



EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

For the Period 1 January – 30 June 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 – 30.06.2017

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 has occurred in shareholding and capital structure in the period.

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

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors is executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next general assembly to be approved. The Company's 2016 Regular General Assembly has been executed on 31 March 2017.

The membership number of Board of Directors has determined as 9 and 6 Board Members have been elected for three years and 3 independent board members have been elected for one year by the General Assembly executed on 31 March 2017 according to the 10th and 11th articles of Articles of Association within the framework of Turkish Commercial Code and Capital Market Law.

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The active members of the Board of Directors as of 30.06.2017:

Board of Directors	Title	Effective from
OYTAŞ İÇ VE DIŞ TİCARET 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

(*) Inauguration date of the legal entity.

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. 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.

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

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

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Executive Management

Executive Management	Title	Effective from	Education	Experience
Sedat ORHAN	Chief Executive Officer	16.08.2013	Karadeniz Technical University – Mechanical Engineering	31 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	37 Years
Aylin VELİOĞLU ÇELİK	Executive Vice President (Human Resources)	15.08.2016	Middle East Technical University- Political Science and Public Administration	28 Years
Emre Berk HACIGÜZELLER	ERDEMİR Group Financial Management and Financial Affairs Coordinator	21.02.2017	Marmara University - Business Administration	27 Years
Sami NeziH TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	34 Years
Başak TURGUT	ERDEMİR Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	20 Years
İsmail Kürşad KORKMAZ	ERDEMİR Group Procurement Coordinator	21.02.2017	Middle East Technical University – Political Science and Public Administration	21 Years
Vacant	ERDEMİR Group Production Coordinator			
Vacant	ERDEMİR Group Technology Coordinator			
Can ÖRÜNG	ERDEMİR Group Enterprise Architecture Human Resources Coordinator	07.02.2017	İstanbul Techninal University – Management Engineering	16 Years
Naci Özgür ÖZEL	ERDEMİR Group Strategy and Business Development Coordinator	29.05.2014	İstanbul Technical University – Industrial Engineering	21 years
Banu KALAY ERTON	ERDEMİR Group Corporate Affairs Coordinator	13.06.2014	Mimar Sinan University - City and Regional Planning	23 years
Can ÖRÜNG (by proxy)	ERDEMİR Group Information Technologies Coordinator			
Oya ŞEHİRLİOĞLU	ERDEMİR Grup Legal Coordinator	14.01.2015	Ankara University – Faculty of Law	23 years

Oğuz Nuri ÖZGEN's duty as ERDEMİR Group Production Coordinator, has ended by 18.01.2017.

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

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

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

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

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

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

At the Ordinary General Assembly held on 31 March 2017 regarding the Company's 2016 activities, it is consented to give the authority for transactions for 2017 according to article 395 and 396 of Turkish Commercial Code (TCC) to the Members of the Board. No transaction had been realized in this context.

6. Collective Labor Agreement Applications and the Benefits

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.

25th Period Collective Labor Agreement expired on December 31, 2014 for İskenderun Demir ve Çelik A.Ş. Legal proceedings has been completed and Çelik-İş Union has been taken the authorization certificate. Collective bargaining began between our company and Çelik-İş Union in August 2, 2017 on wednesday. However, contract provisions after expiration are currently being applied.

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

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and nursing leaves can be taken by all employees; the rest is taken only by blue-collar workers.

The number of the personnel on 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	31 December 2016
	Personnel	Personnel
Blue collar	8.110	8.281
White collar	3.909	3.996
	12.019	12.277

7. Compliance With The Corporate Governance Principles

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity Report for the year ending 2016 were met during the period 01.01.2017 – 30.06.2017.

8. 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 Law No 2499 amended by Law No 3794 and began to implement this system with permission No 2416 dated August 15, 1983 of Capital Market Board.

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

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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.

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 31 March 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 1 April 2017.

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

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No payment of performance was made to Board Members.

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

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

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

A total of TRY 16.750 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

C – Research and Development Studies

Erdemir 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; 9 projects have been completed and 24 new projects have been started. Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, for the relevant periods, technical and financial reports of 3 supported projects were submitted.

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 50 papers / oral or poster presentations, cumulatively until today.

D – Activities and Important Developments Regarding the Activities

1. Investment Activities

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

In Ereğli plant, 14 of the projects related to Environmental Investments were commissioned and 24 projects are ongoing. Engineering activities continue for Modernization of Level 1-2 Automation Systems for BOF & CC and CPL No.2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping Projects. In Galvanizing Line No.2 Project, field applications and equipment supply continue. Preparations has started for performance tests on Blast Furnace Top Pressure Recovery Turbines Project. Manufacturing and installation studies are ongoing for No. 1 Blast Furnace Stove Project. In Raw Material Stocking and Blending Yard Modernization and Converting Ladle Treatment to the Ladle Furnace projects site applications are ongoing. Road and bridge constructions have been completed and main kitchen purchasing works are continuing for Reconstruction of Gülüç Entrance Zone as Delivery Gate. In Converter Slack Stopping System Modernization Project first converter slack stopper is commissioned and remaining two slag stopper will be commissioned in July and September stoppages. Civil works continue for New Central Baths and Dining Hall Buildings. Welding equipment modernization's site applications are ongoing in CPL-TCM

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Modernization Project. Negotiations for the main plant contract continue. In ERDEMİR R&D Simulation Center project, purchasing process of simulators has reached the final stage and site applications for the restoration of the old building of education directorate continue. Contract negotiations for Online Surface Inspection Systems, EDT and Dynamic UPS and Panels are ongoing. Technical evaluation of proposals continue for Hot Strip Mill No2 Quality and Sustainability Investments, Erdemir Coke Oven Battery No.4 and Modernization of the By-Product Plant Project, BOF Convertors Modernization and Energy Distribution Systems projects. Contract negotiations are ongoing for No 6 Steam Boiler project. Technical specification is being revised for 60 MW New Steam Generator which is included in the scope of No.6 Steam Boiler project. Main contract was signed for Various Fire Detection and Extinguishing Systems project. New Wide Inspection and Recoil Line and Finished Goods Warehouses investment has started due to the Board approval.

On the other hand, in İskenderun facilities, South Harbour 1st Stage has been completed and commissioning works continue for Hot Slab Marking Machine Project. 22 of the Environmental Package which consists of 25 environmental projects has been completed; field activities continue for others. Site applications are ongoing for Electrical arc ladle furnace - dedusting & water cooling systems modernization and No.8 Air Separation Plant. Purchasing processes continue for Modernization of the Coke Oven Battery No.3, Vacuum Degassing, Gathering Storehouses at One Location and Mold Level Control System Renewal investments.

Total investments in Erdemir Group plants is USD 68 million as of 30 June 2017 (30 June 2016: USD 89 million).

2. Internal Control System and Internal Auditing Activities

Internal Audit Department is in charge of evaluating and improving the effectiveness of risk management, control and governance processes of Erdemir Group companies and it reports directly to the Chairman and the Executive Director of the Board. The Audit Committee, which comprises of independent board members, is informed regularly about the internal audit activities and effectiveness of the internal control system.

Process audits of Erdemir Group are conducted with risk-based and value added approach as well as in accordance with the international internal audit professional practice standards. The audit program is performed based on the annual calendar approved by the Chairman and the Executive Director of the Board. During the audit activities, internal control environment of a process is evaluated with a systematic approach and mitigating controls are suggested when necessary. Action plans determined by the management are followed up and reported regularly.

Quality assurance activities are held to evaluate effectiveness of the activities performed by the internal audit function. Performance appraisals are conducted within the audit team continuously, constructive feedback of audited process owners are gathered through the evaluation surveys at the end of each audit project. Auditing practices are reviewed regularly and professional standards are taken into consideration consistently.

Internal audit function is in charge of coordination of improving and sustaining the ethics and compliance system as well. Investigation activities are carried out by the Internal Audit Directorate with regards to conformity of Erdemir Group Code of Ethics and Business Conduct. There are written and verbal communication channels (e-mail, mail and ethics hotline) shareholders may directly get information from and/or report possible violations. Ethics Committee is the top governance body responsible for resolving incompliances with regards to Erdemir Group Code of Ethics and Business Conduct and applying sanctions when needed.

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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	Iron and Steel Manufacturing	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silica Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100
İsdemir Linde Gaz Ortaklığı A.Ş. (*)	Turkey	Energy	50	50

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 12.398 thousand has been reported under financial investments on the financial statements.

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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 reviewed as of 30 June 2017.

Summary of Balance Sheet

	(Reviewed)	(Audited)
	Current Period	Previous Period
(Thousand TRY)	30 June 2017	31 December 2016
Current Assets	10.599.423	11.063.224
Non-current Assets	12.473.668	12.588.053
Total Assets	23.073.091	23.651.277
Current Liabilities	3.754.026	4.226.720
Non-current Liabilities	3.370.716	3.764.524
Shareholders' Equity	15.948.349	15.660.033
Total Liabilities	23.073.091	23.651.277

Summary of Income Statement

	(Reviewed)	(Reviewed)
	Current Period	Previous Period
(Thousand TRY)	1 January - 30 June 2017	1 January - 30 June 2016
Sales Revenue	8.875.459	5.245.415
Gross Profit	2.411.248	760.472
Operating Profit	2.233.856	625.511
Profit Before Tax	2.204.179	612.580
Profit for the Period	1.830.579	499.438
Shareholder's share in the Profit for the Period	1.769.401	481.926
EBITDA	2.550.032	918.009
Earnings Per Share	50,55%	13,77%

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 - 30 June 2017	1 January - 30 June 2016
Gross Profit Margin	27,2%	14,5%
Operating Profit Margin	25,2%	11,9%
EBITDA Margin	28,7%	17,5%
Profit Margin	20,6%	9,5%
Shareholder's Share in the Profit Margin	19,9%	9,2%

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

4. Dividend Distribution Policy

Erdemir 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 started as of 5 April 2017.

5. Information about the sector

Global crude steel production in June this year increased by 3.2 percent year on year to 141 million tonnes. In the given month, the average capacity utilization of steel mills across the globe was 73 percent, up 1.4 percentage points compared to June 2016 and up 1.3 percentage points compared to June. In the first half of this year, global crude steel production increased to 836 million tonnes, up 4.5 percent year on year.

In June this year, crude steel output in Asia amounted to 98.7 million tonnes, up 4.5 percent, with 73.2 million tonnes produced by China, up 5.7 percent, 8.4 million tonnes produced by Japan, decreasing by 4.3 percent, 7.9 million tonnes produced by India, down 1.1 percent, and 5.9 million tonnes produced by South Korea, rising by 7.7 percent - with all comparisons on year-on-year basis.

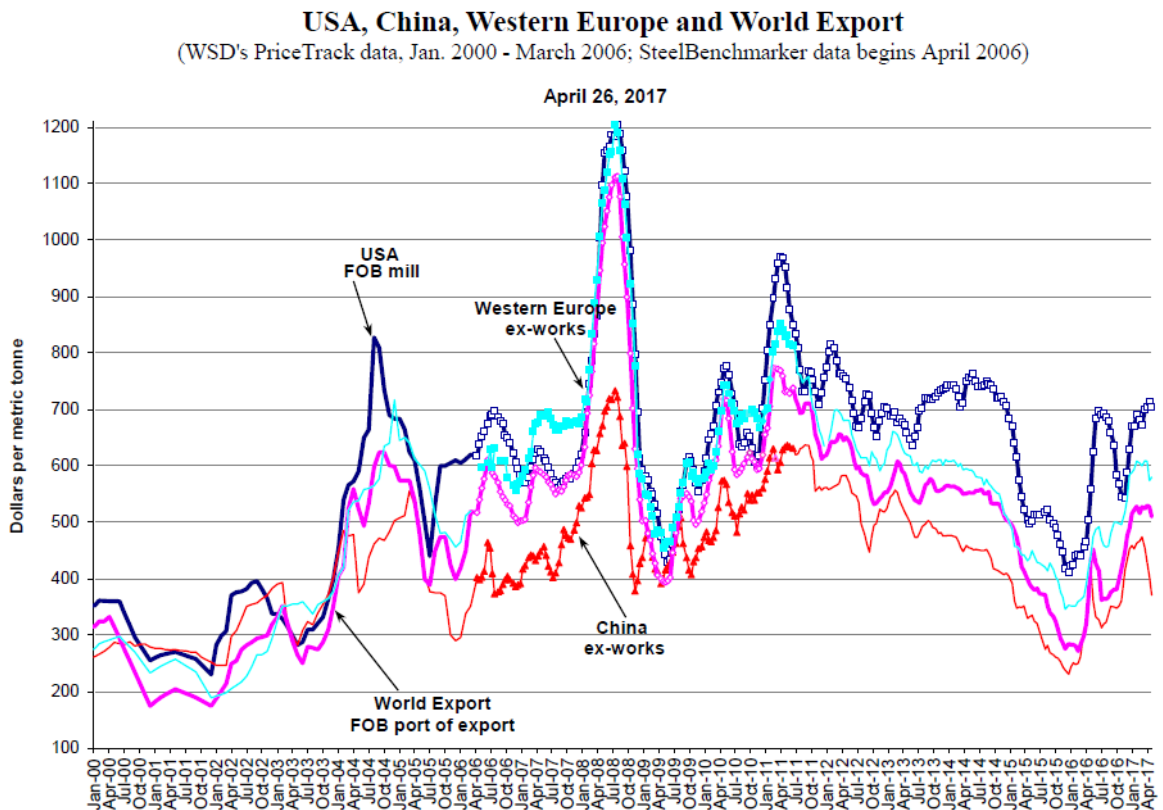
EU-28 countries produced 14.4 million tonnes of crude steel in June, up 3.9 percent year on year. In June, Germany's output was 3.6 million tonnes, falling by 1.7 percent year on year, Italy's crude steel output was 2.1 million tonnes, up 1.8 percent year on year, and France's crude steel output amounted to 1.3 million tonnes, up 1.3 percent year on year.

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Iran's crude steel production in June amounted to 1.8 million tonnes, up 16.4 percent year on year. The CIS registered a crude steel output of 7.6 million tonnes in June, falling 8 percent on year-on-year basis, with Russia producing 5.3 million tonnes, decreasing by 8 percent, and Ukraine producing 1.6 million tonnes, down 13 percent, both on year-on-year basis.

In North America in June, crude steel output totaled 9.4 million tonnes, falling 2.4 percent on year-on-year basis, with the US producing 6.7 million tonnes, falling by 1.7 percent, and Mexico producing 1.7 million tonnes, up one percent, all on year-on-year basis. Crude steel output in South America in June amounted to 3.4 million tonnes, up 3.4 percent from June last year, with Brazil's output totaling 2.6 million tonnes, increasing by 4 percent year on year.

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



Turkish crude steel output in June this year decreased by 8.7 percent month on month and was up by 7.1 percent year on year to 3 million tonnes. In the given month, Turkey's crude steel output by electric arc furnaces rose by 9.4 percent, while production by integrated plants increased by 2.3 percent, both year on year.

In the first half of this year, Turkish crude steel output rose by 11.4 percent to 18.2 million tonnes, year on year. In the given period, Turkey's crude steel output by electric arc furnaces rose by 15.2 percent to 12.4 million tonnes, while production by integrated plants increased by 3.9 percent to 5.8 million tonnes, both year on year.

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6. The Position of Erdemir Group within the Sector

Erdemir Group's production in 2016 has been expanded to 9,2 million tonnes. In the first six months of 2017, the crude steel production in Ereğli Plant has decreased 3,0 percent and went down to 1.754 thousand tonnes while the crude steel production in İskenderun went up to 2.832 thousand tonnes with an increase of 4,0 percent. In the first six months of 2017 Erdemir Group's production has increased by 2,0 percent and went up to 4.586 thousand tonnes.

7. Operational Developments

Turkey's first and only integrated flat steel producer, Erdemir Group, who carries out production, operation, maintenance and modernization activities within its all facilities. Manufacturing 27% of all crude steel production in Turkey, Erdemir Group again continued its operations in line with the principle of optimal costs, maximum productivity and quality of production in the first half of 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 tonnes of slitting and cut-to-length capacity, is Turkey's largest steel service center. With 4 production footprints in Gebze, Kdz. Ereğli, İskenderun and Manisa, Ersem supplies just in time deliveries and storage services for our customers.

Production Plants and Productivity

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

Capacity used (%)	1 January - 30 June 2017	1 January - 30 June 2016
Liquid Steel	97%	95%
Slab	90%	85%
Billet	50%	63%

8. Products

The main products of Erdemir Group are as follows:

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

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9. Production (quantity)

Final Products (000 Tonnes)	1 January - 30 June 2017	1 January - 30 June 2016
Flat Products	3.865	3.540
Long Products	627	789
Iron Ore and Pellet	938	956

10. Development in 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 34,1 million tonnes consumption in 2016. While steel consumption of Turkey fall 9,7% in the first half of 2017, flat steel consumption decrease about 6% to 8,1 million tonnes.

Total flat product sales of the Erdemir Group of Companies reached to the level of 3,7 million tonnes in the first six months of 2017. The domestic flat product sales reached 3,1 million tonnes %6 less than 2016. Long products sales decreased 18% (Y.O.Y.) and went to 643 thousand tonnes. The domestic long product sales decreased 22% (Y.O.Y.) and went to 528 thousand tonnes.

Erdemir Group of Companies also exported 676 thousand tonnes of product, consisting of 561 thousand tonnes of flat product and 115 thousand tonnes of long product. The level of Erdemir Group's export sales is 16% of total sales. The group exported flat products to 35 countries and long products to 15 countries.

Erdemir 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, ERDEMİR Group has added 5 new customers to long product portfolio and 16 new customers to flat product portfolio totaling 21 new customers during the first half of 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.

11. Sales (quantity)

Final Products (000 Tonnes)	1 January - 30 June 2017	1 January - 30 June 2016
Flat Products	3.723	3.670
Long Products	643	782
Iron Ore and Pellet Sales (*)	999	1.047

(*) 866 thousand tonnes of Ermaden's sales are to Group Companies as of 30 June 2017 (30 June 2016: 939 thousand tonnes).

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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 Erdemir Group is exposed to and developing hedging methods to keep these risks within risk tolerances.

Almost all of our receivables are guaranteed with the Direct Debit System, the Credited Direct Collection System and the Trade Credit Insurance.

Risk positions of our customers are monitored regularly and when exceeding the limits, a margin call is issued.

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks Erdemir Group is exposed to and the amount of gain / loss, which may arise possible interest rate changes, is measured using a sensitivity analysis. Additionally, the ratio of total amount of loans with a floating interest rate to whole credit portfolio of the Group is monitored and actions are taken to keep this ratio within a defined limit. Derivative instruments are assessed and analyzed in detail. According to firm and market situation, convenient transactions are executed within certain limits.

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

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

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

2. Committee of Early Risk Detection

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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G - Other Information

1. Organizations Out of the Headquarters

None.

2. Information about Related Party Transactions

None.