



EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

For the Period 1 January – 31 December 2017
Board of Directors' Activity Report

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
WITH THE COMMUNIQUE SERIAL:II, NO:14.1****A – General Information****1. Period of the Report**

01.01.2017 - 31.12.2017

2. Information About the Association

- **Title:** EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.
- **Trade Registry Number:** 863637
- **Address:** Barbaros Mah. Ardiç Sok. No: 6 Ataşehir/ İSTANBUL
- **Website:** www.erdemir.com.tr

3. Shareholding and Capital Structure

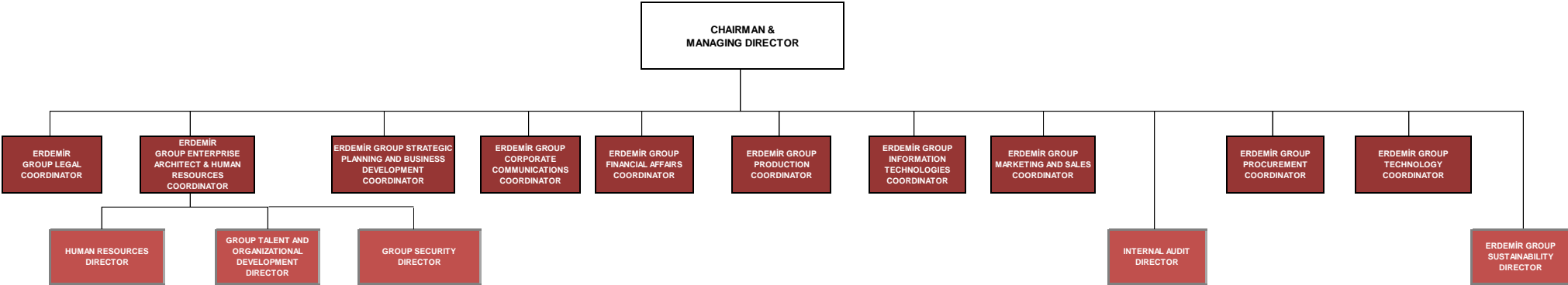
Authorized Capital : TRY 7.000.000 thousand
Paid-in Capital : TRY 3.500.000 thousand

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 in shareholding and capital structure.

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4. Organization Chart



There has been no change in organizational structure during the period.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
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In the 8th Item of 7th Article of Articles of Association stated as *“This capital is divided into shares Group A and Group B. 1 (one) share of certificate, issued to the bearer amounting to 1 Kr (one Kuruş) is A group and 349.999.999.999 (three hundred forty nine billion nine hundred ninety nine million nine hundred ninety nine thousand nine hundred ninety nine) share of certificates amounting to 3.499.999.999,99 (three billion four hundred ninety nine million nine hundred ninety nine thousand nine hundred ninety nine Turkish Liras, ninety nine Kuruş) is B Group.”* the capital is divided into shares Group A and Group B.

In the 9th Item of 7th Article of Articles of Association stated as *“The right of usufruct shall be established in favor of and to the name of Privatization Administration on the shares of A Group with all rights appertaining thereto unless otherwise decided by Supreme Board of Privatization. All voting rights on the shares of A Group shall be exercised by the holder of usufruct. (“usufruct”)”* the right of usufruct is established.

Within the frame of the right of usufruct, the rights and powers entitled to Privatization Administration in Articles of Association are as follows:

- In 3rd Item of 10th Article of Articles of Association stated as *“One of the Board members is elected by the General Assembly from among the candidates to be shown by the Directorate of Privatization Administration, which has the right of usufruct in representation of Group A shares.”*
- In 3rd Item of 11th Article of Articles of Association stated as *“In case the duty of the member of Board of Directors representing the Group A shares expires in any way within the term he has been elected for, the substitute member must also be elected among the candidates to be offered by the Privatization Administration as the usufructuary o represent the Group A shares.”*
- In 2nd Item of 12th Article of Articles of Association stated as *“Board of Directors shall have to discuss on a detailed report issued by the General Directorate showing the quarterly progress of investment projects, and to pass a resolution upon the suggestions made by the member of Board of Directors as the usufructuary to represent the Group A shares. The development of investment projects is reflected on the annual report of Board of Directors in detail. Furthermore, no resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 37 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the usufructuary to represent the Group A shares.”*
- In 3rd Item of 12th Article of Articles of Association stated as *“The member of Board of Directors in the capacity of usufructuary or a person to be addressed by him shall participate in the General Assemblies of Shareholders of Subsidiaries to represent the Group A shares of the Company in Subsidiaries. One of the members of Board of Directors of the Subsidiary shall be elected among the candidates to be shown by that representative or the member of the Board of Directors.”*,
- In 4th Item of 12th Article of Articles of Association stated as *“In the event that a resolution is to be passed in General Assemblies of the Subsidiary on issues concerning the rights granted to the Group A shares in the Subsidiary, the affirmative vote of the said representative or the member of the Board of Directors shall be sought.”*

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- In 5th Item of 12th Article of Articles of Association stated as “Resolutions to be passed by the Company’s Board of Directors on any rights and obligations regarding the Group A shares in the Subsidiaries shall be passed upon the affirmative vote of the member of Board of Directors in the capacity of the usufructuary.”
- In 6th Item of 12th Article of Articles of Association stated as “For the purposes of the present Articles of Association, “Subsidiary” refers to İskenderun Demir ve Çelik Anonim Şirketi and Erdemir Madencilik Sanayi ve Ticaret Anonim Şirketi.”
- In 7th Item of 12th Article of Articles of Association stated as “It’s mandatory that the member of Board of Directors in the capacity of usufructuary also casts an affirmative vote on resolutions to be passed concerning the rights granted to the Group A shares.”
- In 22th Article stated as “Resolutions regarding any amendment in the Articles of Association which are likely to affect, directly or indirectly, the obligations in the Share Sale Agreement in respect of investment and employment, and, the rights granted to the Group A shares in connection with those obligations as well as the amendments which are to affect the quorum for meeting and resolution of Board of Directors and the rights belonging to the Group A shares,
 - Resolutions regarding closedown or sales of or an encumbrance upon the integrated steel production facilities and mining facilities owned by the Company and/or its subsidiaries or a resolution on reduction in capacity of such facilities,
 - Resolutions regarding closedown, sales, demerger or merger or liquidation of the Company and / or its subsidiaries owning the integrated steel production facilities and mining facilities,

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

- In 37th Article stated as “Provided that it will be effective from the signature date of the Share Sale Agreement to be signed following the realization of the privatization transaction concerning the shares pertaining to the Republic of Turkey Prime Ministry Privatization Administration as per the Law no 4046, the fulfillment of commitments contemplated in the Share Sale Agreement concerning investment and employment shall be under the responsibility of the Company’s Board of Directors. This present Article 37 may be amended with the affirmative vote of the usufructuary representing Group A shares.”
- In Temporary Article 1st “The provisions of the Articles of Association concerning the right of usufruct, other than the amendments made in the clause 9 of the Article 7 of the Articles of Association of the Company, shall be eliminated when the usufruct established on Group A shares are removed.

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

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

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In Article 21st, headed Voting Right and Form of Representation stated as:

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

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

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

Participating in general assembly meetings via electronic means:

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

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

6. 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 regular general assembly to be approved. The Company's 2016 Regular General Assembly has been executed on March 31, 2017.

Within the frame of Turkish Commercial Code and Capital Market Law, at the Ordinary General Assembly held on March 31, 2017, the number of board member is stated as 9 and 6 of Board Members were selected for 3 years and 3 of Independent Board members were selected for 1 year pursuant to the 10th and 11th Articles of Article Of Association by the General Assembly.

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The active members of the Board of Directors as of reporting period:

Board of Directors	Title	Effective from
OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer BAKTIR)	Chairman – Executive Director	27.05.2013 (*)
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Deputy Chairman	12.09.2012 (*)
Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA)	Board Member	20.09.2012 (*)
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012 (*)
OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Represented by: Güliz KAYA)(**)	Board Member	12.09.2012 (*)
OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT)	Board Member	11.09.2012 (*)
Yunus ARINCI	Independent Board Member	31.03.2016
Ali FİDAN	Independent Board Member	31.03.2017
Kurtuluş Bedri VAROĞLU	Independent Board Member	31.03.2017

(*) Legal entity's duty starting dates were considered.

(**)The trade name of OYAK Girişim Danışmanlığı A.Ş. has been changed as OYAK Denizcilik ve Liman İşletmeleri A.Ş. by announce in the Trade Registry Gazette dated 31.10.2016

Information about Board Members' titles out of the company is given in App.1.

Changes in the Executive Board within the Period

It has been decided to be registered and to be announced of the assignment of Ömer Muzaffer BAKTIR as the representative of Chairman and Executive Director OYTAŞ İç ve Dış Ticaret A.Ş. as of January 16, 2017 due the end of Ali Aydın Pandır's duty on January 6, 2017 in the Trade Registry Gazette by the resolution of Board of Directors, dated January 5, 2017 and numbered 9442.

At the Ordinary General Assembly held on March 31, 2017, OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer BAKTIR), OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN), Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA), OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI), OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Represented by: Güliz KAYA), OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT) have selected as Board Members for 3 years and Yunus ARINCI, Ali FİDAN and Kurtuluş Bedri VAROĞLU have selected for 1 year as Independent Board Members.

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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.

Information About Board Members' and Executive Management's Titles out of the Company and The Declarations of Independent Board Members

Information about Board Members' and executive management's titles out of the Company is given in App.1, the declarations of Independent Board Members are given in App. 3.

Members of Board Committees, Frequency of Meetings, Operating Principals also Including Activities Performed and Evaluation of the Board on the Effectiveness of the Committees

Audit Committee, Risk Committee, Early Detection of Risk Committee and Corporate Governance Committee was established for the Board of Directors.

Board of Auditors held 4 meetings in 2017 and continued its activities in accordance with CMB Principles. Board Members participated in the meetings regularly.

Early Detection of Risk Committee held 6 meetings and Corporate Governance Committee 4 meetings in 2017. The Committees have continued to performed their works in accordance with CMB regulations.

The working instructions relating to the Committees take place on "www.erdemir.com.tr" website. No outside consultancy service procured by the Committees during the year.

Number of Meetings of the Board of Directors and Attendance of the Board Members

Board of Directors held 7 meetings in 2017. Board Members participated in the meetings regularly.

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Executive Management

Executive Management	Title	Effective from	Education	Experience
Sedat ORHAN	General Manager	16.08.2013	Karadeniz Teknik University – Mechanical Engineering	31 Years
Vacant	Executive Vice President (Operations)			
Aylin VELİOĞLU CELİK	Executive Vice President (Human Resources)	15.08.2016	Middle East Technical University – Political Science and Public Administration	29 Years
İbrahim Emrah SİLAV	Group Financial Management and Financial Affairs Coordinator	01.12.2017	Middle East Technical University - Economy	18 Years
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	34 Years
Başak TURGUT	Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	20 Years
İsmail Kürşad KORKMAZ	Group Procurement Coordinator	21.02.2017	Middle East Technical University – Political Science and Public Administration	22 Years
Vacant	Group Production Coordinator			
Vacant	Grup Technology Coordinator			
Can ÖRÜNG	Group Corporate Architecture and Human Resources Coordinator	07.02.2017	İstanbul Technical University – Business Administration Engineering	16 Years
Vacant	Group Strategy and Business Development Coordinator			
Vacant	Group Corporate Affairs Coordinator			
Can ÖRÜNG (By Proxy)	Group Information Technologies Coordinator			
Vacant	Group Legal Coordinator			

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Oğuz Nuri ÖZGEN's duty as Group Production Coordinator has ended as of January 18, 2017.

Title of the Group Human Resources Coordinator position has changed as Group Enterprise Architecture and Human Resources Coordinator and Can ÖRÜNG has assigned to this position by 07.02.2017.

Ahmet Tunç NOYAN's duty as Group Information Technologies Coordinator, has ended by 20.02.2017.

Bülent BEYDÜZ's duty as Group Financial Affairs Coordinator, has ended by 20.02.2017. Title of the Group Financial Affairs Coordinator position has changed as Group Financial Management and Financial Affairs Coordinator and Emre Berk HACIGÜZELLER has assigned to this position by 21.02.2017. Emre Berk HACIGÜZELLER's duty as Group Financial Management and Financial Affairs Coordinator has ended by 30.11.2017 and İbrahim Emrah SİLAV has assigned to this position by 01.12.2017

Şevkinaz ALEMDAR's duty as Group Procurement Coordinator, has ended by 20.02.2017 and İsmail Kürşad KORKMAZ has assigned to Group Procurement Coordinator position by 21.02.2017.

Eric Andre Comil VITSE's duty as Group Technology Coordinator, has ended by 14.04.2017.

Esat GÜNDAY's duty as Executive Vice President (Operations), has ended by 07.08.2017.

Naci Özgür ÖZEL's duty as Group Strategy and Business Development Coordinator, has ended by 29.09.2017.

Banu KALAY ERTON's duty as Group Corporate Affairs Coordinator, has ended by 29.09.2017.

Oya Şehirlioğlu's's duty as Group Legal Coordinator, has ended by 29.09.2017.

7. 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 March 31, 2017, 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.

8. Collective Labor Agreement Applications and the Benefits

26th Period Collective Labor Agreement, which will be valid between 01.09.2016-31.08.2018, has been signed on December 13, 2016 between Turkish Employers' Association of Metal Industries (MESS) on behalf of our company and Turkish Metal Union as the collective bargaining agency.

26th Period Collective Labor Agreement, which will be valid between January 1, 2018 and December 31, 2020 has been signed on 29 December, 2017 between Iron, Steel, Metal and Metallic Products Worker's Union and İskenderun Iron and Steel Works CO.

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

Bereavement allowance (in the case the worker dies), transportation and meal allowance, derived from the social benefits, are given to all employees; the rest is given only to blue-collar workers. Paid annual leaves, leaves of absence with excuse, marital leaves, bereavement leaves, maternity leaves, and pregnancy leave, accompaniment leaves for medical purposes, adoption leaves, part-time work leaves, transport leaves, unpaid leaves and nursing leaves can be taken by all employees; the rest is taken only by blue-collar workers.

The Group's payables for employee benefits as of December 31, 2017 and December 31, 2016 are as follows:

(thousand TRY)	31 December 2017	31 December 2016
Due to personnel	113.687	109.062
Social security premiums payable	64.251	59.662
	177.938	168.724

Provision for employee benefits on December 31, 2017 and December 31, 2016 are as follows:

(thousand TRY)	31 December 2017	31 December 2016
Employee termination benefits	511.971	448.932
Seniority incentive premium	43.468	38.884
Provision for unpaid vacations	81.374	79.603
	636.813	567.419

The number of the personnel on December 31, 2017 and December 31, 2016 are as follows:

	31 December 2017 Personnel	31 December 2016 Personnel
Blue collar	8.012	8.281
White collar	3.963	3.996
	11.975	12.277

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9. 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 2016 were met during the period January 01, 2017– December 31, 2017. "Corporate Governance Principles Compliance Report" the Company issues are given in App.2.

10. Amendments in The Articles of Association

By the General Assembly executed on 31 March 2017; 5th and 7th articles of Articles of Association has been changed as:

Article 5 - The head office of company is located in Istanbul. Its Address is Barbaros Mah. Ardiç Sok. No: 6 Ataşehir/ İSTANBUL.

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

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

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

SECTION II:

Capital:

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

The registered capital ceiling of the company is TRY 7,000,000,000.00 (seven billion Turkish Liras). When deems it necessary, Board of Directors may increase its capital by issuing share certificates each with a par value of 1 Kr (one Kuruş) and all issued to their bearers up to the amount of registered capital between 2017 and 2021, provided that the terms of this Article are complied with.

The permission of registered capital ceiling given by Capital Market Board is valid for 5 years between the years 2017 and 2021. Even if permitted registered capital ceiling would have not been reached at the end of 2021, in order for a decision on capital increase to be able to be taken by Board of Directors, Board of Directors must be empowered by General Assembly on a new period for the ceiling permitted before or a new ceiling after obtaining the permission of Capital Market Board. Should such an empowerment cannot be obtained, capital increase shall not be made by Board of Directors decision.

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

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Each share certificate has a 1 voting right.

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

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

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

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

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 March 31, 2017 is as follows:

In the 9th 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. Emre ÖZYILDIZ, 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 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 TRY 3.000 (monthly, in cash), the wages of independent Board members will be TRY 6.600 (monthly, in cash) and the new wages will be valid from the date of April 1, 2017.

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.

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Other than the wages determined by Company Rating System efficiency premium payment was made once in 2017 according to effectiveness periods. All healthcare costs and individual annuity insurance of the management are covered with insurance.

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

A total of TRY 26.741 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

C – Research and Development Studies

Group has realized research and development activities at "Erdemir R&D Center" that has been approved by Turkish Ministry of Science, Industry and Technology in 2014. R&D activities mainly consist of four groups as raw materials and iron making process, steel making and casting technologies, hot rolled products and process, cold rolled products and process.

As part of the R&D activities; 32 projects have been completed and 52 projects have been continued.

Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, until today 3 projects have been completed successfully. The studies and reporting activities have been continued for 5 supported projects.

R&D Center employees contributed to the intellectual capital of our company by participating the national / international organisations related to the iron and steel sector activities with 45 papers / oral or poster presentations, cumulatively until today.

R&D Center anniversary audit that organized by Turkish Ministry of Science, Industry and Technology has been completed successfully.

D – Activities and Important Developments Regarding the Activities

1. Investment Activities

Operating within the modern plants and by a modern production technology, Group produces competitive products globally and continues its investments aligned to continuous development strategy. In this scope;

In Erdemir Facility,

Equipment foundation works, building steel construction, technological steel and equipment erection works are on going for the 2nd Galvanizing Line Project. Commissioning have been performed for Blast Furnace' Top Recovery Turbine and Converting Ladle Treatment to the Ladle Furnace Projects.

In Converter Slack Stopping System Modernization Project two converter slack stoppers are commissioned and remaining one slag stopper will be commissioned in 3rd converter's 2018 planned stoppage. 19 of 38 projects related to Environmental Investments Program have been commissioned and 19 projects are ongoing.

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In the AR-GE Project, purchasing process of simulators and field activities continued. Field applications are ongoing for No. 1 Blast Furnace Stove Project and Raw Material Stocking and Blending Yard Modernization.

Contract have been signed and main engineering studies continued in the Cold Rolling Mill Picking Tandem Line (CPL-TCM) Product Range and Capacity Increase Project. Equipment manufacturing and supply works continue for CPL No.2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping and Modernization of Level 1-2 Automation Systems for Steel Shop & Continuous Casting Projects. Main and detail engineering activities continue for Roll Texturing Machine (EDT), Online Surface Inspection Systems, Additional Investments Energy Distribution Systems and Various Fire Detection and Extinguishing Systems Projects.

Purchasing studies continue for 2nd Hot Mill Quality and Sustainability Investments, New Wide Inspection and Recoil Line and Finished Goods Warehouses, 6th Steam Boiler Project and Heat Treatment Plant investments. The firm has been identified in the New Coastal Protection Construction Project and contract will be awarded. Main contract has been signed for Dynamic UPS and Panels Project.

4th Coke Battery and By Products Plant proposal evaluation is finished.

In İsdemir Facility,

Tests and commissioning studies have been completed for No.8 Air Separation Plant Project which was started as İsdemir and Linde Joint Venture. 24 out of 25 projects in the Environmental Investment Program have been commissioned and field operations continue in one project. South Harbor Phase 1 Project has been completed. Hot Slab Marking Machine Project has been commissioned. Site applications are ongoing for Electrical Arc Ladle Furnace - Dedusting & Water Cooling Systems Modernization Project.

Puchasing process and evaluation studies continue for Vacuum Degassing, Modernization of the Coke Oven Battery No.3 and Mold Level Control System Renewal Projects. South Harbor 1 Stage Construction Works and Back Filling and New Coke Gas Gasometer Projects have been decided to start and are in the process of procurement.

Total investments in Group plants is USD 208.135 thousand as of December 31, 2017 (December 31, 2016: USD 162.275 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 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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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	2017 Share %	2016 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Integrated Iron and Steel Manufacturing	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	Steel Service Center	100,00	100,00
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00	100,00
Erdemir Romania S.R.L.	Romania	Silica Steel Production	100,00	100,00
Erdemir Asia Pacific Private Limited	Singapore	Trading	100,00	100,00
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	Turkey	Energy	50,00	50,00

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.

(*) As of 18 November 2016, İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. İsdemir Linde Gaz Ortaklığı A.Ş, which will be recognised by using the equity pick-up method is not included in the consolidation as of the reporting period, by reason of not functioning yet, and that the financial statements are not affected significantly. The capital of the joint venture amounting to TRY 13.335 thousand has been reported under financial investments on the financial statements.

Subsidiaries

Subsidiaries are the Companies controlled by Erdemir when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are consolidated from the date on which the control is transferred to the Group and are no longer consolidated from the date that the control ceases.

The statement of financial position and statements profit or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Erdemir and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Erdemir and its Subsidiaries are eliminated on consolidation. The cost of, and the dividends arising from, shares held by Erdemir in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively.

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The table below sets out all Subsidiaries included in the scope of consolidation and discloses their direct and indirect ownership, which are identical to their economic interests, as of December 31, 2017 and 2016 (%) and their functional currencies:

	31 December 2017			31 December 2016		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
İsdemir	US Dollars	95,07	95,07	US Dollars	95,07	95,07
Ersem	US Dollars	100,00	100,00	US Dollars	100,00	100,00
Ermaden	Turkish Lira	90,00	90,00	Turkish Lira	90,00	90,00
Erdemir Mühendislik	Turkish Lira	100,00	100,00	Turkish Lira	100,00	100,00
Erdemir Romania S.R.L.	Euro	100,00	100,00	Euro	100,00	100,00
Erdemir Asia Pasific	US Dollars	100,00	100,00	US Dollars	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.

4. Information about Company Shares the Company Acquires

Article IV-K of Articles of Association "According to Turkish Commercial Code Article 379 and 382, transactions of an entity's own shares" Erdemir, as of 31 December 2017, holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2016: TRY 107.837 thousand). Erdemir's own shares have been reclassified with its inflation adjusted value in the consolidated balance sheet as a deduction under equity.

5. Information about public and private audits

It is decided to make one-year agreement with "DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Deloitte Touche Tohmatsu)" for our company's and its subsidiaries' Independent External Audit.

6. Subjects Related to Law

a) Lawsuits

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

CMB asked the Company to prepare its consolidated financial statements of December 31, 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated May 5, 2006 that the Company's changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (IFRS) caused decrease amount of TRY 152.330 thousand on the period due to negative goodwill income.

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The Company challenged the aforementioned decision before the 11th Administrative Court of Ankara (E. 2006/1396). This lawsuit was rejected on March 29, 2007, but the Company appealed this rejection on October 11, 2007. 13th Chamber of the Council of State rejected the appeal on May 12, 2010; however the Company also appealed this rejection on September 2, 2010. However, 13th Chamber of the Council of State also dismissed this appeal against rejection on June 6, 2012 with its decision No. E. 2010/4196, K. 2012/1499. This decision was notified to the Company's lawyers on July 16, 2012.

CMB, prepared the Company's consolidated financial statements as of December 31, 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.330 thousand, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on August 15, 2006; with the rationale that the Company had not fulfilled its due demand on grounds that "Article 726 and Temporary Provision 1 of CMB's Communiqué Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 'permission' No. SPK.0.17/83-3483 of March 7, 2006, and the lawsuits regarding this issue are still pending". The Company challenged CMB's aforementioned decision by a separate lawsuit on October 10, 2006. 11th Administrative Court of Ankara rejected this case on June 25, 2007. The Company appealed this rejection October 11, 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber's decision on September 6, 2010. 13th Chamber of the Council of State accepted CMB's appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara's judgment by the majority of the votes on May 30, 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company's lawyers on July 20, 2012.

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after December 31, 2005, it would also have to present the comparative consolidated financial statements in accordance with IFRS based on "IFRS 1: First-time adoption of International Financial Reporting Standards" and the previously recognized negative goodwill would be transferred directly to retained earnings on 1 January 2005 instead of recognizing in the consolidated income statement in accordance with "IFRS 3: Business Combinations". Therefore, the net profit for the periods ended December 31, 2017 and December 31, 2016 will not be affected from the above mentioned disputes.

Company's Shareholders' General Assembly, which was held at March 30, 2006, decided dividend distribution according to the consolidated financial statements as of December 31, 2005, which was prepared according to IFRS. Privatization Administration, who has a usufruct right over 1 (one) equity share among the Company shares it transferred to Ataer Holding A.Ş., filed a lawsuit at May 1, 2006 the 3th Commercial Court of Ankara against the aforementioned General Assembly decision, and claimed that, dividend distribution decision must be abolished and TRY 35.673 thousand allegedly unpaid dividend must be paid to itself (E. 2006/218). The Court rejected the case on October 23, 2008; Privatization Administration appealed this rejection on January 7, 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on November 30, 2010; this time the Company appealed the Chamber's decision on February 18, 2011. However, the Chamber rejected the Company's appeal on July 14, 2011. The case file, sent back to 3th Commercial Court of Ankara once again. The case was dismissed at the hearing held on June 26, 2015. Decision of the local court has been reversed by the Supreme Court 11th Civil Chamber with the decision dated 24.05.2017 and 2015/15771 Docket; 2017/3040 Decision number. The decision of reversal has been notified to the Company on 2 August

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2017. Erdemir has applied for revision of the decision against the Supreme Court 11th Civil Chamber's decision dated 24.05.2017 and 2015/15771 Docket; 2017/3040 Decision number. Conclusion of the application for revision of the decision is expected.

The Company, based on the above mentioned reasons, doesn't expect for the possible effects of changes in the net profit for the year ended December 31, 2005 due to the lawsuits mentioned above to have any impact in the accompanying consolidated financial statements as of December 31, 2017 and December 31, 2016.

Enerjia Metal Maden Sanayi ve Ticaret A.Ş. initiated a debt collection proceeding that might end with a bankruptcy judgment against the Company based on the Export Protocol No. 69187 of July 2, 2009 and "Additional Terms to the Erdemir-Enerjia Export Protocol No. 68197" drafted by and between Enerjia and the Company. However the process stopped upon the Company's objection to Enerjia's request, and that led Enerjia to file a lawsuit against the Company before the 7th Commercial Court of Ankara on March 27, 2010 claiming that the objection should be overruled and USD 68.312.520 should be paid to itself (E. 2010/259). The Court dismissed the case, in favor of the Company, on June 23, 2011.

Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on April 6, 2012 (E. 2011/2915, K.2012/2675) and after this, the case file was sent back to the 7th Commercial Court of Ankara and received case file number E. 2013/17. The case file was sent to the 4th Commercial Court of Ankara due to the case shall seen by delegation according to the regulatory framework regarding the commercial courts. The Court has dismissed the case at the hearing held on September 9, 2015. The case is at the stage of appeal. No possible material cash outflow expected according to the evaluations of Company management and expert's reports, as a result no provision recognised on financial statements for related lawsuit.

An action of debt was instituted by Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our Company of Kdz. Ereğli on 17 April 2013 for the compensation of the loss arising from the sales contract has been dismissed dismissed in favor of the Company at the stages of appeal and revision of decision.

Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) located at Illinois state of United States of America and the Company executed a contract in 2008. The company fulfilled all its performances arisen from this contract in January and February in 2009.

Corus International Trading Ltd. Co. sold to third parties the products supplied from our company but thereafter alleged that they directed claim to some compensation and that these claims must be covered by Erdemir. Parties could not reach an exact agreement about this matter and then Corus International Trading Ltd. Co filed an action for compensation at amount of USD 4.800 thousand together with accessory against the Company in Illinois State District Court of USA. It is learnt through a notified made to the Company on July 21, 2010. After the subject case is dismissed by the court from jurisdiction aspect; this time a lawsuit is re-filed by Tata Steel International (North America) Ltd.) in Texas State District Court. This case is also dismissed by the court from jurisdiction aspect.

It is learnt through a notified made to the Company on October 31, 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of USD 4.800 thousand together with

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accessory against the Company before Ankara 14th Commercial Court of First Instance. As a result of adjudication made; the court adjudged to dismiss the case on procedural grounds because of non-competence and to send the file to commissioned and competent Karadeniz Ereğli Commercial Court of First Instance in Duty when the judgment becomes definite and in case of request. At the hearing of the ongoing case dated 28 November 2017, Kdz. Ereğli 2. Civil Court of First Instance has decided to partially accept the case against our Company. Our company has applied for the appeal against the decision. A provision amounting to TRY 31.099 thousand recognised on financial statements for related lawsuit.

b) Other issues**Provision for state right on mining activities**

According to "Mining Law" numbered 3213 and regulation on "Mining Law Enforcement" published in the Official Gazette, numbered 25716 on February 3, 2005, the Group is obliged to pay state right on mining activities based on the sales.

Land occupation

The Erdemir factory area of The Group is being the property of the treasury and is being within the provision and possession of the state. General Communique of National Estate with the series number 336 lays down the methods and principles of designation, estimation and collection of land occupation to be undertaken by the administration in respect of the land properties within the private possession of the treasury. In accordance with the communique, the land occupation is going to be designated and estimated by the relevant value designation commission with the condition of not being less than 3 % of the minimum value which is the basis for the property tax of the land property.

In current period, land occupation provision recognised on balance sheet, considering property fair values presented land occupation notifications and yearly probable increases.

Tax Penalty Provision

As a result of the comprehensive corporate tax audit carried out by the relevant tax administration for the period 2009-2014 for one of the Group's subsidiaries, Erdemir Romania SRL in Romania, a total payment of TRY 7.584 thousand (RON 7.579 thousand equivalent) was reported for all tax and tax penalties. Provision still continues for the amount to be paid.

c) Penal Sanctions

None.

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7. General Assemblies

The company had achieved the aims stated in past terms. The It has been decided to be registered adopted at the Ordinary General Assembly held on March 31, 2017 had been implemented.

8. Donations Made and Social Responsibility Projects

Donations of the Group's companies are as follows:

(thousand TRY)	1 January- 31 December 2017	1 January- 31 December 2016
Cooperative Activities with Public Institutions and Organizations	1.141	2.182
Education and Training Activities	846	709
Volunteer Studies and Cooperative Activities for Charities	458	373
Cooperative Activities with Foundations, Associations, Organizations, Institutes	82	93
Sportive Activities	60	33
Cultural and Artistic Activities	11	37
Health-Benefit and Financial Support Activities	1	4
Total	2.599	3.431

9. Group Companies

a) Transactions

There is no act of law conducted beneficial to 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 2017. In year 2017, all commercial transactions between our Company and our Controlling Shareholder and its subsidiaries are executed according to market conditions. It has been decided by the Board of Directors dated 2 February 2018, numbered 9517 that this report has been prepared in accordance with the principle of honesty.

In 2017, commercial activities between the Entity and its subsidiaries İskenderun Demir ve Çelik A.Ş and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. exceed 10% under CMB II-17.1 Corporate Governance Communiqué. It is predict that by the year 2018 operations will continue under determined circumstances. Operations are consistent with last year.

b) Information about Transactions

None.

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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 been audited as of December 31, 2017 and December 31, 2016.

Statement of Financial Position

	(Audited)	(Audited)
	Current Period	Previous Period
(Thousand TRY)	31 December 2017	31 December 2016
Current Assets	14.841.725	11.063.224
Non-current Assets	13.534.130	12.588.053
Total Assets	28.375.855	23.651.277
Current Liabilities	5.524.344	4.226.720
Non-current Liabilities	3.623.354	3.764.524
Shareholders' Equity	19.228.157	15.660.033
Total Liabilities	28.375.855	23.651.277

Summary of Income Statement

	(Audited)	(Audited)
	Current Period	Previous Period
(Thousand TRY)	1 January - 31 December 2017	1 January - 31 December 2016
Sales Revenue	18.643.914	11.636.504
Gross Profit	5.162.954	2.470.179
Operating Profit	4.830.431	2.102.671
Profit Before Tax	4.954.516	2.271.428
Net Profit for the Period	3.897.542	1.571.702
Equity Attributable to the Parent	3.753.755	1.516.438
EBITDA	5.453.204	2.700.811
Earnings Per Share	107,25%	43,33%

The Entity prepares its budgets within the frame of its strategic goals that is approved by the Board of Directors.

In the regular meetings of the Board of Directors is reviewing the current position of the Entity and activities are compared with the previous period and budget targets.

2. Key Ratios

(%)	1 January - 31 December 2017	1 January - 31 December 2016
Gross Profit Margin	27,7%	21,2%
Operating Profit Margin	25,9%	18,1%
EBITDA Margin	29,2%	23,2%
Net Profit Margin	20,9%	13,5%
Net Profit Margin Attributable to the Parent	20,1%	13,0%

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3. Financial Strength

According to the calculation made with the ratios issued in Turkish Commercial Code Article No: 376, the Company's equity is fully covered.

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

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 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

There is no issued capital market instrument in the period.

5. Dividend Distribution Policy

Groups' Dividend Distribution Policy is as follows:

"As a principle, Company implements the policy of distributing all of its distributable profit in cash within the provision of forecasted free cash flow generation by considering financial leverage ratios, investment/ financing needs and anticipation of the market under the scope of effective regulations and clauses of Company's Articles of Association. 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.

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

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

Dividend distribution (gross dividend per share: TRY 0,41) amounting to TRY 1.435.000 thousand from 2016 net profit was approved during Annual General Assembly Meeting dated 31 March 2017. The dividend distribution was completed as of 5 April 2017.

6. Information about the sector

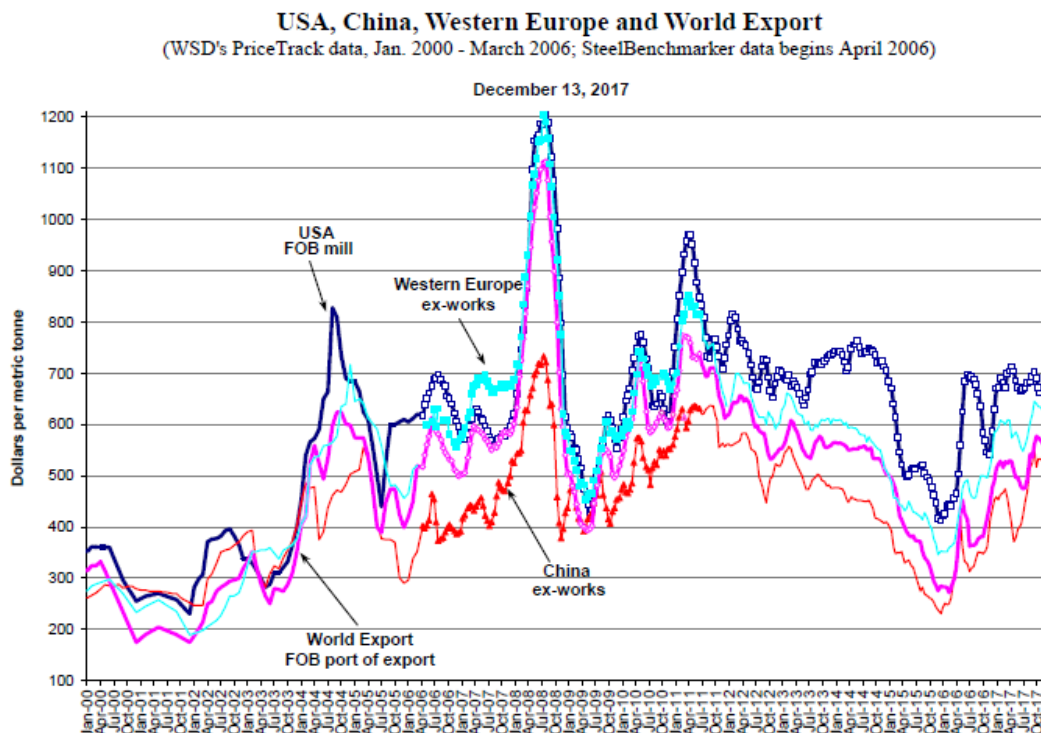
The world crude steel output increased by 5,3% and reached to 1,7 billion tonne in 2017. The crude steel output in Asia increased by 5.4% and was recorded as 1,2 billion tonne in 2017, where China produced 831,7 million tonne with an increase of 5,7%, Japan produced 104,7 million tonne with a decrease of 0,1% and South Korea produced 71,1 million tonne with an increase of 3,7%.

EU-28 countries produced 168,7 million tonne of crude steel last year, up 4,1 percent year on year. In the given period, Germany's output was 43,6 million tonne, rising by 3,5

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percent year on year, Italy's crude steel output was 24 million tonne, up 2,9 percent year on year, and Spain's crude steel output amounted to 14,5 million tonne, increasing by 6,2 percent year on year. Iran's crude steel production in 2017 amounted to 21,7 million tonne, up 21,4 percent year on year. The CIS registered a crude steel output of 101,9 million tonne in 2017, remaining almost stable on year-on-year basis, with Russia producing 71,3 million tonne, increasing by 1,3 percent, and Ukraine producing 22,8 million tonne, down 6,4 percent, both on year-on-year basis. In North America in 2017, crude steel output totaled 116 million tonne, increasing by 4,8 percent, with the US producing 81,6 million tonne, rising by 4 percent, and Mexico producing 20 million tonne, down 6,3 percent, all on year-on-year basis. Crude steel output in South America amounted to 43,7 million tonne, up 8,7 percent from December of the previous year, with Brazil's output totaling 34,4 million tonne, increasing 9,9 percent year on year. The crude steel capacity utilisation ratio of 2017 was 72,3%.

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



In 2017, Turkish crude steel output increased by 13,1 percent to 37,5 million tonne, year on year. In the given period, Turkey's crude steel output by electric arc furnaces rose by 18,8 percent to 25,9 million tonne, while production by integrated plants increased by 2,2 percent to 11,5 million tonne, both year on year.

7. The Position within the Sector

Group's production in 2016 has been expanded to 9,2 million tonne. In 2017, the crude steel production in Ereğli Plant has decreased by 1% and went down to 3.565 thousand tons while the crude steel production in İskenderun went up to 5.638 thousand tons with an increased of 1%. In 2017 Group production has increased by 0,2% and went up to 9.203 thousand tonne.

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8. Government Grants

These grants and incentives can be used by all companies, which meet the related legislative requirements and those grants have no sectoral differences.:

- ✓ Incentives under the jurisdiction of the research and development law (100% corporate tax exemption etc.)
- ✓ Cash support from Tubitak and Teydeb for research and development expenditures.
- ✓ Inward processing permission certificates,
- ✓ Social Security Institution incentives
- ✓ Insurance premium employer share incentive.

Research and development incentive premiums taken or certain to be taken amounts to TRY 1.348 thousand (2016: TRY 1.062 thousand) which are accounted under income statement for the year ended December 31, 2017.

9. Developments Regarding the Plants

Turkey's first and only integrated flat steel producer, Group, who carries out production, operation, maintenance and modernization activities within its all facilities, manufactures 25% of all crude steel production in Turkey. Group again continued its operations in line with the principle of optimal costs, maximum productivity and quality of production in 2017.

Construction of 2nd Galvanizing Line, signed in 2015, has started in Ereğli, which cold rolling mill has already located. New line is expected to start commercial production in the second half of the year 2018.

Ersem, with a total of 1 million 950 thousand tonne of slitting and cut-to-length capacity, is Turkey's largest steel service center. With 4 production footprints in Gebze, Kdz. Ereğli, Iskenderun and Manisa, Ersem supplies just in time deliveries and storage services for our customers.

10. Production Plants and Productivity

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

Capacity used (%)	1 January - 31 December 2017	1 January - 31 December 2016
Liquid Steel	97%	97%
Slab	90%	87%
Billet	54%	63%

11. Products

The main products of Group are as follows:

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

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12. Production (quantity)

Final Products (000 Tons)	1 January - 31 December 2017	1 January - 31 December 2016
Flat Products	7.713	7.072
Long Products	1.328	1.572
Iron Ore and Pellet	1.996	2.106

13. Developments Regarding Sales

The iron and steel industry is a delivering force in national economies and Turkey is one of the leading countries in terms of both production and consumption of steel, ranking as the world's 8th largest steel consumer with 36 million tons consumption in 2017. While steel consumption of Turkey rise %5,5 in 2017, flat steel consumption increase about %9 to 18 million tons.

Total flat product sales of the Group of Companies reached to the level of 7,6 million tonne in 2017. The domestic flat product sales reached 6,5 million tonne %4 increase than 2016. Long products sales decreased 14% (Y.O.Y.) and went to 1,4 million tonne. Domestic long product sales decreased 13% (Y.O.Y.) and went to 1,2 million tonne.

Group also exported 1.040 thousand tons of flat products to 36 countries and 159 thousand tons of long products to 19 countries. The level of Group's export sales is %13 of total sales.

Group continues to deliver shipments in line with its objectives in industries such as metal packaging, automotive or steel pipe. As a result of its customer oriented strategy, Group has added 16 new customers to long product portfolio and 33 new customers to flat product portfolio totaling 49 new customers during 2017.

In order to provide rapid and effective response to the needs of the steel market, our industrially structured marketing and sales organization have continued to customer visits, congress and exhibition participations in Turkey and abroad, meetings with industry unions and organizations of customer activities. 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.

14. Sales (quantity)

Final Products (000 Tons)	1 January - 31 December 2017	1 January - 31 December 2016
Flat Products	7.594	7.163
Long Products	1.364	1.587
Iron Ore and Pellet Sales (*)	2.052	2.174

(*)1.914 thousand tons of Ermaden's sales are to Group Companies as of December 31, 2017 (December 31, 2016: 1.907 thousand tons).

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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 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 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 Group's mid/long term strategic road map are prepared by Department of the relevant Group Companies and are submitted to Investment Development Directorate. The Investment 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 Management and Financial Affairs Coordinator.

2. The Early Detection of Risk Committee

With the decision of EreĀli Iron and Steel Inc.'s Board Meeting dated September 24, 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.

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1) Market risks: The price risks are still going on at the end of 2017. Despite the capacity reduction decision of the Chinese government, surplus capacity is putting pressure on steel prices. Furthermore the fluctuation of iron ore prices which depends on China's iron ore demand cause fluctuation in raw material prices due to the quarterly contracts on iron ore prices. The fluctuation of iron ore and coke prices that are the inputs of our Group, the fluctuation of steel products that are the outputs of our Group and the fluctuations that arise from the duration of the process between procurement and delivery which takes longer in iron and steel market compared to other markets are the most specific market risks. Additionally, coal prices are also fluctuating due to the decisions of the Chinese government that affect the supply and consumption of coal in order to reduce environmental pollution of the country.

2) Macroeconomic risks: US dollar based raw material prices and global sales prices and fluctuations in commodity prices cause fluctuations in the cost structures of steel related sectors and demand for steel products. In addition; liquidity crunch that occurred in emerging markets due to the reduction of FED's asset purchases and the possibility of reduction in steel demand are the macro-economic risks that the Group may be confronted with.

In addition to these risks, operational and financial risks that may occur are continuously monitored by Risk Management and reported to Board of Directors by the early Detection of Risk Committee that is under the Board of Directors.

G - Other Information**1. Organizations Out of the Headquarters**

None.

2. Information about Amendments in Legislation That May Significantly Affect the Company's Activities

None.

3. Information About Conflicts of Interest Between the Company and Institutions that Provide Services to the Company on Issues Such as Investment Advisory and Ratings and Cautions Taken by the Company to Prevent These Conflicts

None.

4. Social Rights of Employees, Professional Training and Other Activities of the Company that Cause Communal and Environmental Consequences

Information about social rights of the employees and vocational training and other company actions bearing social and environmental outcomes. In accordance with the collective labor agreement, blue collar employees are entitled to 120 days of bonus payment per year, bairam allowance, fuelwood allowance, annual leave allowance, marriage bonus, maternity benefit, death benefit, complementary health insurance, annual leave, notice period and payment in lieu of notice. Both blue collar workers and white collar employees are provided food and company service, incentive bonus for senior workers; white collar employees are entitled to have private health insurance, supervisors

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and executives work in higher positions are offered private pension scheme. Erdemir, whose one of fundamental priorities is to offer its employees a healthy and safe working environment, also provides services of preventive medicine, pre-job examinations, periodical examinations, preventive activities for occupational accidents and occupational illnesses, first-aid and emergency treatment.

The total hours of Occupational Health and Safety Trainings provided in 2017 are 164.157. In 2017, 33.403 medical examination was carried out. In addition, eye examinations of 4.173 employees were conducted in cooperation with World Eye Hospitals. According to legal obligation, occupational health trainings were provided. Certified first aider trainings were provided to 373 employees for 2.984 hours.

A great many training opportunities such as in-house training system, domestic and foreign seminars and conferences are offered as well. Training programs are planned in accordance with the fulfillment of Erdemir's strategic objectives and the actualization of Quality, Occupational Health and Safety and Energy Management Systems Policies. The output of the performance evaluations are used in determining the training and developmental needs of the personnel.

In accordance with the Law No. 6331, Occupational Health and Safety Trainings are provided so as to inform the employees about their legal rights and liabilities and to identify the risks and dangers they face and about the measures to be taken accordingly. Besides, other trainings are also provided in accordance with the by-law imposing employees who don't have occupational training cannot work in heavy and dangerous works. Within the scopes of by-law and conditioning that the employees who haven't received vocational training cannot work in heavy and dangerous works, and areas of profession which require professional competence certificate, various training programs and certifications are also provided on the basis of title and work.

In addition to mechanical maintenance workers, the certification process of electric maintenance workers has also been started. Besides the widest scope of ongoing certification process of smelting profession, qualified instructor trainings have been organized for our foremans who received their certificate of competence and currently work as trainers.

In addition to all these, a protocol on Training Cooperation was signed with ÇASGEM (Ministry of Labor and Social Security Training Center). In particular, in accordance with the by-law of 'Preventing Big Industrial Accidents and Minimizing Their Effects', necessary trainings are started by ÇASGEM so as to prepare a 'Safety Report' and to revise the report according to the developments. Within the scope of the Protocol, Bow tie Analysis Training, Error Mode and Impact Analysis Training, Fault Tree Analysis Training, Event Tree Analysis Training, Exposion Preventive Document Preparation Training, Reduction of Major Industrial Accident Risks Training have been taken from ÇASGEM in the year of 2017. Upon request, Fire Safety drills were conducted at public schools, and a number of informative practices were conducted about the revisions in Occupational Health and Safety By-law. In accordance with the by-law of Emergency Situations, 19 employees were provided 'Search and Rescue Training' in Sakarya AFAD Campus.

Erdemir and İsdemir started Corporate Social Responsibility efforts in 2016 with three main projects. Corporate Social Responsibility projects countine in 2017 as well.

- > Occupational Health and Safety: (I produce safely)
- > Bio-diversity - Environment and Employment: (Ottoman Strawberry)
- > Art: Steel and Life Sculpture Contest

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5. Information about Related Party Transactions

The immediate parent and ultimate controlling parties of the Group are Ataer Holding A.Ş. and Ordu Yardımlaşma Kurumu respectively.

<u>Due from related parties (short term)</u> <u>(thousand TRY)</u>	31 December 2017	31 December 2016
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	59.622	40.722
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	7.507	7.484
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	10.195	6.065
İsdemir Linde Gaz Ortaklığı ⁽³⁾	3.820	-
Other	1.792	606
	82.936	54.877

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

<u>Due to related parties (short term)</u> <u>(thousand TRY)</u>	31 December 2017	31 December 2016
Omsan Lojistik A.Ş. ⁽¹⁾	14.466	8.021
Omsan Denizcilik A.Ş. ⁽¹⁾	11.696	11.747
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	7.846	8.045
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	8.156	3.865
Oyak Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	7.322	-
Oyak Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽¹⁾	1.980	-
Other	2.431	3.330
	53.897	35.008

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

- (1) Subsidiaries of the parent company
- (2) Joint venture of the parent company
- (3) Joint venture of subsidiary

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<u>Major sales to related parties</u> <u>(thousand TRY)</u>	<u>1 January – 31 December 2017</u>	<u>1 January – 31 December 2016</u>
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	223.492	143.767
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	20.527	16.523
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	9.635	14.337
Aslan Çimento A.Ş. ⁽¹⁾	2.320	1.635
Oyak Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	11.245	-
Mardin Çimento Sanayi ve Ticaret A.Ş. ⁽¹⁾	1.104	650
Omsan Lojistik A.Ş. ⁽¹⁾	1.101	889
İsdemir Linde Gaz Ortaklığı ⁽³⁾	3.341	-
Other	1.612	1.958
	274.377	179.759

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

<u>Major purchases from related parties</u> <u>(thousand TRY)</u>	<u>1 January – 31 December 2017</u>	<u>1 January – 31 December 2016</u>
Omsan Denizcilik A.Ş. ⁽¹⁾	125.918	91.641
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	89.863	64.352
Omsan Lojistik A.Ş. ⁽¹⁾	96.159	64.534
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	40.845	31.846
Omsan Logistica SRL ⁽¹⁾	13.346	8.733
Oyak Denizcilik ve Liman İşletmeleri A.Ş. ⁽¹⁾	55.565	-
Oyak Grup Sigorta ve Reasürans Brokerliği A.Ş. ⁽¹⁾	7.324	-
Other	21.332	16.060
	450.352	277.166

The major purchases from related parties are generally due to services.

- (1) Subsidiaries of the parent company
(2) Joint venture of the parent company
(3) Joint venture of subsidiary

The period end balances are non-secured, and their collections will be done in cash. As of December 31, 2017, the Group provides no provision for the receivables from related parties (December 31, 2016: none).

In 2017, commercial activities between the Entity and its subsidiaries İskenderun Demir ve Çelik A.Ş and Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. exceed 10% under CMB II-17.1 Corporate Governance Communiqué. It is predict that by the year 2018 operations will continue under determined circumstances. Operations are consistent with last year.

6. Information for Shareholders

In the Board of Directors meeting of Iskenderun Demir ve Çelik AS, a subsidiary of the Company, dated 2 February 2018; it has been decided to participate 50% in the capital increase of Isdemir Linde Gaz Ortaklığı A.Ş., which is a jointly controlled entity, amounting to USD 46 million.

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App.1: Information about Board Members' and Executive Management's Titles out of the Company

Board of Directors	Title	Titles out of the Company
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. Represented by: Ömer Muzaffer BAKTIR	Chairman – Executive Director	<ul style="list-style-type: none"> • OYAK Mining Metallurgy Group – Chairman (Advisor of the General Manager) • İskenderun Demir ve Çelik A.Ş. – Chairman/Executive Director (Representative) • Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.-Chairman (Representative) • Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. – Chairman (Representative) • Erdemir Romania S.R.L. – Chairman • Erdemir Asia Pacific Private Limited – Chairman
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Deputy Chairman	<ul style="list-style-type: none"> • ATAER Holding A.Ş.- Chairman (Representative) • İskenderun Demir ve Çelik A.Ş. – Yönetim Kurulu Üyesi (Representative) • Erdemir Asia Pacific Pte. Ltd. – Board Member • OSİAT Sigorta Acentecilik Hizmetleri A.Ş. – Chairman (Representative) • OYAK Global Investments – Board Member • Chemson Polymer Additive AG (Avusturya) – Supervisory Board Member • İskenderun Enerji Üretim ve Tic. A.Ş. – 1. Deputy Chairman (Representative) • AYAS Enerji Üretim ve Ticaret A.Ş. - Deputy Chairman (Representative) • OYAK Portföy Yönetimi – Chairman
Republic of Turkey Prime Ministry Privatization Administration (Represented by: H.Abdullah KAYA)	Board Member	<ul style="list-style-type: none"> • Ministry of Finance Undersecretary • Council of Higher Education Member

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Board of Directors	Title	Titles out of the Company
<p>OYAK Pazarlama Hizmet ve Turizm A.Ş.(Represented by: Fatma CANLI</p>	<p>Board Member</p>	<ul style="list-style-type: none"> • İskenderun Demir ve Çelik A.Ş. – Deputy Chairman (Representative) • Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri. A.Ş.– Deputy Chairman (Representative) • Erdemir Asia Pacific Pte. Ltd. – Board Member • Micromedicine Inc. – Board Member • İskenderun Enerji Üretim ve Tic. A.Ş. – Board Member (Representative) • OYAK Renault Otomobil Fabrikaları A.Ş. – Board Member (Representative) • Orfin Finansman A.Ş. – Board Member • MAİS Motorlu Araçlar İmal ve Satış A.Ş. – Board Member (Representative) • ORF Kiralama Pazarlama ve Pazarlama Danışmanlığı A.Ş. – Board Member (Representative)
<p>OYAK Denizcilik Liman İşletmeleri A.Ş. (Represented by:Güliz KAYA)</p>	<p>Board Member</p>	<ul style="list-style-type: none"> • İskenderun Demir ve Çelik A.Ş. – Board Member (Representative) • Akdeniz Kimya San. ve Tic.. A.Ş. – Board Member (Representative)

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Board of Directors	Title	Titles out of the Company
<p>OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT)</p>	<p>Board Member</p>	<ul style="list-style-type: none"> • İskenderun Demir ve Çelik A.Ş. – Deputy Chairman (Representative) • Erdemir Madencilik San. ve Tic. A.Ş.– Deputy Chairman (Representative) • Erdemir Romania S.R.L. –Board Member • Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. – Deputy Chairman (Representative) • Akdeniz Kimyasal Ürünler Pazarlama İç ve Dış Ticaret A.Ş. – Board Member (Representative) • OMSAN Lojistik A.Ş. – Board Member (Representative) • MAİS Motorlu Araçlar İmal ve Satış A.Ş. – Board Member (Representative) • OMSAN Havacılık A.Ş. – Deputy Chairman (Representative) • OMSAN Denizcilik A.Ş. – Deputy Chairman (Representative) • Hektaş Tic. T.A.Ş. – Board Member (Representative)
<p>Yunus ARINCI</p>	<p>Independent Board Member</p>	<ul style="list-style-type: none"> • State Supervisory Council Chairman • Borsa İstanbul Board Member • Vakıfbank Supervisory Board Member
<p>Ali FİDAN</p>	<p>Independent Board Member</p>	<ul style="list-style-type: none"> • Ministry of National Defence – Undersecretary
<p>Kurtuluş Bedri VAROĞLU</p>	<p>Independent Board Member</p>	<ul style="list-style-type: none"> • Varoğlu Law Firm - Lawyer and Legal Counselling

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Executive Management	Title	Titles out of the Company
Sedat ORHAN	General Manager	• None
Aylin VELİOĞLU ÇELİK	Executive Vice President (Human Resources)	• None
İbrahim Emrah SİLAV	Group Financial Management Financial Affairs Coordinator	<ul style="list-style-type: none"> • Erdemir Romania S.R.L –Board Member • OYAK Yatırım Menkul Değerler A.Ş. – Board Member • OYAK Grup Sigorta ve Reasürans Brokerliği A.Ş. – Board Member • OYAK ANKER Bank – Board Member
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	• World Steel Association - Member of Economy Committee
Başak TURGUT	Group Marketing and Sales Coordinator	<ul style="list-style-type: none"> • Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. – Board Member and Executive Director (Representative) • Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. – General Manager (by proxy)
İsmail Kürşad KORKMAZ	Group Procurement Coordinator	<ul style="list-style-type: none"> • Erdemir Madencilik Sanayi ve Ticaret A.Ş. – Board Member (Representative) • OMSAN Lojistik A.Ş. – Board Member (Representative)
Can ÖRÜNG	Group Corporate Architecture and Human Resources Coordinator	• İsdemir Linde Gaz Ortaklığı A.Ş. – Board Member
Can ÖRÜNG (By Proxy)	Group Information Technologies Coordinator	

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
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PRINCIPLES**

Ereğli Demir ve Çelik Fabrikaları T.A.Ş., one of the public companies in Turkey with the broadest base, enjoys a leading position in its field in the Turkish industry, and is well aware of its responsibilities towards its stakeholders. Transparency, accountable management approach, compliance with ethical and legal codes is integral components of the corporate management. Erdemir has always fulfilled its responsibilities, arising from legislations, in an accurate and prompt manner.

Our Company has assigned Investor Relations Manager who has “Capital Market Activities Advanced Level License” and “Corporate Governance Rating Specialist License”, also works as a full-time manager in the corporation and a member of Corporate Governance Committee in accordance with CMB’s II-17.1 Communiqué on Corporate Governance. In addition, Company has appointed an employee who works in Investor Relations Department.

Within the year 2017, our Company has been continued its endeavors to ensure full compliance with the mandatory or optional regulations of the Corporate Governance Principles within the scope of Communiqué numbered II-17.1 “Corporate Governance” - the details of which are presented below. In 2017, the procedures for designating independent candidates and making public disclosures were completed and candidates were elected according to regulations. The established committees under the BoD functioned effectively during the year. The information that must accompany the disclosure document to be submitted to the General Assembly includes such standard documents as those indicating preferred shares, voting rights and organizational changes, as well as the CVs of BoD membership applicants and the reports and announcements that need to be prepared for related party transactions, all of which were provided to our investors three weeks prior to the General Assembly. In addition, the Company’s website and annual report were reviewed and revisions required to comply with the principles were made. The policies formed under the scope of the Corporate Governance Principles and the working directives of the committees are published on our website.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. believes in the importance of ensuring full compliance with the Principles of the Corporate Governance. However, a number of obstacles stand in the way of compliance. There are a number of difficulties in the national and international arena concerning compliance, failure to ensure an overlap with the market and the current structure of the Firm. These are the difficulties which have caused possible delays in practice for the operations within the firm and a number of arguments in Turkey. Thus, full compliance has not yet been achieved as to a number of non- mandatory principles. An array of efforts and undertakings towards the goal of ensuring full compliance promptly are in progress. This goal will have been achieved upon the completion of administrative, legal and technical infrastructure projects. The said goal also includes the monitoring of the recent developments including the Capital Markets Board, which are to be issued, concerning the limited number of principles that have not been put into practice. The Principles of the corporate governance in practice and those which have not yet been harmonized are presented below.

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SECTION II – THE SHAREHOLDERS

2.1. Investor Relations Department

The relationships with our partners, corporate investors and analysts are carried out systematically in a fashion that supports Company value. In line with this very purpose, the Company organizes meetings with the domestic and the foreign investors and announces material disclosures to the public immediately. Additionally, the Company fulfills its responsibilities towards regulatory bodies such as the Borsa Istanbul and the Capital Markets Board, and provides prompt replies to the queries of the partners, the analysts and the portfolio managers. In 2017, Investor Relations Department answered per month around 300 questions received from shareholders, institutional investors and analysts of investment firms by phone and e-mail.

Inquiries made by our shareholders by telephone and e-mail within the year are responded to. Such inquiries are concerned with the legislation about non-registered shares, the general assembly and the dividend distribution. Depending on the nature and the content of the requested information in case of necessity, the query is shared with the independent auditors of the Company and the relevant responses are submitted to the enquirer.

The remarks concerning the financial statements and the footnotes as well as the material disclosures are announced to the investors of the Borsa Istanbul and to the public via Public Disclosure Platform. The financial statements, the footnotes and the material disclosures are also published on the Company website.

Investor Relations Department has been formed which reports directly to the Group Chief Corporate Affairs. The relevant contact information is available in the annual report and on the Company website.

Investor Relations Department

Name	Title	Telephone	E-mail
İdil Önay Ergin	Manager	+90-216-578 81 49	ionay@erdemir.com.tr
AhmetGörpeoğlu	Specialist	+90-216-578 80 97	agorpeoglu@erdemir.com.tr

İdil Önay Ergin who has “Capital Market Activities Advanced Level License” and “Corporate Governance Rating Specialist License” was employed in the corporation as a full-time manager and appointed as a member of Corporate Governance Committee in accordance with CMB’s II-17.1 Communiqué on Corporate Governance.

Investor Relations Department prepares an activity report, at least annually, to the BoD. 2017 activity report presented in BoD meeting dated 2 February 2018.

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The table below present's activities performed within 2017 so that investors could be informed in-depth concerning the operations of the Company:

The number of investors and analysts who have been contacted:	380
The number of tele-conferences held regarding financials:	4
The number of meetings held regarding financials:	1

2.2. The Use of Shareholders' Rights to Obtain Information

Pursuant to the Public Disclosure Policy of our Company, all shareholders, potential investors and analysts shall be treated equally and fairly with regard to their right of the use of request and enquiry of information. It is also essential that our disclosures be passed onto everyone simultaneously with the same content. All information sharing is to be made in line with the content announced to the public earlier. Within the framework of the sharing of information, the shareholders and the market players are informed regarding all types of information along with material disclosures. The retrospective material disclosures are published on the Company website.

Loads of written and verbal requests for information from the shareholders are responded to promptly under the supervision of the Investor Relations Department and in line with the provisions of the Capital Markets Board Legislation. For the purpose of extending the shareholders' right to enquiry, any information that might harbour an impact on the shareholders' right of use under the principles of the Corporate Governance is updated and published on the website. The information on our website is published in Turkish and English, and duly allows fair use for both domestic and foreign shareholders.

The company's activities are audited by an Independent Auditor(s) appointed by the General Assembly, regularly and periodically. The independent auditing procedures for the year 2017 were carried out by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Deloitte Touche Tohmatsu Limited).

The request of shareholders allowing the appointment of a special auditor has not been drawn out as an individual right as per our Articles of Association. Accordingly, no request concerning the appointment of a special auditor, has been received by our Company yet.

2.3. The General Assembly Meetings

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

The Ordinary General Assembly Meeting for the year 2016 was held on March 31, 2017 in İstanbul and 67.90% of the shares were represented in the General Assembly.

Invitations to the General Assembly Meetings are issued by the BoD in compliance with the Turkish Commercial Code (TCC), Capital Market Law and Company's Articles of Association. The public is informed immediately of the BoD's decision to hold the General

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Assembly Meeting through the Public Disclosure Platform and Electronic General Meeting System (e-GEM). It is also published in the Turkish Trade Registry Gazette and national newspapers. General Assembly announcements are made in a way that complies with legal regulations as well as made on our websites at www.erdemir.com.tr and www.oyakmadenmetalurji.com.tr no later than 3 weeks prior to the General Assembly in order to reach the highest number of shareholders possible.

Prior to the General Assembly Meeting, the agenda items and related documents are announced to the public in compliance with all legal processes and regulations. Balance sheets, income statements and annual reports are prepared prior to the General Assembly Meetings and made available to shareholders within the period determined in the applicable regulation via the websites, at the Head Office of the Company in İstanbul and Karadeniz Ereğli plant a copy of the above documents are provided upon request. The General Assembly Meeting Minutes and information documents which Company is obliged to provide as per corporate governance principles, are made available for uninterrupted access to our shareholders on www.erdemir.com.tr and www.oyakmadenmetalurji.com.tr.

Open ballot voting is used in the General Assembly for voting on agenda articles by raising hands or electronic voting. Chairman of the General Assembly Meeting is responsible from managing the meeting efficiently and providing usage of shareholders' rights.

The members of Board of Directors, officers responsible from preparing financials, auditors and people who are related with the agenda items take great care to attend the meetings.

There had been no shareholders intended to ask questions or raise their concerns out of the agenda at the Ordinary General Assembly Meeting. No shareholders submitted a written question to the Investor Relations Department on the basis of not having received an answer at the General Assembly Meeting.

During the Ordinary General Assembly Meeting held in 2017, the company did not receive any requests from shareholders for any additional items to be included on the agenda.

The minutes and the list of attendants of the General Assembly Meetings are disclosed to public via the Company's website, Public Disclosure Platform, Electronic General Meeting System (e-GEM) and published in the Turkish Trade Registry Gazette pursuant to the relevant regulations. Consequently, media members and other stakeholders cannot attend the general assembly meetings.

General Assembly meetings are held in İstanbul (Company Headquarters) and Electronic General Meeting System to facilitate attendance at meetings. Under conditions stipulated in the Articles of Association, meetings may be held in Ankara or Karadeniz Ereğli. The location of the General Assembly meeting is selected to enable easy access to all shareholders. Proxy forms were placed on our website and announced to shareholders in a newspaper for shareholders wishing to be represented through proxy at the meeting. Resolutions made by the Board of Directors for the convention of General Assembly Meetings are shared with the public via disclosures.

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There has not been any transaction that required the approval of the majority of the independent board members for the Board of Directors to take a decision, and where the decision was left to be resolved by the General Assembly because this condition was not met.

A separate item on the General Assembly agenda regarding the donations and the aids offered in the period is included. Within the framework of the Company's Donations and Contribution Policy, the Shareholders were kept informed of the donations and contributions realized in 2015 and 2016, which amounted to 815,461 TRY and 966,055 TRY, respectively.

Shareholders who have a management control, members of the Board of Directors, managers with administrative responsibility and their spouses, relatives by blood or marriage up to second degree have not conducted a significant transaction with the company or subsidiaries thereof which may cause a conflict of interest, or/and conduct a transaction on behalf of themselves or a third party which is in the field of activity of the company or subsidiaries thereof, or become an unlimited shareholder to a corporation which operates in the same field of activity with the company or subsidiaries thereof. There were also no transactions conducted by persons who have the opportunity to access information of the company in a privileged way, on their behalf within the scope of the company's field of activity.

2.4. Voting Rights and Minority Rights

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

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

The capital is divided into shares Group A and Group B. 1 share of certificate, issued to the bearer amounting to 1 Kr is Group A and 349,999,999,999 share of certificates amounting to 3,499,999,999.99 Turkish Liras is Group B.

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

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meeting and resolution of Board of Directors and the rights belonging to the Group A shares,

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

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

No cross shareholding relations exist in the capital of the Company. Minority shares are not represented in the management. Cumulative voting system is not mentioned in the Articles of Association. Even though minority rights are not determined less than one in twenty by the Articles of Association, in accordance with Article 38 of the Articles of Association, provisions of Turkish Commercial Code and Capital Market Law shall be applied to the issues that are not written in the Articles of Association in regard to minority rights.

2.5. Dividend Right

The Articles of Association do not grant any privileges regarding participation in the company's profits. Each share has an equal dividend right.

The dividend distribution policy, as submitted for the shareholder's approval at the General Assembly, is in the activity report. In addition, the policy is posted on the Company website, along with a short history of dividend distribution and detailed information about capital accumulation.

The distribution of the company profit is stated, in compliance with the arrangements of the Capital Markets Board, following the Article 34 of the Articles of Association, titled "Determination and Allocation of the Profit".

Our Company's Dividend Distribution Policy is as follows:

"As a principle, Company implements the policy of distributing all of its distributable profit in cash within the provision of forecasted free cash flow generation by considering financial leverage ratios, investment/ financing needs and anticipation of the market under the scope of effective regulations and clauses of Company's Articles of Association. 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.

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

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

At March 31, 2017 dated Ordinary General Assembly, it has been decided to distribute TRY 1.435 million cash dividend based on 2016 financial results and as of April 5, 2017 dividend distribution has been started.

2.6. Transfer of Shares

There is no restriction regarding the transfer of our Company's shares in the Articles of Association, and the provisions of the Turkish Commercial Code shall be applicable on this matter.

SECTION III – THE PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Its Contents

Erdemir's corporate websites (www.erdemir.com.tr and www.oyakmadenmetalurji.com.tr) is actively in use both in Turkish and English. The websites includes the following issues under the Investor Relations heading:

Corporate Governance	Summary Information for Investors
Corporate Governance Principles Compliance Report	Presentations
Corporate Governance Compliance Rating Report	Financial and Operational Highlights
Board of Directors	Profile
Management	Annual Reports
Capital Structure	Disclosures and Announcements
Trade Registry Information	General Assembly Announcement
Articles of Association	Minutes of General Assembly
Information About the Share which has Usufructuary Right	General Assembly Meeting Information Document
Safe Harbour Statement	General Assembly List of Attendants
Code of Ethics and Business Conduct	The Proxy Statement
Policies and Regulations	Dividend Payments and Capital Increases
Committees	Credit Ratings
Internal Directive on the Operation Principles and Procedures of the General Assembly	Stock Price Information
Independent Auditor	Analyst Information
Chairman's Message	Frequently Asked Questions
Interim Reports	Contact Us
Financial Statements	

Complete information required by the CMB Corporate Governance Principles is available on our company websites.

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3.2. Annual Report

The Ereğli Demir ve Çelik Fabrikaları T.A.Ş. annual report is prepared in detail and according to CMB Corporate Governance Principles to ensure that complete and accurate information about the Company's operations reaches the public.

SECTION IV – STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders such as the company employees, the customers, the suppliers, the trade unions, the non-governmental organizations, the state and the prospective investors are provided, upon request, with written or verbal information on the issues concerning them besides the information included in the financial statements and the reports disclosed to the public as per the legislations of the Capital Markets Board.

The Company employees are informed regarding the company practices through e-mail, company's newspaper and intranet announcements.

The demands and expectations of our customers are received through customer visits, and activities for developing new qualities are carried out depending on the changing demands that may emerge in the market. The customer complaints are delved into in the field and the required corrective actions are taken accordingly.

After the market researches, offers are requested from suppliers for the procurement of the materials and services. Feedback is provided on demand basis after the evaluation of the relevant procurement departments.

Additionally, our Company exchanges ideas with the potential customers and suppliers during the exhibitions and fairs.

The recommendations and ideas of our employees are received through the Erdemir Recommendation System and the Performance Management System. The required upgrading and improvement actions are practiced accordingly.

The Company has set up a mechanism which allows the stakeholders to convey transactions against the company legislation and non-ethical behaviours to the Code of Ethics Advisors and/or the Ethics Committee. For this purpose, contact addresses are provided on the Company website under the heading of the Code of Ethics and Business Conduct.

4.2. Participation of Stakeholders in Management

No particular regulation exists for the stakeholders' participation in the management. However, our affiliates, employees and the other stakeholders are informed through meetings. All of the Board Members are elected by voting in General Assembly with the attendance of stakeholders.

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4.3. Human Resources Policy

Operating in an industry where competitive market conditions prevail, Group has established its human resources policies and practices on forming, improving and retaining qualified labour force equipped with skills of producing knowledge, identifying solutions to problems, taking initiative by assuming responsibility, being open to improvement and suitable for teamwork.

For this main objective, the Group is attentive to employing staff members who are appropriate for the Group's strategies and objectives. The Group also pays due notice to offering training opportunities to the current employees so that they can have the means of enriching their professional experience.

Group effectively identifies the needs of its white and blue collar employees for training and improvement as well as the added-value they create through the Personal Performance Management System. Moreover, the Group carries out processes of assignments and appointments in a manner that would maximize business productivity in line with objective criteria.

Relations with unionized workforce are carried out through the representatives of the trade union. For white-collar employees, there is no extra trade union representative. However, the required divisions such as the Human Resources, the Training, the Administrative Affairs, the Occupational Health and Safety have been established within the Group in order to carry out relations with our employees. The Group did not receive any complaints from the employees in relation to any cases concerning discrimination in 2017 or the previous years.

The company has created written procedures and regulations regarding all human resources processes and all these documents are made available to all employees at an easily-accessible corporate portal. Furthermore, employees are also informed via e-mail.

4.4. Code of Ethics and Social Responsibility

The fundamental principles of the business conduct have been determined by the Code of Ethics and Business Conduct, which are disclosed to the public through the Company's websites (www.erdemir.com.tr and www.oyakmadenmetalurji.com.tr). Code of Ethics and Business Conduct constitute the common values and creeds of our company along with the changes occurring in legal, societal and economic conditions.

Our Company fulfills its responsibilities towards the society. While creating value for the economy of the region and the country, the Group operates through its goods and services. Furthermore, Group subsidiaries maintain their contributory activities for the societal development in a broad range, which is considered an integral part of the business processes.

For the Group, contributing to social issues voluntarily and effectively by coming up with solutions is a significant principle. Accordingly, the Group maintained its activities regarding social responsibility in cooperation with the local authorities and the non-governmental organizations in 2017. In order to provide a number of activities: improving the physical conditions and technical equipment of the health and education institutions,

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philanthropic undertakings, supporting arts and sports activities, supporting scientific studies of universities, offering opportunities of internship to the university and vocational school students can be listed all pursuant to the Group's adherence to the principle of social responsibility.

SECTION V – BOARD OF DIRECTORS

5.1. Structure and Formation of Board of Directors

Within the scope of Articles of Association, Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly of Shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law. Members of Board of Directors are appointed for three years and the independent members are appointed for 1 year; the members with expired tenure may be re-elected.

9 members, 3 of whom would be independent members, were elected at the Ordinary General Assembly Meeting dated March 31, 2017. Our Chairman was appointed as the Managing Director. Although there is no executive board in the Company, OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer Baktır) serves as the Managing Director. Sedat Orhan was appointed as General Manager of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. in 16.08.2013. Our General Manager's résumé was published on our Company websites.

The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting, as well as duties, rights and authorities of Board of Directors are subject to provisions of Turkish Commercial Code and related legislation.

Board of Directors	Title	Effective from
OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer BAKTIR)	Chairman – Executive Director	27.05.2013 (*)
OYKA Kağıt Ambalaj Sanayii ve Tic. A.Ş. (Represented by: Ertuğrul AYDIN)	Deputy Chairman	12.09.2012 (*)
Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA)	Board Member	20.09.2012 (*)
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012 (*)
OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Represented by: Güliz KAYA)	Board Member	12.09.2012 (*)
OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT)	Board Member	11.09.2012 (*)
Yunus ARINCI	Independent Board Member	31.03.2016
Ali FİDAN	Independent Board Member	31.03.2017
Kurtuluş Bedri VAROĞLU	Independent Board Member	31.03.2017

(*) Legal entity's duty starting dates were considered.

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Three applications to our Company were evaluated in 2017 for Independent Board Member position. In our Company tasks of Candidate Nomination Committee are carried out by Corporate Governance Committee. The Committee report, prepared by the Committee on February 06, 2017 pertaining to the candidacy of Mr Yunus ARINCI, Mr Ali FİDAN and Mr Kurtuluş Bedri VAROĞLU as the independent board members was submitted to the Board of Directors on February 07, 2017. Due to being a member of the Group 1 within the scope of Corporate Governance Principles, the application was submitted to the Capital Markets Board in line with the required process pertaining to the independent board members. No opposing or dissenting view was received for this. The independence declarations of the Independent Board Members are included in the appendix of the Board of Directors' Activity Report. In 2017, no situation has occurred for violation of the independency.

It has been decided to be registered and to be announced of the assignment of Ömer Muzaffer BAKTIR as the representative of Chairman and Executive Director OYTAŞ İç ve Dış Ticaret A.Ş. due to the end of Ali Aydın PANDIR's duty on 16 January 2017 in the Trade Registry Gazette by the resolution of Board of Directors, dated 5 January 2017 and numbered 9442.

By the General Assembly executed on 31 March 2017; OYTAŞ İç ve Dış Ticaret A.Ş. (Represented by: Ömer Muzaffer BAKTIR), OYKA Kâğıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN), Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA), OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI), OYAK Denizcilik ve Liman İşletmeleri A.Ş. (Represented by: Güliz KAYA), OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT) have been elected as board members for three years and Yunus ARINCI, Ali FİDAN and Kurtuluş Bedri VAROĞLU have been elected as independent board members for one year.

The members of the Board of Directors are not prevented from assuming other duties outside the company. The Board Members' résumés and duties outside of the Company, are published on the Company website, under the scope of the Corporate Governance Principles No: 1.3.1. The positions held outside of the Company by the Board Members can be found in the appendix of the Board of Directors' Annual Report.

Except the Independent Board Members, Board of Directors consists of legal persons and Company has two woman members who are the proxy of a legal person.

In every General Assembly, it is consented to give the authority to have titles out of the Company according to article 395 and 396 of Turkish Commercial Code (TCC) to the Members of the Board.

Information about Board Members' titles out of the company is given in App.1. Declaration of independency of the Independent Board Members is given in App.3.

5.2. Principles of Activity of the Board of Directors

The Board of Directors meets at the Company headquarters or at a different location, determined by the Board, at least six times a year or as often as business requires. The

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Board of Directors elects a chairman among its members during the first meeting of the year. In the absence of the chairman, a deputy chairman is also elected by the Board of Directors to act on behalf of the chairman. The procedure applied for assembling the Board of Directors, the quorum for the meeting, the resolution and voting as well as the task, rights and powers of the Board of Directors are subject to the Turkish Commercial Code and the provisions of relevant legislation. The decisions of the Board of Directors are written down on the decision book and signed by the Chairman and the members. Reserving the Article 22 of the Articles of Association, the rights and powers assigned to the Group A, the Board of Directors can delegate all or a number of the representative and administrative powers of the Company to one member of the Board of Directors or to several managing directors, other than the independent board members.

No resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 37 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the usufructuary to represent the Group A shares.

The requests of the members of the Board and the managers are taken into consideration concerning the items on agenda, whereas the meeting agenda of the Board of Directors is formed by the Chairman of the Board. 7 meetings were held by the Board of Directors in 2017. The attendance rate was 94% for these meetings. The date for the following Board meeting is set based on the requirement of the company and on the requests arising from the members. The members are invited to the meeting via e-mail messages. The secretariat, set up in accordance with the Corporate Governance Principles under the body of the Board of Directors, informs the Board members on the meeting agenda and forwards them the relevant documents on the agenda. Neither the Chairman nor the members of the Board have a weighted voting right. All members, including the Chairman, have equal voting rights. Dissenting opinions and votes, disclosed at Board of Directors' meetings, are written down in the minutes.

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

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

There was no dissenting vote related with the Board Members' different opinions in the relevant period.

The questions, addressed by a Board Member during the meeting are written on the decision record upon the relevant Board Member request.

Board members have not been granted weighted voting rights and/or negative vetoing rights.

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The amount of the insurance, which covers personal responsibilities of Board Members arising from the legal obligations, is USD 100 million. The insurance compensates for the legal expense and indemnity.

5.3. Number, Structure and Independence of the Committees Established Under the Board of Directors

The Audit Committee, The Early Detection of Risk Committee and The Corporate Governance Committee were set up so that the Board of Directors is able to perform their tasks and responsibilities more effectively. By considering the structure of the Board of Directors, the fulfilling of the power, the duty and the responsibility foreseen for The Candidate Nomination Committee and the Remuneration Committee was delegated to and passed onto the Corporate Governance Committee upon the Board of Directors' decision numbered 9148, dated June 29, 2012. The frequency of gathering for the committees, their activities and procedures to be followed while carrying out the activities are stated in the regulations published on our website. The decisions made as a result of work carried out independently by the committees are submitted to the Board of Directors as proposals and the ultimate decision is reached conclusively by the Board of Directors.

Our Company has ensured the structuring of the management within the framework of the Communiqué regarding the Corporate Governance Principles. One member is assigned for more than one committee due to the condition that requires the Auditing Committee to be made up of completely independent board members and the chairmen of the other committees to be comprised of the independent board members.

Audit Committee

Name-Surname	Title	Relation with the Company	Details
Yunus Arıncı	Chairman	Board Member	Independent / Not Executive
Ali Fidan	Member	Board Member	Independent / Not Executive

Frequency of Meetings: Once every three months and at least four times a year.

Early Detection of Risk Committee

Name-Surname	Title	Relation with the Company	Details
Ali Fidan	Chairman	Board Member	Independent / Not Executive
Kurtuluş Bedri Varoğlu	Member	Board Member	Independent / Not Executive

Frequency of Meetings: Once every two months and at least six times a year.

Corporate Governance Committee

Name-Surname	Title	Relation with the Company	Details
Kurtuluş Bedri Varoğlu	Chairman	Board Member	Independent / Not Executive
Yunus Arıncı	Member	Board Member	Independent / Not Executive
İdil Önay Ergin	Member	Investor Relations Manager	Non-independent / Not Executive

Frequency of Meetings: Once every three months and at least four times a year.

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5.4. Risk Management and Internal Control Mechanism

Under the body of the Board of Directors, The Early Detection of Risk Committee was set up and the working directives of the Committee were published on the company websites.

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 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 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 Group's mid/long term strategic road map are prepared by Department of the relevant Group Companies and are submitted to Investment Development Directorate. The Investment 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 Management and Financial Affairs Coordinator. No planned investments can be submitted to the Board of Directors without the approval of the Group Financial Management and Financial Affairs Coordinator.

Internal Audit Department is in charge of evaluating and improving the effectiveness of risk management, control and governance processes of 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.

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5.5. Strategic Targets of the Company

Company's vision, medium and long term targets and strategies are determined within the scope of Company's Strategic Planning Process. In accordance with Company's strategic approach, next year's targets and activities are detailed and set Company's budget within the context of budget process. Annual budgets are approved by the Board of Directors and monitored during the year.

Targets in Company's budget, which is approved by the Board of Directors, are deployed towards individual targets by all the units utilizing by functional business plans in corporate performance management.

Company's current situation is reviewed and Company's activities are compared with the previous period and budget targets in the regular meetings of Board of Directors.

5.6. Financial Rights

All types of rights, benefits and fees vested upon the board members and executives with administrative responsibilities, and the criteria deemed to determine such rights, benefits and fees as well as the compensation basics are published under the Compensation Policy heading of our Company websites. The Board Members are paid in accordance with the decision of General Assembly which is also disclosed to the public through the general assembly minutes published on the Company websites. The fees remitted to the executives with administrative responsibilities are determined by the Board of Directors. The payments effected to the executives are disclosed to the public and included in our Annual Report.

According to the decisions made by the General Assembly Meeting held on March 31, 2017, the Board Members elected in representation of the B Group shares shall not be paid. The Board Members elected in representation of the A Group Shares shall be paid 3,000 TRY per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid 6,600 TRY per month (at the beginning of the relevant month, paid in advance, net).

At the determination of the monetary rights of the Board members, a rewarding that is based on performance and showing the performance of the Company is not applied. No loans were offered to either a board member or an executive within the period. No loan utilization was granted directly or through a third party. Furthermore, no collaterals such as bails were offered in favour.

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App.3: DECLERATIONS OF INDEPENDENT BOARD MEMBERS

BAĞIMSIZLIK BEYANI

EREĞLİ DEMİR ve ÇELİK FABRİKALARI T.A.Ş. (Şirket) Yönetim Kurulu'nda, mevzuat, esas sözleşme ve Sermaye Piyasası Kurulu'nun Kurumsal Yönetim Tebliği'nde belirtilen kriterler kapsamında "bağımsız üye" olarak görev yapmaya aday olduğumu, bu kapsamda;

a) Şirket, şirketin yönetim kontrolü ya da önemli derecede etki sahibi olduğu ortaklıklar ile şirketin yönetim kontrolünü elinde bulunduran veya şirkette önemli derecede etki sahibi olan ortaklar ve bu ortakların yönetim kontrolüne sahip olduğu tüzel kişiler ile kendim, eşim ve ikinci dereceye kadar kan ve sıhrî hısımlarım arasında; son beş yıl içinde önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda istihdam ilişkisinin bulunmadığını, sermaye veya oy haklarının veya imtiyazlı payların %5 inden fazlasına birlikte veya tek başıma sahip olmadığımı ya da önemli nitelikte ticari ilişkinin kurulmamış olduğunu,

b) Son beş yıl içerisinde, başta şirketin denetimi (vergi denetimi, kanuni denetim, iç denetim de dahil), derecelendirilmesi ve danışmanlığı olmak üzere, yapılan anlaşmalar çerçevesinde şirketin önemli ölçüde hizmet veya ürün satın aldığı veya sattığı şirketlerde, hizmet veya ürün satın alındığı veya satıldığı dönemlerde, ortak (%5 ve üzeri), önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda çalışmadığımı veya yönetim kurulu üyesi olmadığımı,

c) Bağımsız yönetim kurulu üyesi olmam sebebiyle üstleneceğim görevleri gereği gibi yerine getirecek mesleki eğitim, bilgi ve tecrübeye sahip olduğumu,

d) 31/12/1960 tarihli ve 193 sayılı Gelir Vergisi Kanunu (G.V.K.)'na göre Türkiye'de yerleşmiş sayıldığımı,

e) Şirket faaliyetlerine olumlu katkılarda bulunabilecek, şirket ile pay sahipleri arasındaki çıkar çatışmalarında tarafsızlığımı koruyabilecek, menfaat sahiplerinin haklarını dikkate alarak özgürce karar verebilecek güçlü etik standartlara, mesleki itibara ve tecrübeye sahip olduğumu,

f) Şirket faaliyetlerinin işleyişini takip edebilecek ve üstlendiğim görevlerin gereklerini tam olarak yerine getirebilecek ölçüde şirket işlerine zaman ayırabileceğimi,

g) Şirketin yönetim kurulunda son on yıl içerisinde altı yıldan fazla yönetim kurulu üyeliği yapmadığımı,

ğ) Şirketin veya şirketin yönetim kontrolünü elinde bulunduran ortakların yönetim kontrolüne sahip olduğu şirketlerin üçten fazlasında ve toplamda borsada işlem gören şirketlerin beşten fazlasında bağımsız yönetim kurulu üyesi olarak görev almıyor olduğumu,

h) Yönetim Kurulu üyesi olarak seçilen tüzel kişi adına tescil ve ilan edilmemiş olduğumu,

beyan ederim.



Ali FİDAN

03.102/2017

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a) Şirket, şirketin yönetim kontrolü ya da önemli derecede etki sahibi olduğu ortaklıklar ile şirketin yönetim kontrolünü elinde bulunduran veya şirkette önemli derecede etki sahibi olan ortaklar ve bu ortakların yönetim kontrolüne sahip olduğu tüzel kişiler ile kendim, eşim ve ikinci dereceye kadar kan ve sıhrî hisimlarım arasında; son beş yıl içinde önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda istihdam ilişkisinin bulunmadığını, sermaye veya oy haklarının veya imtiyazlı payların %5 inden fazlasına birlikte veya tek başıma sahip olmadığımı ya da önemli nitelikte ticarî ilişkilerin kurulmamış olduğunu,

b) Son beş yıl içerisinde, başta şirketin denetimi (vergi denetimi, kanuni denetim, iç denetim de dahil), derecelendirilmesi ve danışmanlığı olmak üzere, yapılan anlaşmalar çerçevesinde şirketin önemli ölçüde hizmet veya ürün satın aldığı veya sattığı şirketlerde, hizmet veya ürün satın alındığı veya satıldığı dönemlerde, ortak (%5 ve üzeri), önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda çalışmadığımı veya yönetim kurulu üyesi olmadığımı,

c) Bağımsız yönetim kurulu üyesi olmam sebebiyle üstleneceğim görevleri gereği gibi yerine getirecek mesleki eğitim, bilgi ve tecrübeye sahip olduğumu,

ç) Bağlı oldukları mevzuata uygun olması şartıyla, üniversite öğretim üyeliği hariç, üye olarak seçildikten sonra kamu kurum ve kuruluşlarında tam zamanlı çalışmıyor olduğumu,

d) 31/12/1960 tarihli ve 193 sayılı Gelir Vergisi Kanunu (G.V.K.)'na göre Türkiye'de yerleşmiş sayıldığımı,

e) Şirket faaliyetlerine olumlu katkılarda bulunabilecek, şirket ile pay sahipleri arasındaki çıkar çatışmalarında tarafsızlığımı koruyabilecek, menfaat sahiplerinin haklarını dikkate alarak özgürce karar verebilecek güçlü etik standartlara, mesleki itibara ve tecrübeye sahip olduğumu,

f) Şirket faaliyetlerinin işleyişini takip edebilecek ve üstlendiğim görevlerin gereklerini tam olarak yerine getirebilecek ölçüde şirket işlerine zaman ayırabileceğimi,

g) Şirketin yönetim kurulunda son on yıl içerisinde altı yıldan fazla yönetim kurulu üyeliği yapmadığımı,

ğ) Şirketin veya şirketin yönetim kontrolünü elinde bulunduran ortakların yönetim kontrolüne sahip olduğu şirketlerin üçten fazlasında ve toplamda borsada işlem gören şirketlerin beşten fazlasında bağımsız yönetim kurulu üyesi olarak görev almıyor olduğumu,

h) Yönetim Kurulu üyesi olarak seçilen tüzel kişi adına tescil ve ilan edilmemiş olduğumu,

beyan ederim.

Kurtuluş Bedri VAROLGLU

03.02/2017

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

BAĞIMSIZLIK BEYANI

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş. (Şirket) Yönetim Kurulu'nda, mevzuat, esas sözleşme ve Sermaye Piyasası Kurulu'nun Kurumsal Yönetim Tebliği'nde belirtilen kriterler kapsamında "bağımsız üye" olarak görev yapmaya aday olduğumu, bu kapsamda;

a) Şirket, şirketin yönetim kontrolü ya da önemli derecede etki sahibi olduğu ortaklıklar ile şirketin yönetim kontrolünü elinde bulunduran veya şirkette önemli derecede etki sahibi olan ortaklar ve bu ortakların yönetim kontrolüne sahip olduğu tüzel kişiler ile kendim, eşim ve ikinci dereceye kadar kan ve sıhrî hisimlarım arasında; son beş yıl içinde önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda istihdam ilişkisinin bulunmadığını, sermaye veya oy haklarının veya imtiyazlı payların %5 inden fazlasına birlikte veya tek başına sahip olunmadığını ya da önemli nitelikte ticari ilişkinin kurulmamış olduğunu,

b) Son beş yıl içerisinde, başta şirketin denetimi (vergi denetimi, kanuni denetim, iç denetim de dahil), derecelendirilmesi ve danışmanlığı olmak üzere, yapılan anlaşmalar çerçevesinde şirketin önemli ölçüde hizmet veya ürün satın aldığı veya sattığı şirketlerde, hizmet veya ürün satın alındığı veya satıldığı dönemlerde, ortak (%5 ve üzeri), önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda çalışmadığımı veya yönetim kurulu üyesi olmadığımı,

c) Bağımsız yönetim kurulu üyesi olmam sebebiyle üstleneceğim görevleri gereği gibi yerine getirecek mesleki eğitim, ilgi ve tecrübeye sahip olduğumu,

d) 31/12/1960 tarihli ve 193 sayılı Gelir Vergisi Kanunu (G.V.K.)'na göre Türkiye'de yerleşmiş sayıldığımı,

e) Şirket faaliyetlerine olumlu katkılarda bulunabilecek, şirket ile pay sahipleri arasındaki çıkar çatışmalarında tarafsızlığımı koruyabilecek, menfaat sahiplerinin haklarını dikkate alarak özgürce karar verebilecek güçlü etik standartlara, mesleki itibara ve tecrübeye sahip olduğumu,

f) Şirket faaliyetlerinin işleyişini takip edebilecek ve üstlendiğim görevlerin gereklerini tam olarak yerine getirebilecek ölçüde şirket işlerine zaman ayırabileceğimi,

g) Şirketin yönetim kurulunda son on yıl içerisinde altı yıldan fazla yönetim kurulu üyeliği yapmadığımı,

ğ) Şirketin veya şirketin yönetim kontrolünü elinde bulunduran ortakların yönetim kontrolüne sahip olduğu şirketlerin üçten fazlasında ve toplamda borsada işlem gören şirketlerin beşten fazlasında bağımsız yönetim kurulu üyesi olarak görev almıyor olduğumu,

h) Yönetim Kurulu üyesi olarak seçilen tüzel kişi adına tescil ve ilan edilmemiş olduğumu,

beyan ederim.


Yunus ARINCI
06/02/2017