and limitations; and to submit the necessary cancellation motions.

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

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

**Remuneration of the Members of Board of Directors:**

**Article 15** - Remuneration of the members of Board of Directors shall be determined by General Assembly of Shareholders.

**Appointment and Duties of the General Manager:**

**Article 16** - The Company's General Manager is appointed by Board of Directors.

The General Manager conducts the Company's business in frame of the resolutions of Board of Directors and in line with the principles specified in the legislation.

**Assignment of Powers to the General Manager:**

**Article 17-** The General Manager is liable to manage the Company according to the provisions of Turkish Commercial Code, Capital Market Law, Communiqués of Capital Markets Board and other related legislations and in compliance with resolutions of Board of Directors.

Power to represent the company before official bodies, private institutions and persons, assemblies, courts, all judicial and administrative bodies as well as the rights to accept a reconciliation offer regarding a dispute, to release a debtor and to recourse arbitration are vested in and belong to the Board of Directors, and the Board may delegate some parts of these powers to the Company's General Manager duly depending on the requirements and necessity of the work.

**SECTION IV:**

**AUDIT**

**Article 18-** Regarding the audit of the company, the relevant articles of Turkish Commercial Code and Capital Market Legislation are applied.

**Committees:**

**Article 19** – Concerning the formation of the committees that the Board of Directors is obliged to set up, including the commission for the determination in time of the exposure within the frame of Capital Market legislation and Article 378 of Turkish Commercial Code as well as duties and working principles of such committees and their relations with the Board of Directors, the provisions of the relevant legislation are applied.

**SECTION V:**

**GENERAL ASSEMBLY**

**Shareholders' General Meetings:**

**Article 20-** Ordinary General Assembly shall be held within three months from the end of the Company's activity period and at least once in a year, discussing and resolving upon the subjects of agenda. Extraordinary General Assembly shall be held whenever required by the Company's business in compliance with the provisions written in the law and the present Articles of Association.

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**Voting Right and Form of Representation:**

**Article 21** – The shareholders or their proxies who present in the Ordinary and Extraordinary General Assembly meetings shall exercise their voting rights pro rata to the total nominal value of the shares. Each share has only one voting right. In the meetings of General Assembly, shareholders may cause to represent themselves through other shareholders or proxies assigned from outside of the Company. Proxies who are also company shareholders have the authority to cast the votes of shareholders to whom they represent, in addition to their own votes.

Capital Market Board's regulations on voting by proxy shall be reserved.

The functioning manner of the general assembly meeting is regulated through an internal directive. The general assembly meeting is conducted in accordance with the provisions of TCC, capital market legislation and internal directive.

Participating in general assembly meetings via electronic means

Shareholders may participate in General Assembly meetings via electronic environment pursuant to Article 1527 of Turkish Commercial Code. Company may setup an electronic general assembly system which will enable Shareholders to participate in the General Assembly meetings, to communicate their opinions, to furnish suggestions and to cast their votes or may purchase service of systems set up for such purposes pursuant to the provisions of Regulation on General Assembly meetings of Joint-Stock Companies to be held via Electronic Environment.

Pursuant to present article of Articles of Association, at all general assembly meetings, shareholders and their proxies shall be allowed to exercise their rights provided in the provisions of said Regulation over such a system set up.

**Adopting Resolutions on Issues which shall affect the Group A Shares:**

**Article 22-** Resolutions regarding any amendment in the Articles of Association which are likely to affect, directly or indirectly, the obligations in the Share Sale Agreement in respect of investment and employment, and, the rights granted to the Group A shares in connection with those obligations as well as the amendments which are to affect the quorum for meeting and resolution of Board of Directors and the rights belonging to the Group A shares,

- Resolutions regarding closedown or sales of or an encumbrance upon the integrated steel production facilities and mining facilities owned by the Company and/or its subsidiaries or a resolution on reduction in capacity of such facilities,
- Resolutions regarding closedown, sales, demerger or merger or liquidation of the Company and / or its subsidiaries owning the integrated steel production facilities and mining facilities,

can be passed only through affirmative votes of the usufructuary in representation of Group A shares. Otherwise, the resolutions passed shall be invalid.

**Quorum:**

**Article 23-** For the general assembly meetings and the necessary quorum in these meetings, the provisions of Turkish Commercial Code, capital market legislation and the corporate governance principles of Capital Market Board are observed.

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**Meeting Venue:**

**Article 24-** General Assemblies are held in the province where the corporate headquarters is located or in Ankara or in Karadeniz Ereğli where is deemed appropriate by Board of Directors. If the meeting is to be held anywhere else other than the place where the corporate headquarters is located, venue of the meeting shall be expressly stated in the announcement regarding general meetings.

**Chairman**

**Article 25-** General Assemblies are headed by the Chairman of Board of Directors. Vice chairman performs this duty in absence of the chairman. The person to act as the chairman in absence of both shall be appointed by the General Assembly of Shareholders.

**Powers of General Assembly of Shareholders:**

**Article 26-** Powers of General Assembly of Shareholders are,

- a) To decide upon the issues that fall outside the powers of Board of Directors,
- b) To give special permissions to Board of Directors and to ascertain the conditions thereof, and to determine the manner of managing the corporate business,
- c) To accept or reject reports, balance sheets, income statements to be arranged by the Board of Directors and auditors concerning company operations, or through performing a negotiation, to resolve that they shall be rearranged. To decide the acquittance and liability of the Board of Directors' debit. To choose the members of the Board of Directors and auditors, and when necessary, to dismiss them and to appoint others. To determine the fees to be paid to the members of the Board of Directors and auditors.

**Other Powers:**

**Article 27-** The powers mentioned in the article above are not limited. Taking resolutions regarding subjects that concern the Company either directly or indirectly, such as the management of the company operations or modification of the Articles of Association are within the powers of the General Assembly of Shareholders within the context of the Turkish Commercial Code and Capital Market Law provisions.

**Acquittance:**

**Article 28-** The general assembly resolution regarding the approval of the balance sheet results in the release of the members of board of directors, managers and auditors, unless otherwise explained in the resolution. In addition to it, if some issues are not stated properly or at all or the balance sheet involves some matters that will hinder the consideration of company's actual status and if it is acted intentionally in this regard, the approval does not result in release.

**Ministry Representative:**

**Article 29-** Concerning the methods and principles regarding at which conditions the Ministry representative will be present in the general assembly as well as the assignment of representatives for the general assembly meetings, and the qualifications, duties and authorities of such representatives, the provisions of the relevant legislation are observed.

**Announcement:**

**Article 30 -** The announcements of the company shall be made in accordance with Turkish Commercial Code, regulations of Capital Market Board and the provisions of relevant legislation.

The provisions of Article 1524 of TCC are reserved.

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**Amendments of the Articles of Association:**

**Article 31-** The amendment to the articles of association shall be decided within the frame of the provisions stated in the legislation and articles of association, in a general assembly to be invited in accordance with the legislation and the provisions of the articles of the association, upon obtainment of a permit from Ministry of Customs and Trade with the assent of the Capital Market Board.

**Documents to be sent to the Ministry of Customs and Trade and Capital Markets Board:**

**Article 32-** One copy from the Board of Directors activity report, independent audit report and annual balance sheet, and profit&loss statement as well as minutes of general assembly and attendants' list shall be submitted to the Ministry of Customs and Trade within one month at latest as of general assembly meeting date.

The financial statements and reports which are required by the Capital Market Board to be issued as well as the independent audit report in case that it is subjected to an independent audit are announced to the public within the frame of the relevant provisions of TCC and the principles and procedures determined by Capital Market Board.

**SECTION VI:**

**Activity Period:**

**Article 33-** The activity period of the Company starts in the first day of the month of January and ends in the last day of the month of December.

**Determination and Allocation of the Profit:**

**Article 34-** General Assembly is entitled to take resolutions regarding non-distribution of the profit or distribution of the profit partially or completely in line with the profit distribution policies.

General legal reserves and the applications regarding dividend account are carried out in accordance with the provisions of TCC, CMB and the relevant legislation.

Unless the reserves required to be set aside legally and the dividend determined for the shareholders are set aside, it may not be resolved for setting aside any other reserve, transferring profit to the next year, and distributing dividend to the dividend share owners, board members and employees of the partnership and unless the determined dividend is paid, it may not be distributed dividend to those people.

Also General Assembly is entitled for the distribution of Dividend Advance within the frame of the relevant provisions of TCC, Capital Market Board and relevant legislation.

The dividend distributed in accordance with the provisions of this Articles of Association may not be claimed back. In case of distribution of dividend advance, reclaiming dividend is exception.

**SECTION VII:**

**Miscellaneous Provisions:**

**Competent Court:**

**Article 35-** The competent court of the district in where the Company's headquarters is located shall handle and conclude all conflicts that may arise between the company and its shareholders and all disputes that may occur during activity or liquidation period.

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**The Termination and Liquidation of the Company:**

**Article 36-** Board of Directors may call for a General Assembly due to any reason in order to discuss the termination or liquidation procedure of the Company or its consequences. The Company shall be terminated through reasons determined by the Turkish Commercial Code or by court decision. Furthermore, it may also be terminated through the decision of the General Assembly of Shareholders within the context of legal provisions. Provisions of the Turkish Commercial Code are applicable concerning the method of termination and liquidation of the company and related transactions.

**Article 37-** Provided that it will be effective from the signature date of the Share Sale Agreement to be signed following the realization of the privatization transaction concerning the shares pertaining to the Republic of Turkey Prime Ministry Privatization Administration as per the Law no 4046, the fulfillment of commitments contemplated in the Share Sale Agreement concerning investment and employment shall be under the responsibility of the Company's Board of Directors. This present Article 37 may be amended with the affirmative vote of the usufructuary representing Group A shares.

**Article 38-** Provisions of Turkish Commercial Code and Capital Market Law shall be applied to the issues that are not written in this Articles of Association.

**Temporary Article 1-** The provisions of the Articles of Association concerning the right of usufruct, other than the amendments made in the clause 9 of the Article 7 of the Articles of Association of the Company, shall be eliminated when the usufruct established on Group A shares are removed.

Usufruct established in favor of the Republic of Turkey Prime Ministry Privatization Administration comes to an end through a resolution to be taken by the Privatization High Council concerning this subject. This circumstance shall be reflected to the Company's Articles of Association.

The present Temporary Article 1, may be changed with the affirmative vote of the usufructuary representing Group A shares.

**Temporary Article 2-** While the nominal value of the shares was TL 500, it first changed to 1 New Kuruş in accordance with the Law No. 5274 on Amendment to the Turkish Commercial Code, and then to 1 Kuruş since the word "New" was removed from the words "New Turkish Lira" and "New Kuruş" 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) Kuruş 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.

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**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
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With the decision of Ereğli Iron and Steel Inc.'s Board Meeting as of 19 February 2013 and approval no: 9189 of CMB as of 19 February 2013; it is decided that TRY 3.090.000.000 of issued capital will be increased to TRY 3.500.000.000 by increasing TRY 410.000.000, TRY 185.581.944,96 from capital restatements positive differences, TRY 18.465.461,72 from special funds, TRY 205.952.593,32 inflation difference from investment funds, by 13,2686% of current issued capital to be covered from retained earnings and inflation adjustments to capital. The procedures for the increase in capital have been completed with the registration and publication of the Capital Market Board document dated 26 March 2013 and numbered 10/357 in the Turkish Trade Registry Gazette dated 05 April 2013 and numbered 8294.

**8. Main Factors that Effect the Company's Performance, Significant Changes Occurring in the Environment the Company Operates in and the Policies Executed by the Company in Return, Policy of Investment and Dividends the Company Executes to Enhance the Company's Performance**

While no significant changes occurred in the environment the company operates in, the effects of developments in neighboring countries to Erdemir Group are measured and necessary precautions are taken. Information in relevant subjects are given in other sections of the Report.

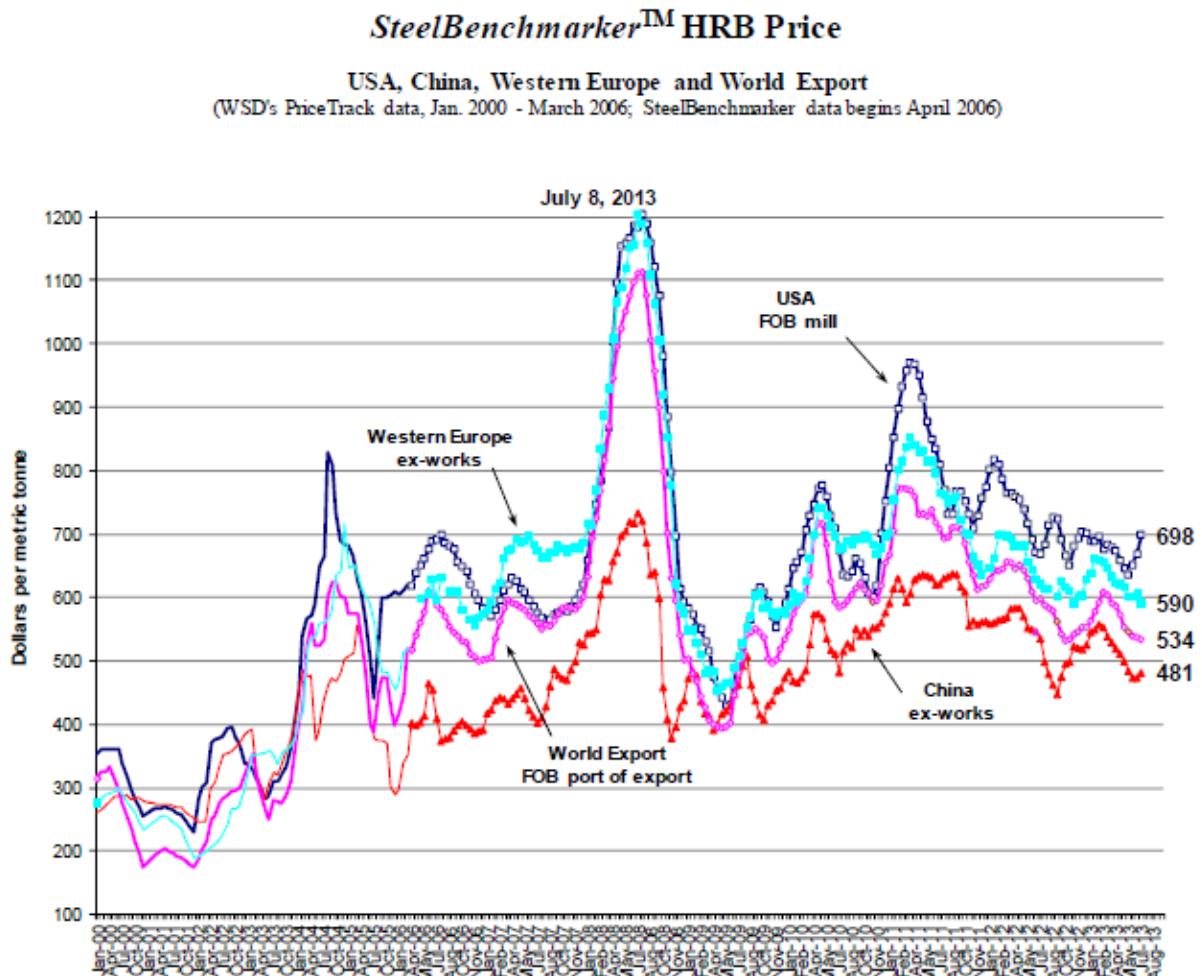
**9. Information about the sector**

World crude steel output in September 2013, reached 132.5 million tonnes, increasing by 6.1 percent compared to September 2012 and up 6.9 percent compared to September 2011. Total global crude steel production in the first nine months of the current year increased by 2,7 percent to 1,186.2 million tons compared to the same period of 2012 and was up 3.5 percent compared to January-September 2011. In the first first nine months of 2013, crude steel output in Asia amounted to 795.080 million tons, up by 5.9 percent, with 587.4 million tons produced by China, up by 8 percent, 82.4 million tons produced by Japan, up by 1.4 percent, and 48.7 million tons produced by South Korea, down by 6.6 percent with all comparisons on year to date basis. EU-27 countries produced 123.8 million tons of crude steel in the first nine months of 2013, down 4.2 percent compared with the same period of 2012. Germany's output was 31.7 million tons, down by 2.2 percent year to date and Italy's crude steel output was 17.8 million tons down by 13.8 percent year to date. The CIS registered a crude steel output of 81.51 million tons in the first nine months of 2013, down 3.4 percent year to date. In North America in the first nine months, crude steel output totaled 88.9 million tons, down 4.1 percent year to date. Meanwhile, crude steel output in South America amounted to 34.8 million tons, down by 1.2 percent year to date. In September, the average capacity utilization of steel mills across the globe was 79.3 percent, 2.1 percentage points lower than August 2013, and up 3.4 percentage points compared to the same month last year.

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The global hot rolled product price change is provided in the graph below:



Turkish crude steel output in September at 3.1 million tons, with a 1.2 percent decrease from the same month in 2012. In the first nine months of 2013, crude steel production was 25.8 million tons, 5% lower than the same period in 2012. Turkey has produced 25.8 million tons of crude steel in the first nine months of 2013 consisting of 18.7 and 7.2 million tons produced in electrical arc furnaces and in integrated plants respectively.

#### **10. The Position of Erdemir Group within the Sector**

Erdemir Group's production in 2012 has been expanded to 7.9 million tons. In the first nine months of 2013, the crude steel production in Ereğli Plant has increased by 22.4% and went down to 2.8 million tons while the crude steel production in İskenderun went up to 3.14 million tons with an increase of 7.8%. In the first nine months of the year Erdemir Group is carried out 82% of integrated plant production of Turkey and 23% of crude steel production of the country by producing 5.9 million tons of crude steel.

#### **11. Research and Development Activities**

Product development studies have been carried out in terms of different standard and customer demands regarding the petroleum and natural gas pipe sector within the period. In line with the requests of the leading companies of automotive industry, the quality homologation and industrial test studies have been ongoing and after successful

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completion of studies, special steel grades have been developed and presented to the market. Optimization and cost decreasing studies have been ongoing for the production processes. Accordingly, the first steps have been taken in terms of establishing an R&D Center and personnel organization were formed and moved to R&D Center building. Laboratory installation studies have also been in progress.

## 12. Investment Activities

Operating within the modern plants and by a modern production technology, Erdemir Group produces competitive products globally and continues its investments aligned to continuous development strategy. In Ereğli plant; Ereğli Steel Service Center project contracts for all lines were signed and the site activities are continuing. Cold Slitting Line and Oscillating Cut to Length Line were put on the operation in the first half of 2013. Circular Sinter Cooler Waste Heat Recovery Boiler project is completed. Investments in BOF and Continuous Casting Facilities in accordance with reline is almost completed. Air Knife for Continuous Galvanizing Line No:1 project is completed and was put on the operation. Air Separation Plant No.7, New Turbo Blower, TinCal Automation Modernization, Environmental Investments and Installation of an External Combustion System at the Cogeneration Power Plant projects were initiated. Tender studies related to Blast Furnace Top Pressure Recovery Turbines and Galvanizing Line No.2 projects have currently been in progress. Modernization of Slab Furnace No:3 project's contracts were signed. Improvement of Cooling Systems, The Integration of the No.3 Coal Grinding Plant into the Coal Injection Plant (PCI), and Converting Ladle Treatment to the Ladele Furnace projects have currently been in progress.

On the other hand, in İskenderun Facilities; 'Modernization of the Coke Oven Battery No.4', 'Harbor Investments', 'Environmental Investments' and "Alternative Reladling Pit, Changing Crane Girders", "Hot Slitting Line" and Hot Rolling Mill Revamping projects are in progress.

Total investment expenditure of the Group as of 30 September 2013 is USD 124 Million.

## 13. Government Grants

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

(TRY)	1 January - 30 September 2013	1 January- 30 September 2012
Research and Development Grant	67.557	536.510
Social Security Grant	933.874	374.475
<b>Total</b>	<b>1.001.431</b>	<b>910.985</b>

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

The subsidiary of the Group Erdemir Madencilik Sanayi ve Ticaret A.Ş has taken an investment incentive certificate numbered 110476 for Iron Ore Beneficiation and Pellet Plant in 31 May 2013. The investment takes a place in Malatya city Hekimhan Hasançelebi town and the production capacity 3.000.000 ton/per year. Total expenses of the new investment is TRY 1.569.000.000.

There is an investment incentive right of the Group amounting to TRY 216.010.193 with indefinite useful life, deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (31 December 2012: TRY 204.883.114 TL).

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN  
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At the beginning of the month of October, despite of global economic growth forecast revised downward by the IMF, as of the second half of the year developments in the economies of the U.S. and Eurozone, economic activity in these regions in the process of recovery will be a more positive view of the first signals. The last six quarter, the ongoing recession in the Eurozone as of the second quarter came to an end in 2013. Although saving measures implemented in countries with high public debt continues to create political uncertainty has been seen, the major economies in the region is considered to be an increase in production activities in manufacturing improvements in index.

Data releases indicate that the U.S. economy continues to recover. The country's second-quarter growth as of 2,5% has been over the expectations. In addition to this, stable improvement in the unemployment rate and a positive view of manufacturing industries data support the acceleration of production activities at the U.S. Meanwhile, monetary expansion resulting current financial policies and can not be solved question marks about the budgeted continues to unsettle the global financial markets. However, the U.S. debt limit will increase 16.7 trillion dollars, and within this context on going uncertainty regarding to lift debt ceiling impasse continues to a risk to the national economy. Progressing below the target inflation rate of 2% in the U.S. and this situation is stated that will be a positive impact on economic activities.

While the growth of the global economy is accelerated stable, the data for the Chinese economy confirms slowdown in economic growth. Financial fragility of the economy on the other hand, come out of recession of Europe and strengthening of the recovery in U.S. provides an increase PMI index of manufacturing industries. The rapid rise in house prices and the rise in rate of increase loan to take further measures have been caused by the Central Bank of China and the interest rates are observed to reduce in the country. The world's second largest economy in China achieved 7,7% growth at the first nine of the year, according to economist, due to come true as over than expected growth rate of 7,8% at the third quarter, the target of this year as of 7,6% will be proposed to achieve.

The growth in India, which is the world's fourth largest economy, is slower than expected and in order to be strengthen, The Indian government pursue of making new strong openings which will be attracted more foreign capital to the country. However making an effective reform probability before May 2014 election is seen as low possibility.

According to the data published by the World Steel Association (WSA) world crude steel production has increased 2,7% during the nine months of 2013 and reached 1.186 million tons. Capacity utilization rate is calculated to be averaged around 79% worldwide.

World Steel Association (WSA) production figures also show that crude steel production in Turkey decreased 5,0% in the first nine months of 2013 and stayed 25,8 million tons. In these period, due to impact of strikes as well with the decline of the steel production, Turkey fall back to 9th biggest steel producer in the world.

With the signs of recovery in the second half of the year, World Steel Association (WSA) is forecasted to decline by 3,8% and is expected to be more positive year of 2013 compared to year of 2012 but apparent steel consumption would not be increased. Even if demans is expected to be weaker in 2014 than in 2013 are expected to be more positive. The increase in the steel consumption at CIS countries is forecasted to be at 3%, due to increased demand in Russia, despite of the contraction in demand at Ukraine. WSA forecasts that apparent steel use worldwide will increase 3,1% in 2013.

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The production figures published by Turkish Steel Producers' Association (TÇÜD) indicated that apparent steel use in Turkey increased 7,0% in the first eight month of 2013 and reached 19,9 million tons. Flat steel consumption increased 3,0% in the first nine months of 2013 and reached 9,2 million tons, whereas long steel consumption has increased 10,8% in the same period and reached 10,7 million tons.

According to these developments in the steel industry, ERDEMİR Group has increased its total flat product sales by 5,4% and reached 4,7 million tons in the first three quarters of 2013. Domestic flat steel sales increased by 5,7% compared to the last year to 4,2 million tons and exports remained at 443 thousand tons similar to the preceding year. ERDEMİR Group's calculated market share increased according to the results of first nine months.

ERDEMİR Group's long product sales has also reached 1,1 million tons, representing a 9,8% increase in sales. While domestic sales have increased by 17%, exports of long products had remained at 248 thousand tons due to the effects of the strike in İskenderun plant and the sales are 14% lower than the same period last year. ERDEMİR Group's market share in Turkish wire rod market is calculated to be %21.

### 15. Products

The main products of Erdemir Group are as follows:

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

### 16. Production Plants and Productivity

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

	<b>1 January- 30 September 2013</b>	<b>1 January- 30 September 2012</b>
	<b>C.U.P. (%)</b>	<b>C.U.P. (%)</b>
Liquid Steel	100	82
Tinplate	102	100
Galvanized	100	99
Cold Rolled	92	79
Hot Rolled	75	69
Plate	77	82

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

	1 January- 30 September 2013	1 January- 30 September 2012
	C.U.P. (%)	C.U.P. (%)
Liquid Steel	81	88
Billet	55	55
Wire Rod	92	98
Hot Rolled	68	66

### 17. Production (quantity)

Final Products (000 Tons)	1 January - 30 September 2013	1 January - 30 September 2012
Flat Products	4.629	4.359
Long Products	1.022	1.010
Iron Ore and Pellet	1.957	2.142

### 18. Developments Regarding Sales

ERDEMİR Group, with the widest flat product mix in Turkey, offers product and service quality to its customers as well as the continued investment and with customer oriented approaching at the objective of sustainable growth in the market has continued steadily.

Despite loss of production, due to strike during 22 days at our İSKENDERUN plant, which is the part of ERDEMİR Group, as a result of taking strategic management decision and quickly implement these decision, are provided recovery at short notice.

Launched Steel Service Center in Ereğli by the first quarter of 2013 which has cold slitting line, has been continued to get orders from the market , in addition to these trapezoid and multi blanking line were launched and mass production has been already started. Another project was Customer Relationship Management (CRM) which was started at 2012. Eventually, the project has been completed and Marketing and Sales Organization has been used the system actively. The system development studies continue in accordance with the requirements.

With the reconstruction of the Marketing and Sales organization become a focal point for the development relations with customers, has been continued customer visits, attendance domestic and international congress and trade fairs, meeting with industry association, organized customer events. Our dynamic product mix is being improved with new product and grade development activities for final users and our product portfolio is continued to be expanded by new additions and developments.

The feasibility studies for the new investments planned to increase the quality of product and services offered by ERDEMİR Group continue to be carried out without losing pace.

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**19. Sales (quantity)**

Final Products (000 Tons)	1 January - 30 September 2013	1 January - 30 September 2012
Flat Products	4.673	4.433
Long Products	1.052	958
Iron Ore and Pellet Sales (*)	1.815	2.190

(\*) 1.657 thousand tons of Ermaden's sales are to Group Companies as of 30 September 2013. (30 September 2012: 1.905 thousand tons).

**20. Financial Indicators and Ratios**

Financial statements are prepared in accordance with the CMB's Communiqué Serial:II, No:14.1 and have not been reviewed as of 30 September 2013 and 30 September 2012.

**Summary of Financial Position**

	(Not Reviewed)	(Restated) (Audited)	(Restated) (Audited)
	Current Period	Previous Period	Previous Period
(TRY)	1 January - 30 September 2013	1 January - 31 December 2012	1 January - 31 December 2011
Current Assets	6.296.423.216	5.854.230.082	6.024.733.105
Non-current Assets	7.723.353.319	7.287.190.543	7.365.849.568
<b>Total Assets</b>	<b>14.019.776.535</b>	<b>13.141.420.625</b>	<b>13.390.582.673</b>
Current Liabilities	2.599.569.921	2.817.904.101	2.415.353.191
Non-current Liabilities	2.939.017.204	2.907.604.439	3.687.681.410
Shareholders' Equity	8.481.189.410	7.415.912.085	7.287.548.072
<b>Total Liabilities</b>	<b>14.019.776.535</b>	<b>13.141.420.625</b>	<b>13.390.582.673</b>

**Summary of Income Statement**

	(Not Reviewed)	(Not Reviewed)
	Current Period	Previous Period
(TRY)	1 January - 30 September 2013	1 January - 30 September 2012
Revenue	7.199.531.330	7.135.136.547
Operating Profit	1.188.581.158	535.306.815
Profit from Continuing Operations Before Taxation	983.704.114	499.093.629
Profit for the Period (*)	796.102.910	397.945.594
EBITDA	1.398.339.882	780.572.984
Earnings Per Share	21,94%	10,60%

(\*) Shareholder's share in the net profit for the period is TRY 767.880.403 in September 2013 (September 2012: TRY 370.918.908).

**Key Ratios**

(%)	1 January - 30 September 2013	1 January - 30 September 2012
Operating Profit Margin	16,5	7,5
Profit Margin	10,7	5,2
EBITDA Margin	19,4	10,9



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

24th Period Collective Labor Agreement, which had been valid between 01.09.2012-31.08.2013, was signed on July 26, 2013 between Turkish Employers' Association of Metal Industries (MESS) on behalf of our company and Turkish Metal Union as the collective bargaining agency.

25th Period Collective Labor Agreement, which will be valid between 01.01.2013-31.12.2014 has been signed on August 5, 2013 between Turkish Employers' Association of Metal Industries (MESS) on behalf of İskenderun Demir ve Çelik A.Ş. and Steel Trade Union as the collective bargaining agency.

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

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

The Group's payables for employee benefits as of 30 September 2013 and 31 December 2012 are as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Due to personnel	35.381.763	61.083.831
Social security premiums payable	18.215.881	21.941.319
Income and stamp tax due to personnel	22.690.756	18.291.964
	<b>76.288.400</b>	<b>101.317.114</b>

The Group's provision for employee benefits on 30 September 2013 and 31 December 2012 are as follows:

	<b>30 September 2013</b>	<b>31 December 2012</b>
Employee Termination Benefits	289.529.588	265.082.814
Seniority Incentive Premium	16.530.822	18.896.395
Provision For Unpaid Vacations	63.695.518	62.269.715
	<b>369.755.928</b>	<b>346.248.924</b>

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The Group's personnel number on 30 September 2013 and 31 December 2012 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	30 September 2013 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.643	1.813	6.456
İskenderun Demir ve Çelik A.Ş.	4.499	891	5.390
Erdemir Madencilik San. ve Tic. A.Ş.	124	146	270
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	43	96	139
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	161	161
Erdemir Romania S.R.L.	219	52	271
	<b>9.528</b>	<b>3.159</b>	<b>12.687</b>

	Paid Hourly Personnel	Paid Montly Personnel	31 December 2012 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.732	1.898	6.630
İskenderun Demir ve Çelik A.Ş.	4.658	885	5.543
Erdemir Madencilik San. ve Tic. A.Ş.	128	145	273
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	33	86	119
Erdemir Mühendislik Yön. ve Dan. Hiz. A.Ş.	-	180	180
Erdemir Romania S.R.L.	208	72	280
Erdemir Lojistik A.Ş.	12	8	20
	<b>9.771</b>	<b>3.274</b>	<b>13.045</b>

## 22. Shareholding and Capital Structure

Authorized Capital : TRY 7.000.000.000  
Paid-in Capital : TRY 3.500.000.000

Shareholders	Shares (TRY)	%
Ataer Holding A.Ş.	1.724.982.584	49,29
Publicly Held	1.667.180.563	47,63
Erdemir's Own Shares	107.836.853	3,08
<b>Total</b>	<b>3.500.000.000</b>	<b>100,00</b>

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**23. Dividend Distribution Policy**

Erdemir Groups' Dividend Distribution Policy is as follows:

"Clause 37 of our Articles of Association titled "Determinaton and Distribution of the Dividend", which is drafted in accordance with Capital Market Board's respective regulations, explains the procedure and the merits of our dividend distribution.

Our Company tries to balance the financial burden of the investments with our shareholders' expectations for corporate governance in determining the ratio of the cash or bonus shares to be distributed from the net distributable profit of the period calculated according to the aforementioned clause of our Articles of Association and legislation, without ignoring Capital Markets Board's compulsory minimum distribution ratio, and aims to distribute the maximum dividend that the financial leverage ratios allow.

As stated above, in the determination and distribution of the dividend, Our Company abides by Capital Markets Board's regulations, distributes dividends within the legally specified periods, and informs shareholders at General Meetings about every issue regarding dividend distribution."

**24. The Availability of Financial Sources and The Policies The Group Applies in This Framework**

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

**25. Risk Management Policy**

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

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

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

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

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

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

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

<b>Name of the Company</b>	<b>Country of Operation</b>	<b>Operation</b>	<b>2013 Share %</b>	<b>2012 Share %</b>
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel	92,91	92,91
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00	100,00

Erdemir Gaz San. ve Tic. A.Ş. as disclosed in non-current financial investments is excluded from consolidation, as it has not been dormant operating since its establishment and as it does not significantly affect the consolidated financial statements of the Group. ). In the Extraordinary General Meeting of Erdemir Gaz San. ve Tic. A.Ş. dated 7 May 2012, liquidation of the Company has been decided. Registration and liquidation procedures are completed and published in Trade Registry Gazette numbered 8365 on 17 July 2013.

In the General Meeting of Erdemir Lojistik A.Ş. dated 8 June 2012, the merger of the Company with Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. has been decided. Merger operations are completed as of 13 February 2013. This merger had no impact on the financial position of the Group.

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

**Subsidiaries**

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

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

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

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When the Group purchases a company, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. The amount of the non-controlling interest shares is obtained by the calculation of the fair values of assets and liabilities with respect to the proportion of the non-controlling interest. The operational results of subsidiaries are included or excluded from consolidation according to their effective dates of acquisition and disposal, respectively.

Non-controlling interests in the net assets of the subsidiaries included in consolidation, appears as a separate item in Group's equity. Non-controlling interests consist of non-controlling party's amount that already exists as of the first acquisition date and the amounts take place during the changes in the parent company's equity related to non-controlling interest after the first acquisition date. Losses of the non-controlling interests are distributed to the shares of the non-controlling interests. The equity and net income attributable to non-controlling interests are shown separately in the consolidated balance sheet and income statement, respectively.

**27. Organizations Out of the Headquarters**

None.

**28. Information About Approval Given by the Board to Controlling Shareholders, Board Members, Executive Management and Relatives up to the Second Degree to Make Transactions and Get into Competition with the Company or Its Subsidiaries That May Cause Conflicts of Interest**

At the Regular General Assembly held in 29 March 2013, the aforementioned subject of approval according to article 395 and 396 of Turkish Commercial Code (TCC) is submitted for approval of General Assembly and as a result of the voting it is consented to give the approval according to article 395 and 396 of Turkish Commercial Code (TCC) to the Members of the Board.

**29. Information About the Report on the Conditions and Market Comparison of Transactions That Amount to 10% or more of the Total Assets or Gross Sales in Annual Financial Statements in Accordance with the Capital Markets Board Legislation**

There is no transaction amounting to 10% or more of the total assets or gross sales in consolidated financial statements as of 30 September 2013.

Also a report is prepared to give information about transactions between Controlling Company and its Subsidiaries according to Article 199 of Turkish Commercial Code (TCC) and it is approved as of 14 March 2013. The conclusion of the report is stated as: "There is no act of law conducted beneficial to Our Company's Controlling Shareholder Ordu Yardımlaşma Kurumu (OYAK) or/and its subsidiaries or there is no measure taken beneficial to Ordu Yardımlaşma Kurumu (OYAK) or/and its subsidiaries in business year 2012. In year 2012, all commercial transactions between our Company and our Controlling Shareholder and its subsidiaries are executed according to market conditions."

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**30. Information for Shareholders**

1) 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 March 2010 claiming that the objection should be overruled and 68.312.520 USD 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. Supreme Court 23th Civil Chamber has reversed the judgments including differentiating between two cases on 6 April 2012 by its decision numbered 2011/2915 E., 2012/2675 K. and has remanded the case for further enquiry to the 7 the Civil Court of First Instance of Ankara.

The 7th Civil Court of First Instance of Ankara has rejected on 24 October 2013 the Company's appeal (file numbered E. 2013/295) by lack of territorial jurisdiction and decided to send the case to Commercial Courts of Istanbul.

The trial for the case file numbered E. 2013/17 goes on at the 7 the Civil Court of First Instance of Ankara.

2) According to the meeting of the Board of Directors dated 30 October 2013 and decision number 9247;

- To distribute a total dividend of TRY 450.000.000; TRY 54.458.755,24 from other profit reserves, TRY 374.990.249,24 from extraordinary reserves, and TRY 20.550.995,52 from statutory reserves,
- 10% of the dividend, TRY 45.000.000, to be set aside as second legal reserve,
- TRY 405.000.000 cash dividend distribution,
- Profit sharing is decided by a majority of votes to start until 21 November 2013.

3) An action of debt was instituted by Messrs. Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17.04.2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TL 17.800,-, reserving the rights for surplus. We were informed from the amendment petition, which was served to our company that the plaintiff pleaded from the court to raise the claim to TL 10.837.801,69 as assessed by the expert opinion submitted to the court. Our company shall contest to the expert opinion and the amendment petition within the statutory period. The next trial is on 20.11.2013.

4) Due to the İskenderun Demir ve Çelik A.Ş. (İsdemir)'s Board Decision as of 09 October 2013 and decision number 282, in Extraordinary General Assembly held in 30 October 2013, it has been decided that TRY 1.505.950.000,00 of issued capital will be decreased to TRY 483.126.252,12 from TRY 1.022.823.747,88 retained earnings, based on the recorded amount of Tax Procedure Law (TPL). The procedures for the increase in capital have been completed with the registration and publication in the Turkish Trade Registry Gazette dated 07 November 2013 and numbered 8438.