



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

For the Period 1 January – 30 September 2014  
Board of Directors' Activity Report

**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 - 30.09.2014

**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](http://www.erdemir.com.tr)

**3. Shareholding and Capital Structure**

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

<b>Shareholders</b>	<b>Shares (Thousand TRY)</b>	<b>%</b>
Ataer Holding A.Ş.	1.724.982	49,29
Publicly Held	1.667.181	47,63
Erdemir's Own Shares	107.837	3,08
<b>Total</b>	<b>3.500.000</b>	<b>100,00</b>

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 10<sup>th</sup> and 11<sup>th</sup> articles of Articles of Association within the framework of Turkish Commercial Code and Capital Market Law.

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WITH THE COMMUNIQUE SERIAL:II, NO:14.1**

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The active members of the Board of Directors as of 30.09.2014:

<b>Board of Directors</b>	<b>Title</b>	<b>Effective from</b>
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 7 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 363<sup>rd</sup> 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**

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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

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

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ERDEMİR Group Human Resources Coordinator position has been established. Aylin SATUN OLSUN has been assigned to this position on 10.02.2014. Aylin SATUN OLSUN's duty as Erdemir Group Human Resources Coordinator has ended as of October 13, 2014. Assignment has not yet occurred, as of the reporting period end date.

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

ERDEMİR Group Corporate Affairs Coordinator position has been established. 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 authority for transactions 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 January 1, 2013 and December 31, 2014 has been signed on August 5, 2013 between Iskenderun Iron & Steel Co. and Steel Trade Union as the collective bargaining agency.

In the scope of collective agreement applications, the rights and benefits of the 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, accompaniment 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) and meal 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, marital leaves, bereavement leaves, 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.

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

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The number of the personnel on 30 September 2014 and 31 December 2013 are as follows:

	Paid Hourly	Paid Montly	30 September 2014
	Personnel	Personnel	Total
Ereğli Demir ve Çelik Fab.T.A.Ş.	4.647	1.836	6.483
İskenderun Demir ve Çelik A.Ş.	4.205	1.745	5.950
Erdemir Madencilik San. ve Tic. A.Ş.	126	139	265
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	60	76	136
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	-	116	116
Erdemir Romania S.R.L.	223	51	274
	<u>9.261</u>	<u>3.963</u>	<u>13.224</u>
	Paid Hourly	Paid Montly	31 December 2013
	Personnel	Personnel	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 – 30.09.2014. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been assigned.

## 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:

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;

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

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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 7.492 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

**C – Research and Development Studies**

Establishment activities of Erdemir R&D Center has been completed and the center has been approved and certified by Ministry of Science, Industry and Technology. Our R&D center has become the first certified center in Iron and steel production sector in Turkey. Erdemir R&D center has a material characterization laboratory consisting of material preparation, microstructure evaluation, dynamic thermo-mechanic simulation and metal forming laboratories. Currently the number of R&D employee is reached to 39. In the meantime, new steel grades studies which are requested by respected customers are still going on.

**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; in Ereğli Steel Service Center, commercial operation for all lines (Cold Slitting Line, Oscillating Cut to Length Line, Multi Blanking Line, Hot Slitting Line and Hot Cut to Length Line) has began and productions on each line continues. Investments in BOF and

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

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Continuous Casting Facilities in accordance with reline are almost completed. Load Tests in Air Separation Plant No.7 continues. While Load Tests continue, incomplete works related to the assembly, electrical works and security systems are being completed. Tests, commissioning and performance tests for TinCal Automation Modernization are completed and commercial operation have began. Tender studies for R&D Simulation Center, which will be the one and only in our country, continues. Activities related to Environmental Investments, Improvement of Level 1 and 2 Systems in BOF and Continuous Casting Facilities and Installation of an External Combustion System at the Cogeneration Power Plant projects are ongoing. After signing the contract for Blast Furnace Top Pressure Recovery Turbines, major engineering and construction permit activities continues. In Galvanizing Line No.2 project, proposals have taken and evaluation of proposals is ongoing. Activities related to Technical Specification of Steam Generator No.6, CPL-TCM Modernization, New Battery Cars Dust&Fume Collection System for Erdemir Coke Oven Batteries and CPL No.2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping Projects are in progress. Also, activities for The Integration of the Coal Grinding Plant No.3 into the Coal Injection Plant (PCI), and Converting Ladle Treatment to the Ladle Furnace projects, which are approved in the beginning of 2013, 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" projects are in progress. After signing the project contract of Blast Furnace Top Pressure Recovery Turbines No.3 and 4 major engineering activities continues. On June 2014 commercial operation of Hot Slitting Line has began and commercialization of truck weigh station is on going. Hot Rolling Mill Revamping, New Environmental Projects and No.2 Blast Furnace Reline and Stove Modernization projects are in bidding phase. In Air Separation Plant No:8 Project, proposals are assessed and project contract is waiting to be signed.

Total investments in Erdemir Group plants in 2014 amount to USD 106.487 thousand as of 30 September 2014 (30 September 2013: USD 124.074 thousand).

**2. Internal Control System and Internal Auditing Activities**

Internal Audit Department is in charge of evaluating and improving the effectiveness of risk management, control and governance processes of Erdemir Group companies and it reports directly to the Chairman and Executive Director of the Board. In accordance with Capital Markets Board regulations, the effectiveness of internal control system is evaluated by the Board of Directors at least once in a year. In this context, Internal Audit Department reports to the Audit Committee, which comprises of independent board members, about internal audit activities regularly as requested.

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WITH THE COMMUNIQUÉ SERIAL:II, NO:14.1**

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### 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

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. Since EAPPL which was presented in long-term financial investments in the accompanying financial statements has not started its operations yet and hasn't significant effect on consolidated financial statements, it is not included in the consolidation.

## 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 September 2014.

#### Summary of Balance Sheet

(Thousand TRY)	(Unaudited)	(Audited)
	Current Period 1 January - 30 September 2014	Previous Period 1 January - 31 December 2013
Current Assets	7.563.443	6.008.498
Non-current Assets	8.464.767	8.025.986
<b>Total Assets</b>	<b>16.028.210</b>	<b>14.034.484</b>
Current Liabilities	3.636.446	2.475.406
Non-current Liabilities	2.661.868	2.852.258
Shareholders' Equity	9.729.896	8.706.820
<b>Total Liabilities</b>	<b>16.028.210</b>	<b>14.034.484</b>

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

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**Summary of Income Statement**

(Thousand TRY)	(Unaudited)	(Unaudited)
	Current Period	Previous Period
	1 January - 30 September 2014	1 January - 30 September 2013
Sales Revenue	8.594.739	7.199.531
Gross Profit	1.768.458	1.351.234
Operating Profit	1.561.205	1.188.563
Profit from Continuing Operations Before Taxation	1.460.869	983.704
Net Profit for the Period	1.260.161	796.103
Shareholder's share in the Net Profit for the Period	1.214.445	767.880
EBITDA	1.833.743	1.398.337
Earnings Per Share	34,70%	21,94%

**2. Key Ratios**

(%)	1 January - 30 September 2014	1 January - 30 September 2013
Gross Profit Margin	20,6%	18,8%
Operating Profit Margin	18,2%	16,5%
EBITDA Margin	21,3%	19,4%
Net Profit Margin	14,7%	11,1%
Shareholder's share in the Net Profit Margin	14,1%	10,7%

**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.

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

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**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 0,2343) amounting to TRY 820.000 thousand from 2013 net profit was approved during Annual General Assembly dated 31 March 2014. Dividend payment was completed as of 26 May 2014.

**5. Information about the sector**

Global crude steel production in September 2014 decreased 0,1% year on year to 134.4 million metric tons. In the meantime, total global crude steel production in the first nine months of the current year rose 2.1% compared to the same period of 2013, amounting to 1,230.8 million metric tons. In the first nine months, crude steel output in Asia amounted to 833.7 million metric tons, up 2.5%, with 618 million metric tons produced by China, up 2.3%, 83.1 million metric tons produced by Japan, up 0.8%, and 53.3 million metric tons produced by South Korea, up 9.4% - with all comparisons on year-on-year basis. EU-28 countries produced 127.7 million metric tons of crude steel in first half, up by 2.9% compared with the same period of 2013.

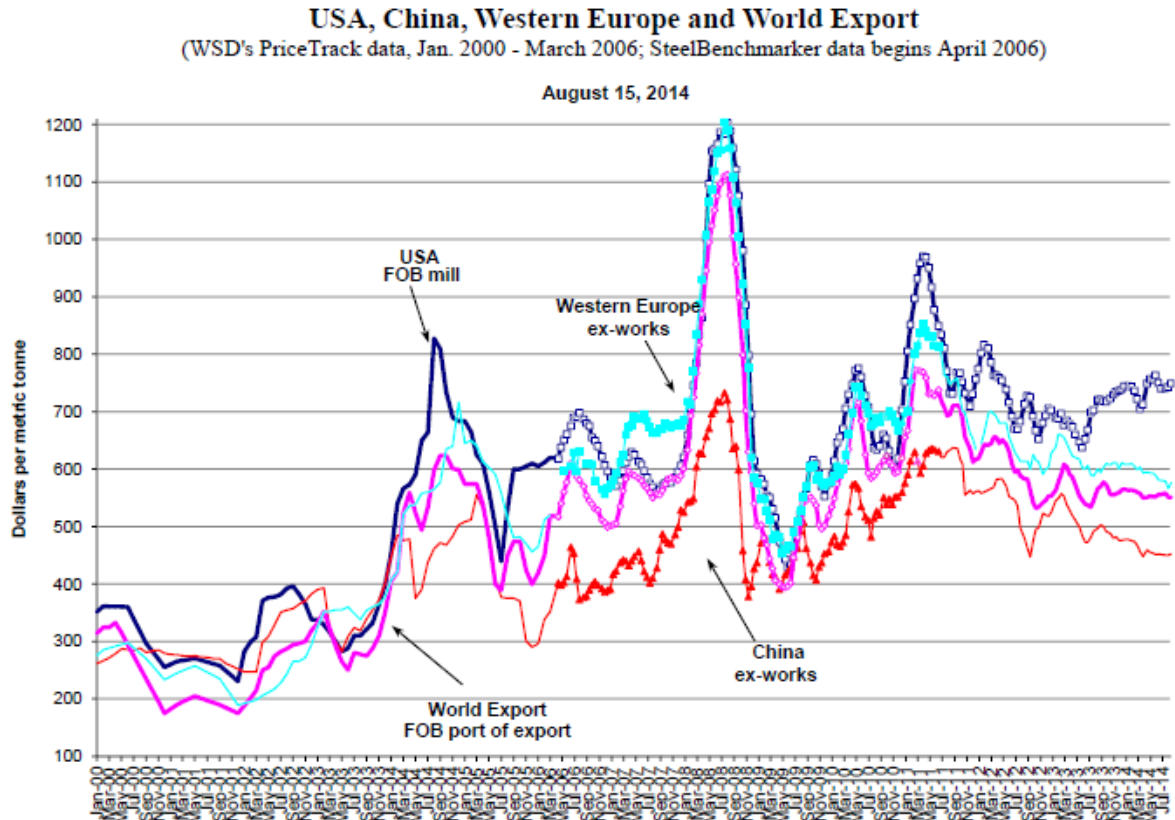
In September, the average capacity utilization of steel mills across the globe was 76.1%, 2.6% points lower compared to September 2013.

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

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



In September this year, Turkey's crude steel output decreased by 3.1 percent year on year and was down by 0.3 percent compared to August to 2.9 million metric tons. In the same month, Turkey's crude steel production by blast furnaces registered a rise of 5.9 percent to 0.85 million mt, while crude steel production by electric arc furnaces decreased by 6.5 percent to 2 million metric tons, both on year-on-year basis.

Meanwhile, in the first nine months of this year Turkey's crude steel output recorded an increase of 0.3 percent year on year, totaling 25.7 million mt. In the given period, Turkey's crude steel production by electric arc furnaces declined by 1.9 percent to 18.1 million metric tons and production by blast furnaces increased by 6 percent to 7.6 million metric tons, both on year-on-year basis.

## 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 nine months of 2014, the crude steel production in Ereğli Plant has decreased 0.5% and went down to 2.789 thousand tons while the crude steel production in İskenderun went up to 3.440 thousand tons with an increased of 9.5%. In the first nine months of 2014 Erdemir Group's production has increased by 4.8% and went up to 6.229 thousand tons.

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

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## 7. Operational Developments

According to World Steel Association (WSA) figures global crude steel output in the first nine months of 2014 has increased by 2,1% (Y.O.Y), reaching 1.231 million tons.

According to WSA data during the first nine months of 2014, Turkey's crude steel production increased 0,3% (Y.O.Y), with the production of 25,8 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 1,3% in the first eight months of 2014 (Y.O.Y), rising to 20,1 million tons. In the same period, the consumption of long steel products has increased by 2,4%, reaching 10,8 million tons and the flat steel consumption has increased by 0,1% (Y.O.Y), reducing to 9,3 million tons.

Despite weak growth figures in steel consumption, total flat product sales of the Erdemir Group of Companies increased 12% in the first nine months of 2014 and reached to the level of 5,2 million tons. The domestic flat product sales increased 11,6% (Y.O.Y.) and reached 4,7 million tons.

Despite economic slowdown in Europe and political instability in the Middle East, the Erdemir Group of Companies also managed to export 518 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 nine month of 2014, due to maintenance activities in Group's facilities, Erdemir Group's long product sales decreased by 19% to 848 thousand tons. The domestic long product deliveries decreased 16% and reduced to 678 thousand tons and the total long product exports were 170 thousand tons.

### Production Plants and Productivity

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

Capacity used (%)	1 January - 30 September 2014	1 January - 30 September 2014
Liquid Steel	93%	89%
Slab	83%	75%
Billet	42%	55%

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

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## 8. Products

The main products of Erdemir Group are as follows:

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

## 9. Production (quantity)

Final Products (000 Tons)	1 January - 30 September 2014	1 January - 30 September 2013
Flat Products	5.223	4.629
Long Products	819	1.022
Iron Ore and Pellet	2.011	1.957

## 10. Development in 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.

Erdemir Group has opened "Erdemir Asia Pasific Private Limited (EAPPL)", a wholly-owned subsidiary, in Singapore on July 4 to conduct its trading activities in the Far East.

Erdemir Group were cited as the top 500 company in Turkey were declared by FORTUNE Turkey; in which Ereğli Demir ve Çelik Fabrikaları T.A.Ş was ranked as the 15th when compared to the previous year.

Despite the geopolitical problems in the region of Middle East, 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 24 new customers to its portfolio during the third quarter of 2014; totaling 87 new customers during the first nine months of the year.

A new and modern steel service center is operational since the first quarter of 2013, where intensive orders are being continuously received from the market. The request of the processed products from the industries such as Automotive, White-Goods, Electronic industries are intensively supplied with the customer oriented view. Additionally, hot slitting lines are also commissioned and receiving serial orders at İsdemir facilities of Ersem.

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.

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

**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.)

**11. Sales (quantity)**

Final Products (000 Tons)	1 January - 30 September 2014	1 January - 30 September 2013
Flat Products	5.237	4.673
Long Products	848	1.052
Iron Ore and Pellet Sales (*)	2.137	1.815

(\*) 1.850 thousand tons of Ermaden's sales are to Group Companies as of 30 September 2014. (30 September 2013: 1.657 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, the Credited Direct Collection System and the Trade Credit Insurance. Risk positions of our customers are monitored regularly 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. Derivative instruments are assessed and analyzed in detail. According to firm and market situation, convenient transactions are executed within certain limits.

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

The feasibility reports, including all types of technical and financial evaluations, related to all planned investments in the Erdemir Group's mid/long term strategic road map are prepared by the System Development Department under the Deputy General Manager of the relevant Group Companies and are submitted to Business Development Directorate. The Business Development Department examines the feasibility reports from their consistency and accuracy perspectives, then prepares the financial evaluation reports by analyzing "Internal Rate of Return, Net Present Value, Return on Investment period and ratio, then submits these reports to the Group Financial Affairs Coordinator.

No planned investments can be submitted to the Board of Directors without the approval of the Group Financial Coordinator.

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**2. Committee of Early Risk Detection**

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 September 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 2013, all commercial transactions between our Company and our Controlling Shareholder and its subsidiaries are executed according to market conditions."

**3. Information for Shareholders**

None.

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