



EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

For the Period 1 January – 30 June 2018
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**

01.01.2018 – 30.06.2018

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 2017 Regular General Assembly has been executed on 30 March 2018.

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. Accordingly 3 independent board members have been elected for one year by the General Assembly executed on 30 March 2018 instead of the 3 independent board members whose duty has ended.

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

The active members of the Board of Directors as of 30.06.2018:

Board of Directors	Title	Effective from
OYTAŞ İç VE Dış Ticaret A.Ş. (Represented by: Süleyman Savaş ERDEM)	Chairman	27.05.2013(*)
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Toker ÖZCAN)	Deputy Chairman – Executive Director	13.09.2012(*)
Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA)	Board Member	20.09.2012(*)
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	12.09.2012(*)
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 in the trade registry gazette dated 2 February 2018 with the 9523 numbered decision,

- The assignment of Süleyman Savaş ERDEM as the representative of Board Member OYTAŞ İç ve Dış Ticaret A.Ş. due to the end of Ömer Muzaffer BAKTIR's duty,
- The assignment of Toker ÖZCAN as the representative of Board Member OYAK Pazarlama Hizmet ve Turizm A.Ş. due to the end of Fatma CANLI's duty,
- The cancellation of Board Member OYTAŞ İç ve Dış Ticaret A.Ş.'s (represented by Süleyman SAVAŞ ERDEM) duty as Executive Director,
- The cancellation of Board Member OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş.'s (represented by Ertuğrul AYDIN) duty as Deputy Chairman,
- The assignment of OYTAŞ İç ve Dış Ticaret A.Ş. (represented by Süleyman Savaş ERDEM) as chairman,
- The assignment of OYAK Pazarlama Hizmet ve Turizm A.Ş. (represented by Toker ÖZCAN) as Deputy Chairman,
- The assignment of OYAK Pazarlama Hizmet ve Turizm A.Ş. (represented by Toker ÖZCAN) as Executive Director.

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

By the General Assembly executed on 30 March 2018; 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.

Executive Management

Executive Management	Title	Effective from	Education	Experience
Salih Cem ORAL	General Manager	06.06.2018	İstanbul Technical University – Metallurgy Engineering	25 Years
İbrahim Emrah SİLAV	Group Financial Management and Financial Affairs Coordinator	01.12.2017	Middle East Technical University - Economics	18 Years
Başak TURGUT	Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	21 Years
İsmail Kürşad KORKMAZ	Group Procurement Coordinator	21.02.2017	Middle East Technical University – Political Science and Public Administration	22 Years
Can ÖRÜNG	Group Enterprise Architecture Human Resources Coordinator	07.02.2017	İstanbul Techninal University – Management Engineering	17 Years
Can ÖRÜNG (by proxy)	ERDEMİR Group Information Technologies Coordinator			

Aylin VELİOĞLU ÇELİK's duty as Executive Vice President (Human Resources) , has ended by 01.03.2018.

Sami Nezh TUNALITOSUNOĞLU's duty as Executive Vice President (Financial Affairs), has ended by 31.03.2018 and he has assigned as Business Development Consultant by 1 April 2018.

Salih Cem ORAL, who was acting as Executive Vice President (Operations) by proxy and assigned as Executive Vice President (Operations) as principal by 11.04.2018 has assigned as General Manager as principal by 06.06.2018.

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

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 30 March 2018 regarding the Company's 2017 activities, it is consented to give the authority for transactions for 2018 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.

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.

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, 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 (play school, 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 number of the personnel on 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
	Personnel	Personnel
Blue collar	7.842	8.012
White collar	3.921	3.963
	11.763	11.975

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

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 2017 were met during the period 01.01.2018 – 30.06.2018.

8. Amendments in The Articles of Association

None.

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 30 March 2018 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. Işıl GÜNEŞ EFE, 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 3.350 (monthly, in cash), the wages of independent Board members will be TRY 7.400 (monthly, in cash) and the new wages valid from the date of 1 April 2018.

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

No payment of performance was made to Board Members.

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

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

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

A total of TRY 13.462 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
WITH THE COMMUNIQUÉ SERIAL:II, NO:14.1****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 4 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 44 projects have been continued.

Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, until today 4 projects have been completed successfully.

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

R&D Center 2nd annual audit that organized by Turkish Ministry of Industry and Technology has been completed successfully. For 3rd annual audit, our 2017 report is already submitted to ministry.

Relocation of R&D Center to the outside of the plant site is completed. Simulator investment program and installation of equipment for laboratory infrastructure have been continued.

D – Activities and Important Developments Regarding the Activities**1. Investment Activities**

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

In Erdemir, building steel construction, cladding and roofing, technological steel and equipment erection works are on going for the 2nd Galvanizing Line Project. In Converter Slack Stopping System Modernization Project two converter slack stoppers are commissioned, for 3rd slag stopper a redesign will be made and field applications will be performed. 18 of 38 projects related to Environmental Investments Program have been commissioned and 20 projects are ongoing.

In the AR-GE (RD) Project, field activities continued. Hot/Cold Rolling and Skin Pass Simulator's detail engineering works have been completed. No. 1 Blast Furnace Stove Project is commissioned, Connections for heat exchanger parts will be made on planned stoppage. Field applications are ongoing for Raw Material Stocking and Blending Yard Modernization. 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 have been completed for CPL No.2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping.

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

For Roll Texturing Machine (EDT), Additional Investments Energy Distribution Systems, Modernization of Level 1-2 Automation Systems for Steel Shop & Continuous Casting Projects and Online Surface Inspection Systems manufacturing and supply works are ongoing. Dynamic UPS and Panels Project is on field application stage. Technical specification and Main engineering activities continue for Various Fire Detection and Extinguishing Systems Projects. Contract have been signed for New Coastal Protection Construction Project and 6th Steam Boiler Project.

Purchasing studies continue for 4th Coke Battery and By Products Plant, 2nd Hot Mill Quality and Sustainability Investments, New Wide Inspection and Recoil Line and Finished Goods Warehouses.

In İsdemir, 24 out of 25 projects in the Environmental Investment Program have been commissioned and field applications continue in one project. Site applications are ongoing for Electrical Arc Ladle Furnace - Dedusting & Water Cooling Systems Modernization Project. Detail engineering works have been completed in Mold Level Control System Renewal Project.

Puchasing process and evaluation studies are on going in Vacuum Degassing Plant, Modernization of the Coke Oven Battery No.3, New Coke Gas Gasometer and South Harbor 1 Stage Construction Works and Back Filling Projects.

As of June 30, 2018, Group's total investment expense amount is USD 123.605 thousand (June 30, 2017: USD 68.349 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 Deputy 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 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 Deputy 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.

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

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 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 Group Code of Ethics and Business Conduct and applying sanctions when needed.

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	2018 Share %	2017 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel Manufacturing	94,87	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	Industrial Gas Production and Sales	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.

(*) The share held in the ISDEMİR's capital has decided to 94.87% from 95.07% after realization of the sales of shares of ISDEMİR with the value of TRY 42.390.615 in aggregate at TRY 7.5 par value per share (total par value of TRY 5,652,082) on 13.04.2018 with ISDEMİR's 95.07% share in the capital of the Company. With the change of such share ratio, since the requirements in the BISAS Listing Regulations have met, the shares of ISDEMİR which is formerly traded on Pre-Market Trading Platform have been started to be traded at Star Market as of 19.04.2018.

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

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 2018.

Summary of Balance Sheet

	(Reviewed)	(Audited)
	Current Period	Previous Period
(Thousand TRY)	30 June 2018	31 December 2017
Current Assets	17.822.713	14.841.725
Non-current Assets	16.607.785	13.534.130
Total Assets	34.430.498	28.375.855
Current Liabilities	7.013.616	5.524.344
Non-current Liabilities	4.541.834	3.623.354
Shareholders' Equity	22.875.048	19.228.157
Total Liabilities	34.430.498	28.375.855

Summary of Income Statement

	(Reviewed)	(Reviewed)
	Current Period	Previous Period
(Thousand TRY)	1 January - 30 June 2018	1 January - 30 June 2017
Sales Revenue	11.629.361	8.919.801
Gross Profit	3.771.917	2.455.590
Operating Profit Before Finance Income (Expenses)	3.465.283	2.270.687
Profit Before Tax	4.083.588	2.204.179
Profit for the Period	2.687.862	1.830.579
Shareholder's share in the Profit for the Period	2.576.503	1.769.401
EBITDA	3.756.515	2.550.032
Earnings Per Share	73,61%	50,55%

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 2018	1 January - 30 June 2017
Gross Profit Margin	32,4%	27,5%
Operating Profit Before Finance Income (Expenses) Margin	29,8%	25,5%
EBITDA Margin	32,3%	28,6%
Profit Margin	23,1%	20,5%
Shareholder's Share in the Profit Margin	22,2%	19,8%

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
WITH THE COMMUNIQUÉ SERIAL:II, NO:14.1****3. 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.

4. Dividend Distribution Policy

Group'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.

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

Dividend distribution (gross dividend per share: TRY 0,84) amounting to TRY 2.940.000 thousand from 2017 net profit was approved during Annual General Assembly Meeting dated 30 March 2018. The dividend distribution started as of 29 May 2018.

5. Information about the sector

Global crude steel production in June this year decreased by 2.2 percent month on month and rose by 5.8 percent year on year to 151.4 million tonne. In the given month, the average capacity utilization of steel mills across the globe was 78.5 percent, up 3.8 percentage points compared to June 2017 and rising by one percentage point compared to May. In the January-June period of this year, global crude steel production increased to 881.5 million tonne, up 4.6 percent year on year.

In June this year, crude steel output in Asia amounted to 107.4 million tonne, rising by 6.9 percent, with 80.2 million tonne produced by China, up 7.5 percent, 8.8 million tonne produced by Japan, increasing by 4.2 percent, 8.7 million tonne produced by India, increasing by 7.4 percent, and 6.1 million tonne produced by South Korea, rising by 3.2 percent - with all comparisons on year-on-year basis.

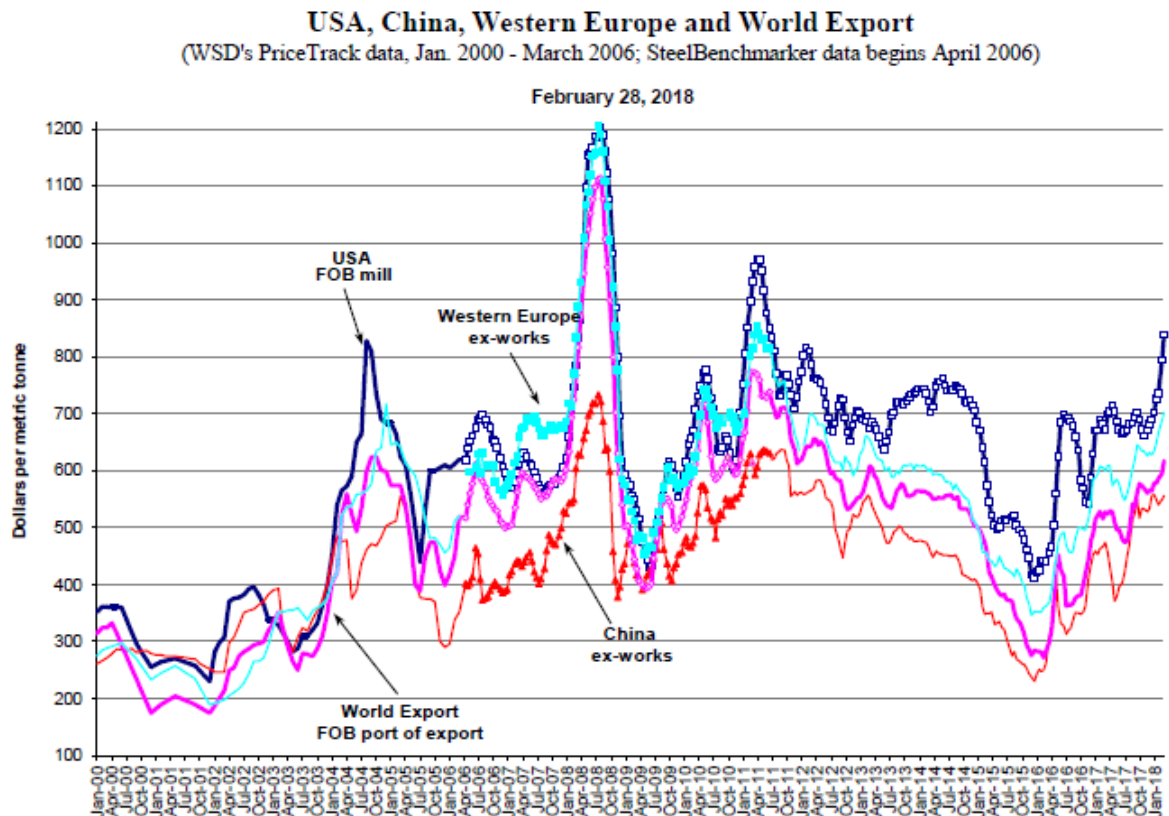
EU-28 countries produced 14.4 million tonne of crude steel in June, up 1.3 percent year on year. In June, Germany's output was 3.8 million tonne, rising by 4.6 percent year on year, Italy's crude steel output was 2.1 million tonne, up 1.5 percent year on year, and France's crude steel output amounted to 1.3 million tonne, down 4.4 percent year on year.

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

Iran's crude steel production in June amounted to 2.1 million tonne, up 16.5 percent year on year. The CIS registered a crude steel output of 8.5 million tonne in June, increasing by 7.8 percent on year-on-year basis, with Russia producing 6.1 million tonne, rising by 8.9 percent, and Ukraine producing 1.7 million tonne, up 7.5 percent, both on year-on-year basis.

In North America in June, crude steel output totaled 9.6 million tonne, decreasing by 0.9 percent, with the US producing 6.9 million tonne, rising by 0.8 percent, and Mexico producing 1.7 million tonne, down 0.8 percent, all on year-on-year basis. Crude steel output in South America in June amounted to 3.4 million tonne, down 0.4 percent from June last year, with Brazil's output totaling 2.6 million tonne, decreasing by 2.2 percent year on year.

Price changes of hot rolled products follows:



Turkish crude steel output in June this year decreased by 8.5 percent month on month and was up by 0.7 percent year on year to 3 million tonne. In the given month, Turkey's crude steel output by electric arc furnaces rose by 1.5 percent, while production by integrated plants decreased by one percent, both year on year.

In the first half of this year, Turkish crude steel output rose by 3.7 percent to 18.9 million tonne, year on year. In the given period, Turkey's crude steel output by electric arc furnaces rose by 5.3 percent to 13.1 million tonne while production by integrated plants increased by 0.3 percent to 5.8 million tonne, both year on year.

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

6. The Position of Group within the Sector

Group's production in 2017 has been expanded to 9.2 million tonne. In the first six months of 2018, the crude steel production in Ereğli Plant has increased by %1 and went up to 1.775 thousand tonne while the crude steel production in İskenderun Plant has increased by %1 and went up to 2.851 thousand tonne. In the first six months of 2018, Group's production has increased by %1 percent and went up to 4.626 thousand tonne.

7. Operational Developments

Turkey's first and only integrated flat steel producer, Group, who carries out production, operation, maintenance and modernization activities within its all facilities. Manufacturing 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 the first half of 2018.

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, 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 2018	1 January - 30 June 2017
Liquid Steel	98%	97%
Slab	94%	90%
Billet	40%	50%

8. Products

The main products of the Group are as follows:

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

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

Production (quantity)

Final Products (000 Tonne)	1 January - 30 June 2018	1 January - 30 June 2017
Flat Products	3.923	3.865
Long Products	452	627
Iron Ore and Pellet	835	938

9. 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 36 million tonne consumption in 2017. While steel consumption of Turkey increase %11,5 in the first half of 2018, flat steel consumption is 9,6 million tonne, which surpasses last year's figure by 18,3%.

Total flat product sales of the Group reached to the level of 3,8 million tonne in the first half of 2018. The domestic flat product sales reached 3.151 thousand tonne %2 higher than the same period of 2017. Long products sales decreased %34 (Y.O.Y.) and went to 422 thousand tonne. Domestic long product sales decreased %24 compared to the previous year and reached 399 thousand tonne.

Group also exported 626 thousand tonne of flat products to 29 countries and 23 thousand tonne of long products to 6 countries. The level of the Group's export sales is 15% 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 8 new customers to long product portfolio and 9 new customers to flat product portfolio totaling 17 new customers during the first half of 2018.

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.

10. Sales (quantity)

Final Products (000 Tonne)	1 January - 30 June 2018	1 January - 30 June 2017
Flat Products	3.777	3.733
Long Products	422	643
Iron Ore and Pellet Sales (*)	938	999

(*) 878 thousand tonne of Ermaden's sales are to Group Companies as of 30 June 2018 (30 June 2017: 866 thousand tonne).

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

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.

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

G - Other Information

1. Organizations Out of the Headquarters

None.

2. Information for Shareholders

None.