

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

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

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

01.01.2014 - 30.06.2014

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.	1.724.982	49,29
Publicly Held	1.667.181	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.

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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.

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Executive Management

Executive Management	Title	Effective from	Education	Experience
Sedat ORHAN	Chief Executive Officer	16.08.2013	Karadeniz Technical 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 SATUN OLSUN	ERDEMİR Group Human Resources Coordinator	10.02.2014	Marmara University - International Relations	18 Years
Naci Özgür ÖZEL	ERDEMİR Group Strategic Planning and Business Development Coordinator	29.05.2014	İstanbul Technical University – Industrial Engineering	18 yeras
Banu KALAY ERTON	ERDEMİR Group Corporate Affairs Coordinator	13.06.2014	Mimar Sinan University - City and Regional Planning	20 years
Ahmet Tunç NOYAN	ERDEMİR Group Information Technologies Coordinator	01.07.2014	Naval Academy - Electronics Engineering	25 years

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

ERDEMİR Group Strategic Planning and Business Development Coordinator position has been developed. Naci Özgür ÖZEL has been assigned to this position on 29.05.2014.

ERDEMİR Group Corporate Affairs Coordinator position has been developed. Banu KALAY ERTON has been assigned to this position on 13.06.2014.

Ahmet Tunç NOYAN has been assigned as ERDEMİR Group Information Technologies Coordinator on 01.07.2014.

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 30 June 2014 and 31 December 2013 are as follows:

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	Paid Hourly Personnel	Paid Montly Personnel	30 June 2014 Total
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.593	1.806	6.399
İskenderun Demir ve Çelik A.Ş.	4.222	1.227	5.449
Erdemir Madencilik San. ve Tic. A.Ş.	127	149	276
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	63	80	143
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	152	152
Erdemir Romania S.R.L.	217	51	268
	<u>9.222</u>	<u>3.465</u>	<u>12.687</u>
	Paid Hourly Personnel	Paid Montly Personnel	31 December 2013 Total
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
	<u>9.267</u>	<u>3.534</u>	<u>12.801</u>

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 01.01.2014 – 30.06.2014. 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;

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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.

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 5.740 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

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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 80.430 thousand as of 30 June 2014 (30 June 2013: USD 92.068 thousand).

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
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

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.

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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 30 June 2014.

Summary of Balance Sheet

(Thousand TRY)	(Reviewed)	(Audited)
	Current Period	Previous Period
	1 January - 30 June 2014	1 January - 31 December 2013
Current Assets	6.590.989	6.008.498
Non-current Assets	7.943.485	8.025.986
Total Assets	14.534.474	14.034.484
Current Liabilities	3.467.228	2.475.406
Non-current Liabilities	2.423.830	2.852.258
Shareholders' Equity	8.643.416	8.706.820
Total Liabilities	14.534.474	14.034.484

Summary of Income Statement

(Thousand TRY)	(Reviewed)	(Reviewed)
	Current Period	Previous Period
	1 January - 30 June 2014	1 January - 30 June 2013
Sales Revenue	5.644.087	5.047.032
Gross Profit	1.122.702	913.298
Operating Profit	984.263	838.457
Profit from Continuing Operations Before Taxation	893.613	709.336
Net Profit for the Period	807.620	565.315
Shareholder's share in the Net Profit for the Period	777.099	544.289
EBITDA	1.160.362	963.976
Earnings Per Share	22,20%	15,55%

2. Key Ratios

(%)	1 January - 30 June 2014	1 January - 30 June 2013
Gross Profit Margin	19,9%	18,1%
Operating Profit Margin	17,4%	16,6%
EBITDA Margin	20,6%	19,1%
Net Profit Margin	14,3%	11,2%
Shareholder's share in the Net Profit Margin	13,8%	10,8%

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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."

Dividend distribution (gross dividend per share: TRY 0,2342857) amounting to TRY 820.000.000 from 2013 net profit was approved during Annual General Assembly dated 31 March 2014. Dividend payment has started as of 26 May 2014.

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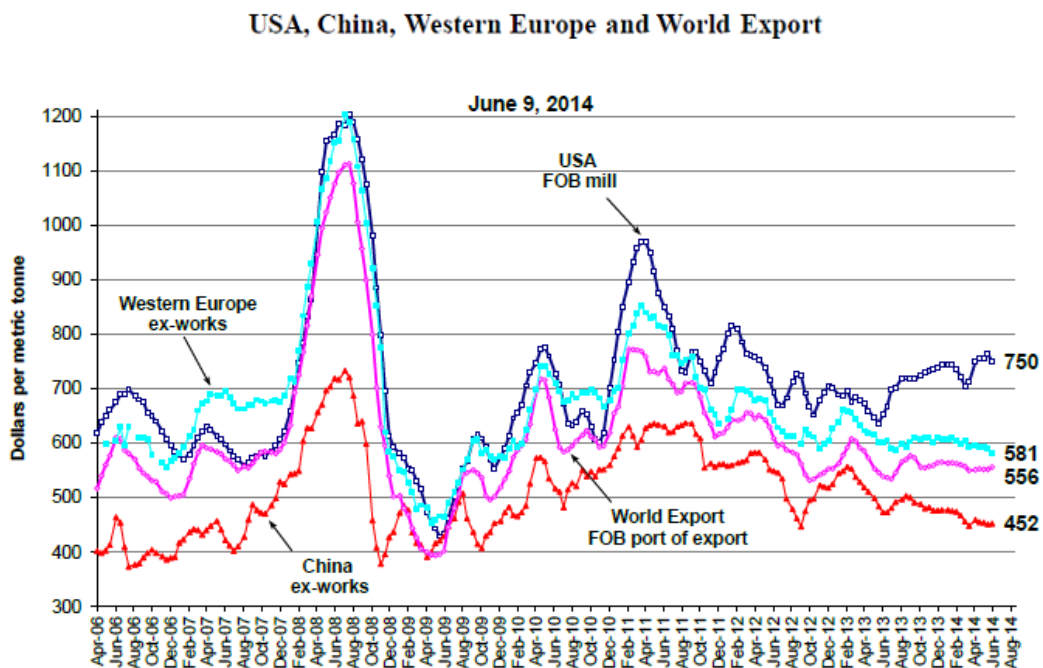
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5. Information about the sector

Global crude steel production in June 2014 increased by 3.1% year on year to 137.1 million metric tons. In the meantime, total global crude steel production in the first half of the current year rose 2.5% compared to the same period of 2013, amounting to 821.3 million metric tons. In first half, crude steel output in Asia amounted to 555.5 million metric tons, up 2.9%, with 411.9 million metric tons produced by China, up 3.0%, 55.2 million metric tons produced by Japan, up 0.9%, and 36.1 million metric tons produced by South Korea, up 9.1% - with all comparisons on year-on-year basis. EU-28 countries produced 87.4 million metric tons of crude steel in first half, up by 3.8% compared with first half of 2013.

In June, the average capacity utilization of steel mills across the globe was 78.3%, 0.1% points lower compared to June 2013.

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



In June this year, Turkey's crude steel output increased by 6.7% year on year and by 2.7% compared to May to 3.1 million metric tons, despite the slack demand caused by Ramadan, the crisis in Iraq, and competition from the Chinese in the long steel market. In the given month, Turkey's crude steel output by electric arc furnaces decreased by 4.7% month on month, but increased by 0.4% year on year to 2.1 million metric tons, while production by blast furnaces increased by 21.5 percent month on month and by 22% year on year to 1.1 million metric tons.

Meanwhile, in the first half of this year Turkey's crude steel output recorded a decrease of 0.3% year on year, totaling 17.3 million mt. In the given period, Turkey's crude steel production by electric arc furnaces and blast furnaces both declined by 0.3% to 12.2 million metric tons and 5.1 million metric tons respectively, both on year-on-year basis.

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6. The Position of Erdemir Group within the Sector

Erdemir Group's production in 2013 has been expanded to 8.3 million tons. In the first half of 2014, the crude steel production in Ereğli Plant has increased by 0.4% and went up to 1.868 thousand tons while the crude steel production in İskenderun went down to 2.174 thousand tons with a decrease of 12.1%. In the first half of 2014 Erdemir Group's production has decreased 6.7% and went down to 4.042 thousand tons.

7. Developments Regarding the Plants

According to World Steel Association (WSA) figures global crude steel output in the first six months of 2014 has increased by 2.5 % (Y.O.Y), reaching 821.4 million tons.

According to WSA data during the first six months of 2014, Turkey's crude steel production decreased 0.3% (Y.O.Y), with the production of 17.3 million tons. During this period Turkey maintained her eighth rank among the biggest steel manufacturers of the world and her second position following Germany among the European Union countries.

Apparent steel consumption of Europe has decreased 0.2% in 2013. However, according to WSA estimations apparent steel consumption is expected to increase by 3.1% in 2014, due to recovery indications since 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 increased by 2.0% in the first six months of 2014 (Y.O.Y), rising to 15.0 million tons. In the same period, the consumption of long steel products has increased by 6.8%, reaching 8.2 million tons but flat steel consumption decreased by 3.3% (Y.O.Y), reducing to 6.8 million tons.

Despite partial contraction in steel consumption, total flat product sales of the Erdemir Group of Companies increased 5,6 % in the first half of 2014 and reached to the level of 3,4 million tons. The domestic flat product sales increased 6,5 % (Y.O.Y.) and reached 3,1 million tons.

Despite economic slowdown in Europe and political instability in the Middle East, the Erdemir Group of Companies also managed to export 379 thousand tons of flat products to over 30 countries globally. Also, it is estimated that Erdemir Group has increased its domestic flat steel market share and increased it to the level of 39%.

In the first half of 2014, due to maintenance activities in Group's facilities, Erdemir Group's long product sales decreased by 36% to 557 thousand tons. The domestic long product deliveries decreased 31% and reduced to 445 thousand tons and the total long product exports were 112 thousand tons.

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8. Production Plants and Productivity

The information about the capacities of main product groups by Group are stated below:

Capacity used (%)	1 January - 30 June 2014	1 January - 30 June 2013
Liquid Steel	91%	97%
Tinplate	85%	102%
Galvanized	99%	102%
Cold Rolled	82%	93%
Hot Rolled	78%	76%
Plate	109%	80%

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 - 30 June 2014	1 January - 30 June 2013
Flat Products	3.356	3.251
Long Products	545	861
Iron Ore and Pellet	1.211	1.187

11. Developments Regarding Sales

Being the only integrated flat steel producer in Turkey and having the most comprehensive flat steel product range among Turkish producers, The Erdemir Group of Companies (Erdemir Group) continues to provide product and service quality to customers. Additionally, throughout modernization of production lines and steel service center investments, Erdemir Group endures its sustainable growth goal in a stable fashion as it has been achieved during the recent years.

According to World Steel Association (WSA) rankings on top steelmakers, Erdemir Group has declined five steps down to 40th rank globally; however it inclined two steps up to 8th rank in Europe and inclined one step up to 3rd rank among EU-27 countries. Two of the Erdemir Group of Companies were cited as the top 500 industrial establishments in Turkey were declared by İstanbul Chamber of Industry; in which Ereğli Demir ve Çelik Fabrikaları T.A.Ş took the 8th and İskenderun Demir ve Çelik A.Ş. took the 9th rank.

Parallel to the positive signals in global economy, Erdemir Group continues to deliver shipments in line with its objectives in industries such as packing, automotive or steel pipe. As a result of its customer oriented strategy, ERDEMİR Group has added 32 new customers to its portfolio during the second quarter of 2014; totaling 63 new customers during the first half of the year.

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A new and modern steel service center is operational since the first quarter of 2013, where the cold slitting line has been receiving intensive orders from the market. Additionally, trapezoid, multi blanking and hot slitting lines are also commissioned and receiving serial orders, tailored to customer demands. Another project that is currently operational is the Customer Relations Management (CRM). It is being actively used throughout the operations of marketing and sales organization. In conformity to challenging demands of today's marketplace, further works of system development and integration continue.

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 continued. Our product range are managed dynamically and tailored to customer expectations. Additionally, product developments and newer steel grade works aiming the final user demand, keeps developing. Additions and changes made in the first quarter and our number of grades offered to the market in flat steels has reached to 400 level and in long products to 250.

Feasibility studies of the investments planned to continuously improve the product & service quality provided by Erdemir Group also continue.

12. Sales (quantity)

Final Products (000 Tons)	1 January - 30 June 2014	1 January - 30 June 2013
Flat Products	3.439	3.257
Long Products	557	876
Iron Ore and Pellet Sales (*)	1.481	1.284

(*) 1.292 thousand tons of Ermenen's sales are to Group Companies as of 30 June 2014. (30 June 2013: 1.162 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.

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

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

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.

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 30 June 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

In order to carry out business activities in Far East, the Group has established "Erdemir Asia Pacific Private Limited (EAPPL)" with a capital of USD 250.000 in Singapore in 4 July 2014, which is a wholly owned subsidiary of Erdemir.
