

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

A – GENERAL INFORMATION**1. Period of the Report**

01.01.2014 - 31.03.2014

2. Information About the Association

- **Title:** EREGLI IRON AND STEEL WORKS, INC.
- **Trade Registry Number:** 863637
- **Address:** Merdivenköy Yolu Cad. No: 2 34750 Küçükbakkalköy Ataşehir/İSTANBUL
- **Website:** www.erdemir.com.tr

3. Shareholding and Capital Structure

Authorized Capital : TRY 7.000.000 thousand
Paid-in Capital : TRY 3.500.000 thousand

Shareholders	Shares (Thousand TRY)	%
Ataer Holding A.Ş.	1.724.983	49,29
Publicly Held	1.667.180	47,63
Erdemir's Own Shares	107.837	3,08
Total	3.500.000	100,00

No change has occurred in shareholding and capital structure in the period.

4. Board of Directors, Executive Management and Number of Personnel

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors is executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership 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 general assembly to be approved. The Company's 2013 Regular General Assembly has been executed on 31 March 2014.

The membership number of Board of Directors has determined as 9 and 6 Board Members have been elected for three years and 3 independent board members have been elected for one year by the General Assembly according to the 10th and 11th articles of Articles of Association within the framework of Turkish Commercial Code and Capital Market Law.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

The active members of the Board of Directors as of 31.03.2014:

Board of Directors	Title	Effective from
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. Represented by: Ali Aydın PANDIR	Chairman – Executive Director	27.05.2013
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman– Executive Director	12.09.2012
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Ali KABAN)	Board Member	20.09.2012
OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member - Executive Director	11.09.2012
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	12.09.2012
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012
Nazmi DEMİR	Independent Board Member	29.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member	29.06.2012
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014

Changes in the Executive Board within the Period

Depending on the lution of Board of Directors, dated 07 March 2014 and numbered 9301, it has been resolved to register and notice the assignment of Ali KABAN as representative of the Board Member Privatization Administration under Turkish Commercial Code Article 364.

According to the 363rd article of Turkish Commercial Code and depending on the resolution of Board of Directors, dated 04 March 2014 and numbered 9287, Emin Hakan EMİNSOY has been elected to the independent board membership which had been vacant because of the resignation of Ali Aydın PANDIR on 14 November 2013.

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

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

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

Executive Management

Executive Management	Title	Effective from	Education	Experience
Sedat ORHAN	Chief Executive Officer	16.08.2013	Karadeniz Teknik University – Mechanical Engineering	28 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	34 Years
Kaan BÖKE	Executive Vice President (Human Resources)	02.04.2012	Gazi University – Labor Economics	24 Years
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011	Hacettepe University - Business Administration	28 Years
Sami NeziH TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	31 Years
Başak TURGUT	ERDEMİR Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	17 Years
Şevkinaz ALEMDAR	ERDEMİR Group Procurement Coordinator	18.05.2013	Boğaziçi University – Business Administration	19 Years
Mehmet Müçteba BEKCAN	Executive Vice President (Technical Services and Investments)	14.07.2010	Middle East Technical University – Industrial Engineering	37 Years
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	31 Years
Mesut Uğur YILMAZ	ERDEMİR Grup Technology Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	34 Years
Aylin OLSUN	ERDEMİR Group Human Resources Coordinator	10.02.2014	Marmara University - International Relations	18 Years

Erdemir Group Information Technologies Coordinator Öner SONGÜL's duty has ended on 15.04.2014.

ERDEMİR Group Human Resources Coordinator position has been developed. Aylin OLSUN has been assigned to this position on 10.02.2014.

Erdemir Group Technology Coordinator Mesut Uğur YILMAZ has also been assigned as Chief Executive Officer of Erenco on 15.04.2014 beside his present duty.

ERDEMİR Group Strategic Planning Coordinator position has been developed. No assignment has been done yet.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

5. The Transactions of Board Members made on its behalf or on behalf of other and the activities as part of prohibition of competition

At the Ordinary General Assembly held on 31 March 2014, it is consented to give the approval according to article 395 and 396 of Turkish Commercial Code (TCC) to the Members of the Board.

No transaction had been realized in this context.

6. Collective Labor Agreement Applications and the Benefits

25th Period Collective Labor Agreement, which will be valid between 01.09.2013-31.08.2016, has been signed on March 24, 2014 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 1.01.2013-31.12.2014 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 number of the personnel on 31 March 2014 and 31 December 2013 are as follows:

	Paid Hourly Personnel	Paid Montly Personnel	31-Mar-2014 Personnel
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.608	1.805	6.413
İskenderun Demir ve Çelik A.Ş.	4.247	1.248	5.495
Erdemir Madencilik San. ve Tic. A.Ş.	123	147	270
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	43	94	137
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	156	156
Erdemir Romania S.R.L.	218	51	269
	9.239	3.501	12.740

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

	Saat Ücretli Kişi	Aylık Ücretli Kişi	31 Aralık 2013 Kişi
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.612	1.824	6.436
İskenderun Demir ve Çelik A.Ş.	4.271	1.255	5.526
Erdemir Madencilik San. ve Tic. A.Ş.	123	148	271
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	43	95	138
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	160	160
Erdemir Romania S.R.L.	218	52	270
	9.267	3.534	12.801

7. 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 2013 were met during the period 1.01.2014 – 31.03.2014. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been charged.

8. Amendments in The Articles of Association

No amendment has been made.

B – Financial Rights Given to Board Members and Executive Management

1. Total amount of financial rights like attendance fee, wages, bonus, premium and dividend payments

The relevant section of the minutes of the General Assembly Dated 31 March 2014 is as follows:

11- In the 11th article of the agenda related to the Rate Setting of the Board Members', the proposal was read by the representative of ATAER Holding A.Ş. Ahmet Türker ANAYURT, and with no other comment, it was submitted to the General Assembly's approval and in accordance with the proposal;

It was decided by the majority of votes as opposed to 2.994.471.426.800 refusal votes, that; no wages will be paid to the Board members representing Group B shares, the monthly net wage that will be paid to the members representing Group A shares will be 2.360 TRY (monthly, in cash), the wages of independent Board members will be 5.000 TRY (monthly, in cash) and the new wages will be valid from the date of 1 April 2014.

Additionally, at the General Assembly dated 31 March 2014, in the 21st article of agenda, the amendments that had been made in the "Company Wage Policy Including The Principles of Wage Fixing of Board Members and Executive Managers" have been presented to the General Assembly's information and "Company Wage Policy" has been added to the General Assembly Meeting Minutes.

Personal accident and life insurances were arranged for Board of Directors and no other benefits were given.

No payment of performance was made to Board Members.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

No payables were given, no loans were issued directly or through a third party and no indemnity was given (like sureties) to Board Members or Executive Management during the period.

Wages of the Executive Management is determined by the Board. Performance based additional payment is given to paid monthly personnel including Executive Management.

2. Allowances given, travel, housing and representation expenses and real and cash advances, insurance and other pledges

A total of TRY 1.287 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

C – Research and Development Studies

Procurement stage of the selected equipment for the material characterization laboratory of the new R&D center is continuing. Construction of the laboratories as well as setting the necessary mechanical and electrical substructures up is going on at the same time. Top management has given consent in order that the newly found R&D center shall become a ministerial approved one, respecting the laws of Turkish Ministry of Science, Industry and Technology. In the meantime, studies for the recently requested new steel grades by respected customers are continuing.

D – Activities and Important Developments Regarding the Activities**1. 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. Investments in BOF and Continuous Casting Facilities in accordance with reline are almost completed. Air Separation Plant No.7, 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. 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 Ladle 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" and "Hot Slitting Line" projects are in progress. Hot Rolling Mill Revamping project has currently been in bidding phase.

Total investments in Erdemir Group plants in 2014 amount to USD 35 million as of 31 March 2014 (31 March 2013: USD 35 million).

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

2. Internal Control System and Internal Auditing Activities

The objective of the Internal Control system established within Erdemir Group companies is to ensure operational effectiveness and efficiency, financial reporting system reliability and compliance with legal regulations. The system is routinely evaluated by Business Process Analysis and Auditing Unit for effectiveness and adequacy.

Erdemir Group Audit directly reports to the Chairman of the Board of Directors to ensure the independent operation of the unit and compliance to Capital Markets Board Regulations. In addition to that, on a quarterly basis an activities report is submitted to the Audit Committee which is comprised of Independent Board Members.

3. Direct and Indirect Subsidiaries

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:

Name of the Company	Country of Operation	Operation	2014 Share %	2013 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90,00	90,00
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Iron and Steel	100,00	100,00
Ereco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00	100,00

The non-controlling share in the net assets and results of Subsidiaries for the year are separately classified as non-controlling interest in the consolidated statements of financial position and consolidated statements of profit or loss.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

E - Financial Position

1. Summary of Financial Statements

Financial statements are prepared in accordance with the CMB's Communiqué Serial:II, 14.1 and have not been reviewed as of 31 March 2014.

Summary of Balance Sheet

(Thousand TRY)	(Not Reviewed)	(Audited)
	Current Period	Previous Period
	1 January - 31 March 2014	1 January - 31 December 2013
Current Assets	7.088.497	6.008.498
Non-current Assets	8.207.827	8.025.986
Total Assets	15.296.324	14.034.484
Current Liabilities	3.876.094	2.475.406
Non-current Liabilities	2.857.089	2.852.259
Shareholders' Equity	8.563.141	8.706.819
Total Liabilities	15.296.324	14.034.484

Summary of Income Statement

(Thousand TRY)	(Not Reviewed)	(Not Reviewed)
	Current Period	Previous Period
	1 January - 31 March 2014	1 January - 31 March 2013
Sales Revenue	2.934.637	2.428.942
Operating Profit	531.338	338.295
Profit from Continuing Operations Before Taxation	511.941	301.137
Profit for the Period (*)	450.669	240.503
EBITDA	624.577	424.412
Earnings Per Share	12,35%	6,52%

(*) Shareholder's share in the net profit for the period is TRY 432.377 thousand in March 2014 (March 2013: TRY 228.248 thousand).

2. Key Ratios

(%)	1 January - 31 March 2014	1 January - 31 March 2013
Operating Profit Margin	18,1	13,9
Profit Margin	14,7	9,4
EBITDA Margin	21,3	17,5

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

3. 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.

The Nature and Amount of Issued Capital Market Instruments

As of 13 March 2013, completed sales of the Group is the total nominal value of TRY 200.000 thousand floating rate bond issue with 6-months coupon payments, principal payment at the maturity date of 11 March 2015 and 150 basis points added to the benchmark interest payments that is determined at coupon payment dates.

4. Dividend Distribution Policy

Erdemir Groups' Dividend Distribution Policy is as follows:

"Company implements the policy of distributing the maximum dividend which the financial leverage ratios and expectation of future cash flow generation allow within the scope of effective legal regulations and clauses of Company's Articles of Association. In accordance with this policy, Company will distribute cash dividend which is gross 91,8190%, net 78,0461% of the distributable profit by the end of 2013. Dividend distribution policy is reviewed by the Board of Directors every year considering national and global economic conditions, Company's projects on agenda and funds.

General Assembly is authorized for distribution of dividend advance in accordance with relevant legislations.

Dividend is paid by fixed or variable installments in accordance with the legislation by giving authority to the Board of Directors at the General Meeting, where dividend distribution is decided, until 15 December of the relevant calendar year."

Annual General Assembly dated 31 March 2014, dividend distribution (gross dividend per share: TRY 0,2343) amounting to TRY 820.000 thousand from 2013 net profit was approved. The dividend payment date is 26 May 2014.

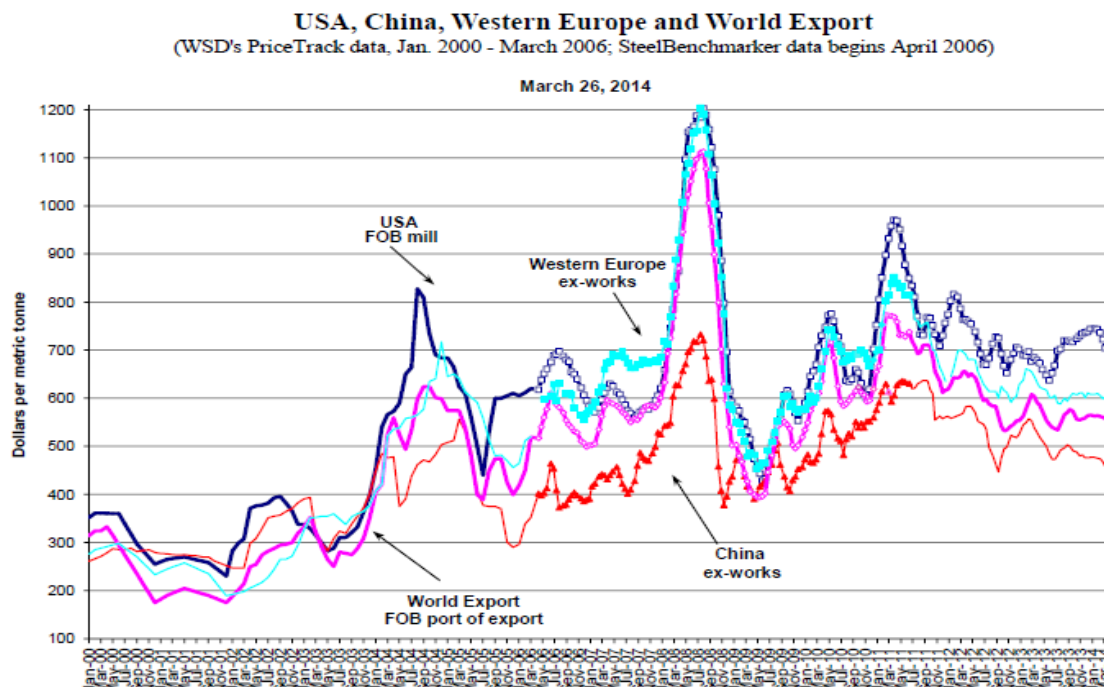
**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
WITH THE COMMUNIQUÉ SERIAL:II, NO:14.1**

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

5. Information about the sector

Global crude steel production in March 2014 increased by 2.7 percent year on year to 141.3 million metric tons. In the meantime, total global crude steel production in the first quarter of the current year rose 2.5% compared to the same period of 2013, amounting to 405.7 million metric tons. In first quarter, crude steel output in Asia amounted to 274.0 million metric tons, up 2.6%, with 202.7 million metric tons produced by China, up 2.4%, 27.6 million metric tons produced by Japan, up 3.5%, and 17.4 million metric tons produced by South Korea, up 5.2% - with all comparisons on year-on-year basis. EU-28 countries produced 43.8 million metric tons of crude steel in first quarter, up by 6.7% compared with first quarter of 2013. Germany's output was 11.3 million metric tons, up 4.3% year on year, Italy's crude steel output was 6.6 million metric tons, up 9.4% year on year, and Spain's crude steel output amounted to 3.6 million metric tons, up 8.3% year on year. Iran's crude steel production amounted to 3.8 million metric tons, up 7.7% year on year. The CIS registered a crude steel output of 26.3 million metric tons, down 2.8% year on year, with Russia producing 17.2 million metric tons, increasing by 0.4%, and Ukraine producing 7.5 million metric tons, down by 10.1%, both on year-on-year basis. In North America, crude steel output totaled 29.9 million metric tons, up 0.8% year on year, with the US producing 21.5 million metric tons and Mexico producing 5 million metric tons, up 0.1% and 9.6% respectively on year-on-year basis. Meanwhile, crude steel output in South America amounted to 10.9 million metric tons, down by 0.4% year on year, with Brazil's output totaling 8.2 million metric tons, up 0.4% year on year. In March, the average capacity utilization of steel mills across the globe was 79%, 1.4% higher by monthly comparison.

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



Turkey's crude steel output decreased by 4.3% year on year and increased by 4.8% month on month to 2.8 million metric tons. In the given month, Turkey's crude steel output by electric arc furnaces rose 1.6% to 2.1 million metric tons, while production by blast furnaces decreased by 17.9 percent to 729 thousand metric tons due to a breakdown at domestic producer Isdemir, both on year-on-year basis.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

6. The Position of Erdemir Group within the Sector

Erdemir Group's production in 2013 has been expanded to 8.3 million tons. In 2014, the crude steel production in Ereğli Plant has increased by 1.2% and went up to 931 thousand tons while the crude steel production in İskenderun went down to 1,157 thousand tons with a decrease of 7.5%.

7. Developments Regarding the Plants

During the G20 summit it was recognized that the struggle against economic crises is coming to an end and now it is time for the countries to focus on sustainable growth. For the year of 2014, IMF and World Bank have revised their forecasts in positive ways. In contrast there are some concerns that global growth will remain limited, due to facts that political uncertainties continue in developing economies and some of those economies revise their monetary policies, However, the upwards demand trend in developed markets starting from the last quarter of 2013, resulting in a positive atmosphere.

Eurozone economy has grown 0.3% (Y.O.Y.) in the 4th quarter of 2013. Although S&P, the international rating institution has downgraded credit rating of the EU, European Central Bank did not revise its 2014 monetary policies, which is an indicator that the growth will somewhat continue. Germany and France are the leading economies of the zone and they demonstrate a progress beyond expectations. Spain and Portugal were vastly affected from the debt crises, but now they show signs of recovery. Greek economy has shrunk 25% during the last 6 years; nonetheless today she enters a phase of recovery due to recent economic and financial reforms. For the Eurozone overall, Investment incentives in key sectors such as industry and construction and easing the fragility of banking system by redevelopment and improvement of credit conditions; seem as the key factors for a stable economic growth.

Indications show that the US economy is also recovering. As of early 2014 FED has decided to shrink asset purchase program. In parallel to national employment ratio, purchases are expected to gradually decrease. FED closely monitors employment and inflation figures to maintain financial stability. Reconciliation over federal budget has greatly reduced the risks of public spending. Positive economic indications and the increase in employment, supports optimistic expectations for the year 2014.

Slowdown in the acceleration of Chinese industry seems prominent for world's second largest economy. The People's Bank of China (PBC) tightens liquidity in order to limit house price index inflation and to control credit growth, which is resulting in an increase in interest rates. PMI (Purchasing Managers Index) for manufacturing industry remains below the threshold level, indicating a cutback in production operations. Although an increase tendency in credit volumes remain as a result of strong demand in Chinese economy, it appears that PBC interferes low interest rates by withdrawing liquidity from the market. Negative trends in Chinese economy give the impression that Chinese government may need to initiate new stimulation programs in the future.

Although anti-deflation policies in Japanese economy are evident and obtain an inflation rise, experts evaluate such strategies as far from being sustainable. Government spending takes expansionary steps. On one hand Japan promotes private sector growth by financial and momentary aids, on the other hand she raises taxes to control debt burden. As sales tax ratio in Japan increase from 5% to 8%, Japanese economy may be expected to narrow down.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

Turkish economy grew around 4% during the last quarter of 2013. S&P cut Turkish sovereign credit rating outlook to negative, however the investability quotient has not changed. Increase in the exports to EU indicate a positive outlook for Eurozone which is one of the very important markets in the first quarter of 2014.

Within the framework of aforementioned developments, according to World Steel Association (WSA) figures global crude steel output in the first two months of 2014 has increased by 1.6% (Y.O.Y), reaching 261.6 million tons.

According to WSA data during the first two months of 2014, Turkey's crude steel production decreased 0.1% (Y.O.Y), with the production of 5.5 million tons. During this period Turkey maintained her eighth rank among the biggest steel manufacturers of the world and is in the second position following Germany among the European Union countries.

Apparent steel consumption of Europe has decreased 0.5% in 2013. However, according to WSA estimations apparent steel consumption is expected to increase by 3.2% in 2014, due to recovery indications of the second half of 2013.

According to the data recently published by the Turkish Iron Steel Manufacturers Association; the flat and long finished steel consumption of Turkey has decreased by 3.3% in the first two months of 2014 (Y.O.Y), reducing to 4.57 million tons. In the same period, the consumption of long steel products has increased by 0.8%, reaching 3.97 million tons and flat steel consumption increased by 0.9% (Y.O.Y), reaching 2.3 million tons.

According to these developments in the industry, the total flat product sales of Erdemir Group increased 6 % in the first quarter of 2014 and reached to the level of 1,7 million tons. The domestic flat product sales increased 11 % (Y.O.Y.) and reached 1,5 million tons.

Despite economic slowdown in Europe and political instability in the Middle East, Erdemir Group also managed to export 145 thousand tons of flat products to over 20 countries globally. Also, it is estimated that Erdemir Group has increased its domestic flat steel market share and increased it to the level of 36%.

In the first quarter of 2014, Erdemir Group's long product sales decreased by 23% to 352 thousand tons. The domestic long product deliveries decreased 12% and came to 256 thousand tons and the total long product exports was 96 thousand tons.

8. Production Plants and Productivity

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

Capacity used (%)	1 Jan- 31.Mar.14	1 Jan- 31.Mar.13
Liquid Steel	99%	98%
Tinplate	79%	101%
Galvanized	92%	106%
Cold Rolled	82%	88%
Hot Rolled	73%	71%
Plate	103%	84%

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

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

Capacity used (%)	1 Jan- 31.Mar.14	1 Jan- 31.Mar.13
Liquid Steel	90%	97%
Billet	44%	70%
WireRod	100%	129%
Hot Rolled	84%	81%

9. Products

The main products of Erdemir Group are as follows:

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

10. Production (quantity)

Final Products (000 Tons)	1 January - 31 March 2014	1 January - 31 March 2013
Flat Products	1.675	1.600
Long Products	317	445
Iron Ore and Pellet	595	496

11. Developments Regarding Sales

Erdemir Group, having the most comprehensive flat steel product range in Turkey, continues its sustainable growing target consistently with its steel service center investments, plus product and service quality it offers to its customers.

Parallel to the positive signals in global economy, Erdemir Group has realized higher than targeted deliveries to the industries like packaging, automotive, steel, pipe manufacturing. In addition to these industries, Erdemir Group has added 32 new customers to its customer portfolio at first quarter of 2014 thanks to its customer focused sales & marketing approach.

By the first quarter of 2013 year, orders are continued to be taken from the market intensively for the cold slitting line at the modern steel service center commissioned in Ereğli and besides, trapezoid and multi blanking lines have been launched and serial orders have begun to be delivered tailored to the demands of the market. Another project realized in 2013 was the Customer Relations Management (CRM) project. It is being actively used under the structure of existing Marketing and Sales Organization and the system developments are continuously carried out in order to satisfy challenging demands of today's marketplace.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

In order to develop our relations with customers who have become a focus point with reconstruction of the Sales & Marketing Organization; customer visits, congress and exhibition participations in Turkey and abroad, meetings with industry unions and organizations of customer activities have been continued. Our product range, managed dynamically according to expectations of our customers with the new quality and product development studies aimed to final user, is continued to be developed with additions and changes made in the first quarter and our number of grades offered to the market in flat steels has reached to 395 and in long products to 239.

Feasibility studies of the investments planned to continuously improve the product & service quality presented by Erdemir Group are continued during 2014.

12. Sales (quantity)

Final Products (000 Tons)	1 January - 31 March 2014	1 January - 31 March 2013
Flat Products	1.671	1.569
Long Products	352	456
Iron Ore and Pellet Sales (*)	763	636

(*) 684 thousand tons of Ermaden's sales are to Group Companies as of 31 March 2014. (31 March 2013: 552 thousand tons).

F - Risks and Evaluation of the Board

1. 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.

Financial valuation and technical assessment report of investments is presented to the Corporate Finance Management. 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, Corporate Finance Management evaluates the results of the financial affairs and reports to Finance Coordinator. Investment advices not approved by Corporate Finance Management will not be offered to the Board of Directors.

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

(Amounts are expressed in thousand Turkish Liras ("TRY") unless otherwise indicated.)

2. The Early Detection of Risk Committee

With the decision of Ereğli Iron and Steel Inc.'s Board Meeting dated 24 September 2012 and numbered 9167, The Early Detection of Risk Committee (Committee) was set up in accordance with the Capital Market Board's legislation.

The duties and working principles directive of the Committee were published on the company's website on the Investor Relations / Policies tab.

Within the scope of this directive and legal legislation, the purpose of the Committee is to early detect of risks to the Company's assets, development and existence, implement the measures necessary to deal with identified risks and manage risks.

The Committee meets every two months in line with the Board of Directors' meetings and the Committee fulfills its duties during these meetings. The Committee submits its activity report and summary of the minutes to the Board of Directors after the meetings. The secretariat is responsible for keeping the meeting minutes.

G - Other Information

1. Organizations Out of the Headquarters

None.

2. Information about Related Party Transactions

There is no transaction amounting to 10% or more of the total assets or gross sales in consolidated financial statements as of 31 March 2014.

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 13 February 2014. 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 2013. In year 2012, all commercial transactions between our Company and our Controlling Shareholder and its subsidiaries are executed according to market conditions."

3. Information for Shareholders

None.
