



EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

For the Period 1 January – 31 December 2015
Board of Directors' Activity Report



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Güney Bağımsız Denetim ve
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AUDITOR'S REPORT ON ANNUAL REPORT OF BOARD OF DIRECTORS

To the Board of Directors of Ereğli Demir ve Çelik Fabrikaları T.A.Ş

Report on the Audit Board of the Annual Report of the Independent Auditing Standards Framework

We have audited the annual report of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. ("the Company") and its subsidiaries together will be referred to as "the Group" as at 31 December 2015.

Management's Responsibility On Annual Report Of Board Of Directors

The Group management is responsible for the preparation of annual report to be consistent with consolidated financial statements and fairly presented and internal control to ensure the preparation of an annual report in accordance with the 514. Article of No:6102 Turkish Commercial Code ("TCC") and The Capital Markets Board ("CMB") II-14.1 No. "Communiqué on Principles of Financial Reporting in Capital Markets" ("Communiqué").

Independent Auditors' Responsibility

Our responsibility as independent auditors depending the audit was made in context of 397. Article of TCC, that is to express an opinion on whether the financial information provided in the annual report is consistent with the audited financial statements which we have expressed our opinion dated March 8, 2016 and reflects the truth.

Our independent audit was carried out according to Auditing standards issued by the CMB and Independent Auditing Standards ("ISA"), which is part of the Turkish Audit Standards issued by Public Oversight Accounting and Auditing Standards Authority. Those principles and procedures require that ensure compliance to ethics and audit is planned and performed to obtain reasonable assurance whether the financial information provided in annual report is consistent with information with the audited financial statements and fairly presented. Independent audit involves performing independent audit procedures to obtain independent audit evidence about the historical financial information. The independent audit procedures selected depend on our professional judgment. We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information included in the annual report of the Board of Directors, in all material respects is consistent with the audited consolidated financial statements and fairly presented.



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Other Responsibilities Arising From Regulatory Requirements

It has not been observed any matters related to the Group can not perform a going concern basis in the foreseeable future under ISA 570 "Going Concern" in accordance with the third paragraph of 402. Article of Turkish Commercial Code ("TCC") no 6102.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Metin Çanoğulları, SMMM
Partner

8 March 2016
İstanbul, Türkiye

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A – GENERAL INFORMATION

1. Period of the Report

01.01.2015 - 31.12.2015

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

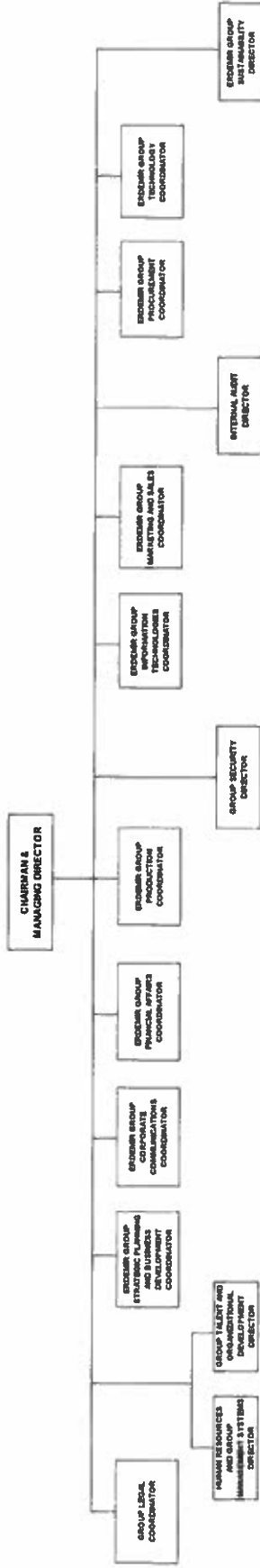
Authorized Capital : TRY 7.000.000 thousand
Paid-in Capital : TRY 3.500.000 thousand

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



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5. Preferred Stocks and information about the voting rights of the stocks

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

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 2014 Regular General Assembly has been executed on 31 March 2015.

Within the frame of Turkish Commercial Code and Capital Market Law, at the Ordinary General Assembly held on March 31, 2014, 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. Therefore, at the Ordinary General Assembly held on March 31, 2015 3 Independent Board Members were selected for 1 year instead of 3 Independent Board Members whose periods of duty expired.

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The active members of the Board of Directors as of 31.12.2015:

Board of Directors (*)	Title	Effective from
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. (Represented by: Ali Aydın PANDIR)	Chairman – Executive Director	27.05.2013
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman	12.09.2012
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Ali KABAN)	Board Member	20.09.2012
OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member	11.09.2012
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	12.09.2012
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014
Hakkı Cemal ERERDİ	Independent Board Member	31.03.2015
Ali Tuğrul ALPACAR	Independent Board Member	31.03.2015

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

Changes in the Executive Board within the Period

Emin Hakan EMİNSOY, Hakkı Cemal ERERDİ and Ali Tuğrul ALPACAR were elected to the independent board memberships for one year period at the Ordinary General Assembly held on March 31, 2015 instead of the independent board members Nazmi DEMİR, Atilla Tamer ALPTEKİN and Emin Hakan EMİNSOY who had been elected for one year period on March 31, 2014.

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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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 2015 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 2015. 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 2015. 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	29 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	35 Years
Kaan BÖKE	Executive Vice President (Human Resources)	02.04.2012	Gazi University – Labor Economics	25 Years
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011	Hacettepe University - Business Administration	29 Years
Sami NeziH TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	32 Years
Başak TURGUT	ERDEMİR Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	18 Years
Şevkinaz ALEMDAR	ERDEMİR Group Procurement Coordinator	18.05.2013	Boğaziçi University – Business Administration	20 Years
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	32 Years
Eric Andre Cornil VITSE	ERDEMİR Grup Technology Coordinator	14.10.2015	University of Nancy France- Science Mechanics	33 Years
Vacant	ERDEMİR Group Human Resources Coordinator			
Naci Özgür ÖZEL	ERDEMİR Group Strategy and Business Development Coordinator	29.05.2014	Istanbul Technical University – Industrial Engineering	19 Years
Banu KALAY ERTON	ERDEMİR Group Corporate Affairs Coordinator	13.06.2014	Mimar Sinan University - City and Regional Planning	21 Years
Ahmet Tunç NOYAN	ERDEMİR Group Information Technologies Coordinator	01.07.2014	Naval Academy - Electronics Engineering	26 Years
Oya ŞEHİRLİOĞLU	ERDEMİR Group Legal Coordinator	14.01.2015	Ankara University- Faculty of Law	22 Years

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Mehmet Mücteba BEKCAN's duty as Executive Vice President (ERDEMİR Technical Services and Investments) has ended as of 09.01.2015 and this position has been abrogated.

ERDEMİR Group Legal Coordinator position has been established and Oya ŞEHİRLİOĞLU has been assigned to this position on 14.01.2015.

Mesut Uğur YILMAZ's duty as ERDEMİR Group Technology Coordinator has ended as of 29.01.2015, Burak BÜYÜKFIRAT has been assigned to this position by proxy on 24.02.2015. Burak BÜYÜKFIRAT's duty has ended as of 13.10.2015 and Eric Andre Cornil VITSE has been assigned as ERDEMİR Group Technology Coordinator on 14.10.2015.

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 31 March 2015, 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

25th Period Collective Labor Agreement, which will be valid between 01.09.2013-31.08.2016, has been signed on March 24, 2014 between Turkish Employers' Association of Metal Industries (MESS) on behalf of our company and Turkish Metal Union as the collective bargaining agency.

25th Period Collective Labor Agreement expired on December 31, 2014 for İskenderun Demir ve Çelik A.Ş. From this date, no union agreement has been taken a place between İskenderun Demir ve Çelik A.Ş and any union. Legal proceedings are still underway. However contract provisions after expiration are currently being applied.

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

Bereavement allowance (in the case the worker dies) and meal allowance derived from the social benefits, are paid both to white-collar and blue-collar workers; the rest is paid only to blue-collar workers. Paid annual leaves, leaves of absence with excuse, maternity leaves bereavement leaves, marital leaves, transport leaves, unpaid leaves, nursing leaves and pregnancy leaves, can be taken by both white-collar and blue-collar workers; the rest is taken only by blue-collar workers.

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The Group's payables for employee benefits as of 31 December 2015 and 31 December 2014 are as follows:

(thousand TRY)	31 December 2015	31 December 2014
Due to personnel	93.459	74.611
Social security premiums payable	26.241	24.909
	119.700	99.520

Provision for employee benefits on 31 December 2015 and 31 December 2014 are as follows:

(thousand TRY)	31 December 2015	31 December 2014
Employee termination benefits	404.699	393.478
Seniority incentive premium	28.289	25.389
Provision for unpaid vacations	72.927	68.857
	505.915	487.724

The number of the personnel on 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015 Personnel	31 December 2014 Personnel
Blue collar	8.537	8.813
White collar	4.122	4.059
	12.659	12.872

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 2014 were met during the period 01.01.2015 – 31.12.2015. "Corporate Governance Principles Compliance Report" the Company issues is given in App.2.

10. Amendments in The Articles of Association

None.

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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 2015 is as follows:

In the 10th 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. Çiğdem AYIK OKUR, 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 2.360 TRY (monthly, in cash), the wages of independent Board members will be 5.500 TRY (monthly, in cash) and the new wages will be valid from the date of 1 April 2015.

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.

Other than the wages determined by Company Rating System efficiency premium payment was made once in 2014 with Board's decision according to effectiveness periods. All healthcare costs and individual annuity insurance of the management are covered with insurance.

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

A total of TRY 8.538 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

C – Research and Development Studies

Grand Opening of Erdemir Group R&D Center was realized on May 22nd, 2015 by the Ministry of Science, Industry and Technology. The first annual report of center was presented to the Ministry during commission meeting which was realized on December 10th, 2015, and accepted by commission as successful after evaluation.

Procurement of laboratory equipment and pilot-scale simulators has been continued for building up the infrastructure of the center. Product development studies have been held by both quality and production departments' supports. Within this period, 19 new flat product grades have been developed and total number of flat product quality in portfolio has been reached to 419 consisting 167 cold flat and 252 hot flat products. On the other hand, 11 new long product qualities have been added to portfolio and total number of long product qualities has been reached to 261.

Totally 63 projects have been executed at R&D center and 19 of them were completed. For managing of R&D projects systematically, all projects were transferred to software platform. In this period; 9 TUBITAK / TEYDEB (1501 program) projects were prepared for gaining governmental support. Among these projects; 1 project was approved, 1 project was rejected and other 7 projects have been at evaluation phase.

D – Activities and Important Developments Regarding the Activities

1. Investment Activities

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

In Ereğli plant; In Air Separation Plant No.7 punch list items are being worked on for final acceptance. Activities related to Environmental Investments and Erdemir Additional Environmental Investments_1 continue. Main plant bidding studies of Hot Mill No.2 Level 2 Systems Modernization, Modernization of Level 1-2 Automation Systems for BOF and CC and CPL No.2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping Projects are ongoing. In Galvanizing Line No.2 Project, main plant contract was signed. For Blast Furnace Top Pressure Recovery Turbines project site applications are ongoing. Steam Generator No.6 project is in clarification and confirmation phase and 60 MW New Steam Generator is added to the project by board approval. In CPL-TCM Modernization, contract talks continue. In Erdemir Coke Oven Battery No.4 and Modernization of the By-Product Plant Project activities related to the technical specifications are finished and project is on bidding stage. In BF No.1 Stove project contract has been signed and main engineering activities have been completed. In ERDEMİR R&D Simulation Center, except simulator purchase, all construction, installation, design works are being revised. In Converting Ladle Treatment to the Ladle Furnace project, while manufacturing continued, relocations at site was completed. Activities related to Raw Material Stocking and Blending Yard Modernization are ongoing. In Normalizing Furnace Modernization and Reconstruction

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of Gölüç Entrance Zone as Delivery Gate projects, site applications are ongoing. Converter Slack Stopping System Modernization Project's contracts has been signed. Tender studies of New Central Baths and Dining Hall Buildings, Online Surface Inspection Equipment and Additional Investments for Energy Distribution Systems are ongoing.

Separately, by establishing the Manisa Steel Service Project, Erdemir Group who has completed the first phase of the project in 2015, (one 150.000 t/year cold slitting line was commissioned) plans to establish new additional lines in the recent coming period.

On the other hand, in İskenderun Facilities; 3. Blast Furnace Chamber Refractory Exchange Project is completed in 2015. In Blast Furnace Top Pressure Recovery Turbines No.3 and 4 Project and No.2 Blast Furnace Reline and Stove Modernization intensive field applications are ongoing. 13 of the Environmental Package consists of 25 projects for environmental projects has been completed, others are ongoing field activities. In Hot Rolling Mill Revamping, Air Separation Plant No.8, Modernization of the Coke Oven Battery No.3, Hot Slab Marking Machine, Ladle Furnace Dedusting & Water Cooling Systems Modernization and Hot Rolling Mill Harmonic Filter / Compensation System projects technical specification, tender and evaluation stages are ongoing.

Total investments in Erdemir Group plants is USD 201.107 thousand as of 31 December 2015 (31 December 2014: USD 161.505 thousand).

2. Internal Control System and Internal Auditing Activities

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

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	2015 Share %	2014 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

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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.

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, 2015 and 2014 (%) and their functional currencies:

	31 December 2015			31 December 2014		
	Functional Currency	Ownership Interest	Effective Shareholding	Functional Currency	Ownership Interest	Effective Shareholding
Isdemir	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 329, transactions of an entity's own shares" allows Erdemir to purchase, hold, sell or transfer its own shares, without voting rights. As of 31 December 2015, the Company holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2014: TRY 107.837 thousand). The shares that the Company acquired don't have the rights to be publicly traded in Istanbul Stock Exchange.

5. Information about public and private audits

It is decided to make one-year agreement with "Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Ernst & Young Global Limited)" for our company's and its subsidiaries' Independent External Audit.

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Company's Shareholders' General Assembly, which was held at 30 March 2006, decided dividend distribution according to the consolidated financial statements as of 31 December 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 before 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 23 October 2008; Privatization Administration appealed this rejection on 7 January 2009. Court of Appeals' 11th Chamber reversed this rejection judgment on 30 November 2010; this time the Company appealed the Chamber's decision on 18 February 2011. However, the Chamber rejected the Company's appeal on 14 July 2011. The case file, sent back to 3rd Commercial Court of Ankara once again. (E. 2011/551) Ankara 3rd Commercial Court of First Instance making trial has dismissed the case at the hearing held on 26 June 2015. The case is under appeal at the Supreme Court.

Had the Company started to prepare its consolidated financial statements in accordance with IFRS after 31 December 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 31 December 2014 and 31 December 2013 will not be affected from the above mentioned disputes.

The Company, based on the above mentioned reasons, did not make any adjustments in the accompanying condensed interim consolidated financial statements for the possible effects of changes in the net profit for the year ended 31 December 2005 due to the lawsuits mentioned above and waits for the resolution of the pending lawsuit opened by Privatization Administration.

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 02.07.2009 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 27.03.2010 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 23.06.2011.

Enerjia appealed this rejection. 23rd Chamber of the Court of Appeals accepted this rejection on 6 April 2012 (E. 2011/2915) and after this, the case file was sent back to the 7th Commercial Court of Ankara. (E. 2013/17) In accordance with the legal arrangement regarding commercial courts, the case file was sent to the 4th Commercial Court of Ankara because of the necessity of three judicators instead of one judicator for trial. The Court has dismissed the case at the hearing held on 9 September 2015. (E. 2014/734) The case is under appeal at the Supreme Court.

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An action of debt was instituted by Messrs. Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. against our company at the 3rd Civil Court of Kdz. Ereğli on 17 April 2013 under file no 2013/253 Esas claiming for the compensation of the loss arising from the sales contract of TRY 18 thousand,-, reserving the rights for surplus. The Company was informed from the amendment petition, which was served to the company on 01 November 2013 that the plaintiff pleaded from the court to raise the claim to TRY 10.838 thousand as assessed by the expert opinion submitted to the court. The Company contested to the expert opinion and the amendment petition within the statutory period. The court has given the judgment of dismissal on 11 March 2014. The plaintiff, Bor-San Isı Sistemleri Üretim ve Pazarlama A.Ş. has appealed against the judgment. Upon the reversal of judgment, the Company appealed the decision of Supreme Court of Appeal. The rejection decision of Supreme Court of Appeal has been notified to the Company on January 28, 2015. Kdz. Ereğli Civil Court of First Instance 3rd has dismissed the case at the hearing held on 9 September 2015. (E. 2015/16) The case is under appeal at the Supreme Court.

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 21 July 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 31 October 2012 that Corus International Trading Ltd. Co. (new trading title: Tata Steel International (North America) Ltd.) filed an action for compensation at amount of TRY 8.669 thousand (USD 4.800 thousand) together with 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. The case still continues on file no. 2013/63 in Karadeniz Ereğli 2nd Civil Court of First Instance. Date of next hearing of the case is 12 April 2016.

b) Penal Sanctions

None.

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7. General Assemblies

The company had achieved the aims stated in past terms. The resolutions adopted at the Ordinary General Assembly held on 31 March 2015 had been implemented.

8. Donations Made and Social Responsibility Projects

Donations of the Erdemir Group's companies are as follows:

(thousand TRY)	1 January- 31 December 2015	1 January- 31 December 2014
Cooperative Activities with Public Institutions and Organizations	797	8.286
Education and Training Activities	651	471
Volunteer Studies and Cooperative Activities for Charities	357	281
Cooperative Activities with Foundations, Associations, Organizations, Institutes	261	1.063
Sportive Activities	184	86
Cultural and Artistic Activities	49	26
Health-Benefit and Financial Support Activities	3	-
Total	2.302	10.213

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 2015. In year 2015, all commercial transactions between our Company and our Controlling Shareholder and its subsidiaries are executed according to market conditions.

In 2015, 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 2016 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 31 December 2015 and 31 December 2014.

Summary of Balance Sheet

(Thousand TRY)	(Audited)	(Audited)
	Current Period	Previous Period
	1 January - 31 December 2015	1 January - 31 December 2014
Current Assets	7.999.975	7.371.353
Non-current Assets	10.634.515	8.562.321
Total Assets	18.634.490	15.933.674
Current Liabilities	2.615.423	3.105.422
Non-current Liabilities	3.480.875	2.517.945
Shareholders' Equity	12.538.192	10.310.307
Total Liabilities	18.634.490	15.933.674

Summary of Income Statement

(Thousand TRY)	(Audited)	(Audited)
	Current Period	Previous Period
	1 January - 31 December 2015	1 January - 31 December 2014
Sales Revenue	11.914.581	11.484.137
Gross Profit	2.060.291	2.438.485
Operating Profit	1.590.803	2.094.412
Profit from Continuing Operations Before Taxation	1.436.167	1.965.571
Net Profit for the Period	1.162.309	1.660.791
Equity Attributable to the Parent	1.125.913	1.601.415
EBITDA	2.094.102	2.483.905
Earnings Per Share	32,17%	45,75%

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.

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2. Key Ratios

(%)	1 January - 31 December 2015	1 January - 31 December 2014
Gross Profit Margin	17,3%	21,2%
Operating Profit Margin	13,4%	18,2%
EBITDA Margin	17,6%	21,6%
Net Profit Margin	9,8%	14,5%
Net Profit Margin Attributable to the Parent	9,4%	13,9%

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

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

The Nature and Amount of Issued Capital Market Instruments

There is no issued capital market instrument in the period.

5. 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."

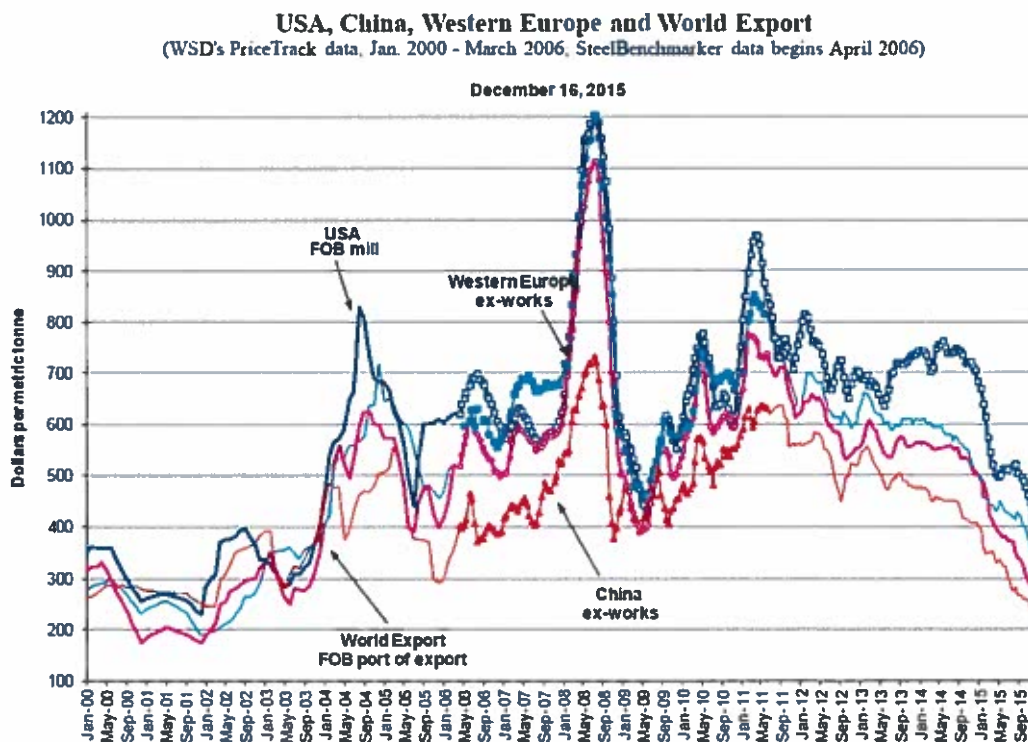
Dividend distribution (gross dividend per share: TRY 0,4000) amounting to TRY1.400.000 thousand from 2014 net profit was approved during Annual General Assembly dated 31 March 2015. Dividend payment was completed as of 26 May 2015.

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6. Information about the sector

The world crude steel output in 2015, declined to 1,6 billion mt, down 2,9 percent on year-on-year basis. In 2015, crude steel output in Asia amounted to 1,09 billion mt, down 2,3 percent, with 803.8 million mt produced by China, down 2,3 percent, 105,1 million mt produced by Japan, down 5 percent, and 69,7 million mt produced by South Korea, down 2,6 percent - with all comparisons on year-on-year basis. EU-28 countries produced 166,1 million mt of crude steel in 2015, down 1,8 percent compared with 2014. In 2015, Germany's output was 42,7 million mt, down 0,6 percent year on year, Italy's crude steel output was 22 million mt, down 7,1 percent year on year, and France's crude steel output was 14,9 million mt, down 7,2 percent year on year. The CIS registered a crude steel output of 101,2 million mt in 2015, down 4,3 percent year on year. In North America in 2015, crude steel output was 110,7 million mt, down 8,6 percent year on year. Meanwhile, crude steel output in South America in 2015 declined to 43,9 million mt, down by 2,5 percent year on year. In 2015, the average capacity utilization of steel producers across the globe was 69,7%.

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



In 2015, Turkey's crude steel output recorded a decrease of 7,4 percent year on year, totaling 31,5 million mt. In the given period, Turkey's crude steel production by electric arc furnaces declined by 13,8 percent to 20,5 million metric tons and production by blast furnaces increased by 7,3 percent to 11,0 million metric tons, both on year-on-year basis.

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7. The Position of Erdemir Group within the Sector

Erdemir Group's production in 2014 has been expanded to 8,5 million tons. In 2015, the crude steel production in Ereğli Plant has increased by 1,26% and went down to 3.779 thousand tons while the crude steel production in İskenderun went up to 5.150 thousand tons with an increased of 8,2%. In 2015 Erdemir Group's production has increased by 5,14% and went up to 8.929 thousand tons.

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.)
- ✓ 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 836 thousand (2014: TRY 531 thousand) which are accounted under income statement for the year ended 31 December 2015.

9. Developments Regarding the Plants

- Turkey's first and only integrated flat steel producer, Erdemir Group, who carries out production, operation, maintenance and modernization activities within its all facilities completed 2015 with production records. Manufacturing 25% 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 2015.

Ersem serves customers of various sizes from its facilities which are capable of just-in-time delivery, manufacturing with sensitive tolerances and being able to produce at low volumes and of different types. Ersem, start processing in Manisa Organized Industrial Zone enables end users to benefit from economies of scale by easing demands on the facilities, machinery, time and labor through its speciality in a supply chain management services.

To supply just in time deliveries and storage services mainly for the customers operating in the Marmara region of Turkey, construction of 30 thousand tons storage capacity has completed in Darica, İzmit.

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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 2015	1 January - 31 December 2014
Liquid Steel	100%	96%
Slab	84%	84%
Billet	63%	45%

11. 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		

12. Production (quantity)

Final Products (000 Tons)	1 January - 31 December 2015	1 January - 31 December 2014
Flat Products	7.400	6.954
Long Products	1.563	1.153
Iron Ore and Pellet	2.422	2.666

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. Turkey was caught great consumption growth rate above the world average in 2015 with increased industrial production and the biggest investments such as the Trans-Anatolian Gas Pipeline (TANAP), Istanbul's 3rd bridge and the 3rd airport.

With increased consumption in Turkey, total flat product sales of the Erdemir Group of Companies increased 4% in 2015 and reached to the level of 7,2 million tons. The domestic flat product sales increased 11% (Y.O.Y.) and reached 6,5 million tons. Long products sales increased 33% (Y.O.Y.) and went to 1,6 million tons. The domestic long product sales increased 34% (Y.O.Y.) and went to 1,4 million tons.

Erdemir Group of Companies also export 688 thousand tons of flat products to 42 countries and 162 thousand tons of long products to 8 countries. The level of Erdemir Group's export sales is 9% of total sales.

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Erdemir Group continues to deliver shipments in line with its objectives in industries such as packing, automotive or steel pipe. As a result of its customer oriented strategy, ERDEMİR Group has added 22 new customers to long product portfolio and 65 new customers to flat product portfolio totaling 87 new customers during 2015.

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 2015	1 January - 31 December 2014
Flat Products	7.229	6.933
Long Products	1.552	1.163
Iron Ore and Pellet Sales (*)	2.285	2.853

(*) 2.187 thousand tons of Ermaden's sales are to Group Companies as of 31 December 2015 (31 December 2014: 2.486 thousand tons).

F - Risks and Evaluation of the Board

1. Risk Management Policy

Risks are monitored and managed in compliance with the regulation and procedures related with management of the market and customer risks which are directed towards measuring the risks Erdemir Group is exposed to and developing hedging methods to keep these risks within risk tolerances.

Almost all of our receivables are guaranteed with the Direct Debit System, the Credited Direct Collection System and the Trade Credit Insurance. Risk positions of our customers are monitored regularly and when exceeding the limits, a margin call is issued.

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks Erdemir Group is exposed to and the amount of gain / loss, which may arise possible interest rate changes, is measured using a sensitivity analysis.

Additionally, the ratio of total amount of loans with a floating interest rate to whole credit portfolio of the Group is monitored and actions are taken to keep this ratio within a defined limit. Derivative instruments are assessed and analyzed in detail. According to firm and market situation, convenient transactions are executed within certain limits.

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

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

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

2. The Early Detection of Risk Committee

With the decision of Ereğli Iron and Steel Inc.'s Board Meeting dated 24 September 2012 and numbered 9167, The Early Detection of Risk Committee (Committee) was set up in accordance with the Capital Market Board's legislation.

The duties and working principles directive of the Committee were published on the company's website on the Investor Relations / Policies tab.

Within the scope of this directive and legal legislation, the purpose of the Committee is to early detect of risks to the Company's assets, development and existence, implement the measures necessary to deal with identified risks and manage risks.

The Committee meets every two months in line with the Board of Directors' meetings and the Committee fulfills its duties during these meetings. The Committee submits its activity report and summary of the minutes to the Board of Directors after the meetings. The secretariat is responsible for keeping the meeting minutes.

3. Future Risks

1) Market risks: The price risks that rose in commodity markets after 2008 are still going on at the end of 2015. Especially the surplus capacity due to China and Europe are 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.

2) Macroeconomic risks: Since the changes in collection policies and raw material price and sales price from TRY to USD Dollars, USD Dollars is accepted as a functional currency of the Company and its subsidiaries starting from 1 September 2013. As a result, the Company avoided the foreign currency risk in the financial statements. In addition; rapid decline in commodity prices, 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.

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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

In accordance with the provisions of the collective labor agreement, our employees who are inclusive of the agreement are provided social benefits such as 120 days bonus payments, holiday pay, heating allowance, paid annual leave allowance, marriage, childbirth, bereavement, military service and education allowances, transportation and meal allowances, incentive allowances for senior employment. Our employees are entitled to paid annual leaves, notice period, severance payment, above than those provided under the law. ERDEMİR who sees providing a safe and healthy work environment as one of its main priorities, provides employees preventive medicine, job entry examinations, periodic examinations, preventive activities for job accidents and diseases, first aid and emergency treatment services.

Mandatory OHS Training issued in 2015 is 151.711 participant/ hour.

Unit Training System (UES), domestic and international seminars, participation to the conferences offers many learning facilities. Educational programmes; are planned to the Erdemir's basic strategical objectives, Quality, OHS, Envoirement and Energy Management System Policies. Performance Evaluation outcomes are used to identify training and development needs of the employees.

For future success and sustainability, developing management and leadership skills of our employess in our company, management positions in 2014 to make a difference in organizational performance and to sustain the development of "Erdemir Executive Development Project" has continued. "Talent Management Projects" aimed at increasing the performance of our employees to develop their competencies, training is given. Using executives's comman managemet language, mastering basic principles of coaching and mentoring, allows to improve the institutional development and performance; "Erdemir Inner Mentor Training Project" is carried out.

Required by law No: 6331, be informed about their legal rights and responsibilities of employees, identification of hazards and risks they faced and "OHS Training" about necessary measure is given. In addition to that, under the regulations for work related

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professional untrained employees can not run the dangerous and very dangerous, trainings are carried out in a plan.

Furthermore, ÇASGEM Trainers Training Programme was carried out and it contributed to the development of our internal instructors' training skills.

Supporting the social development particularly in the regions where it operates, Erdemir continued its contribution to the society also in 2015, in honor of its fiftieth anniversary.

In 2015, Erdemir organized the 3rd Steel Sculpture contest on the theme "Steel and Life" for ungraduate and graduate students studying sculpture at Turkish universities. The contest, which was held by Erdemir with the aim of contributing to the arts education in our country, supporting the youth in this field and drawing attention to the place of steel in life, received 144 artworks from 14 schools. Some of the artworks were made of Erdemir products. 28 artworks were chosen as prize winners, while 44 artworks were found worthy of display. The artworks that were chozen as prize winners or that were found worty of display at the end of the National Steel Sculpture Contest for Students on the theme "Steel and Life" were exhibited in Tophane-i Amire KSM Tek Kubbe Hall at Mimar Sinan Fine Arts University on 2 - 5 June 2015. Works which were awarded prizes were exhibited for art lovers also in Ereğli, Divriği and İskenderun.

Organized by Erdemir for 23rd April, National Sovereignty and Children's Day and having become a tradition so far, the children's theatre event took place on 21 April 2015. Primary school students in Ereğli and the children of Erdemir employees had the chance to see the musical play named "I'm not crap" (Ben Çöp Değilim). The play, which aims to draw attention to the importance of recycling, raise awareness among children on environment issues and make children form good habits, was seen by nearly 800 children.

As in every year, Erdemir provided food packet aid to the needy families in the region in Ramadan 2015.

In 2015, Erdemir supported the efforts of various non-governmental organizations serving the society. Having participated in the charity run "Step by Step" (Adım Adım), Erdemir Group donated funds, on behalf of its running team, to the Spinal Cord Paralytics Association of Turkey, Turkish Foundation for Children in Need of Protection (Koruncuk), the Turkish Foundation for Combating Soil Erosion, for Refosteration and the Protection of Natural Habitats (TEMA) and Buğday Association for Ecological Living. Besides, the Group provided financial support to AKUT Search and Rescue Association and Deniz Temiz Turmepa Foundation, and continued its contribution to Ereğli Association of Physically Handicapped.

Meeting the demand for sheet metal materials, which are requested for undergraduate and graduate studies in various Turkish universities, Erdemir met the maintainance, repair and material requirements of education institutions, including mainly those in Ereğli.

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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 2015	31 December 2014
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	30.868	27.886
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	6.060	3.887
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	6.068	4.071
Other	134	565
	43.130	36.409

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 2015	31 December 2014
Omsan Lojistik A.Ş. ⁽¹⁾	6.286	3.306
Omsan Denizcilik A.Ş. ⁽¹⁾	6.162	4.982
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	8.954	5.361
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	3.542	2.876
Other	1.686	1.804
	26.630	18.329

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

(1) Subsidiaries of the parent company

(2) Joint venture

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<u>Major sales to related parties (thousand TRY)</u>	<u>1 January – 31 December 2015</u>	<u>1 January – 31 December 2014</u>
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	147.533	128.005
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	20.700	19.262
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	18.973	16.929
Aslan Çimento A.Ş. ⁽¹⁾	1.209	2.652
Other	3.455	3.662
	<u>191.870</u>	<u>170.510</u>

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 (thousand TRY)</u>	<u>1 January – 31 December 2015</u>	<u>1 January – 31 December 2014</u>
Omsan Denizcilik A.Ş. ⁽¹⁾	66.838	110.485
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	61.441	42.422
Omsan Lojistik A.Ş. ⁽¹⁾	41.235	32.243
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	31.701	30.539
Omsan Logistica SRL ⁽¹⁾	8.524	7.758
Other	12.836	7.018
	<u>222.575</u>	<u>230.465</u>

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

(1) Subsidiaries of the parent company

(2) Joint venture

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The period end balances are non-secured, and their collections will be done in cash. As of 31 December 2015, the Group provides no provision for the receivables from related parties (31 December 2014: none).

In 2015, 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 2016 operations will continue under determined circumstances. Operations are consistent with last year.

6. Information for Shareholders

A letter of intent was signed for a 50:50 partnership with the German technology company The Linde Group in order to establish a new air separation unit (ASU) in İskenderun that will supply the additional industrial gases required for our subsidiary İsdemir's production and to reduce the costs with an effective and efficient management. With this new unit to start its operations in less than 20 months thanks to this agreement, which is the first international joint venture of Erdemir Group in its 50-years of history, İsdemir's oxygen production capacity and nitrogen production capacity will increase by 14% and 45%, respectively.

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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 DİŞ TİCARET A.Ş. Represented by: Ali Aydın PANDIR	Chairman - Executive Director	-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 – Director
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman	- İskenderun Demir ve Çelik A.Ş. – Board Member (Representative) - Akdeniz Kimya San. ve Tic. A.Ş.- Chairman of the Board (Representative) - Akdeniz Kimyasal Ürünler Pazarlama İç ve Dış Tic. A.Ş.- Chairman of the Board (Representative) - OYAK Yatırım Menkul Değerler A.Ş. – Chairman of the Board (Representative) - HEKTAŞ Ticaret T.A.Ş.– Chairman of the Board (Representative) - Atterbury S.A. (Luxembourg)– Member of Supervisory Committee - Chemson Polymer Additive AG (Austria) – Member of Supervisory Committee - Chemson Ltd. (England) – Board Member - Chemson Inc.(USA) – Board Member - Chemson Pacific PTY Ltd. (Australia) – Board Member - Chemson LTDA (Brazil) – Member of Supervisory Council
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Ali KABAN)	Board Member	-Governor of Zonguldak Province

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Board of Directors (cont'd)	Title (cont'd)	Titles out of the Company (cont'd)
<p>OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR</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.– Chairman and Executive Director (Representative) - OYAK Birleşik Enerji A.Ş.- Chairman of the Board (Representative) - Ayas Enerji Üretim ve Ticaret A.Ş.– Chairman of the Board (Representative) - İskenderun Enerji Üretim ve Ticaret A.Ş. – First Vice Chairman of the Board (Representative) - Akdeniz Kimya San. ve Tic. A.Ş.- Board Member (Representative) - Akdeniz Kimyasal Ürünler Pazarlama İç ve Dış Tic. A.Ş.- Board Member (Representative) - OYAK Elektrik Enerjisi Toptan Satış A.Ş.- Chairman of the Board (Representative) - OYAK Pazarlama Hizmet ve Turizm A.Ş.- Chairman of the Board (Representative) - OYAK Girişim Danışmanlığı A.Ş.- Chairman of the Board (Representative) - Atterbury S.A. (Luxembourg) – Chairman of Supervisory Committee - Chemson Polymer Additive AG (Austria) – Chairman of Supervisory Committee - Chemson Ltd. (England) –Chairman of the Board - Chemson Inc. (USA) – Chairman of the Board - Chemson Pacific PTY Ltd. (Australia) – Board Member - Chemson LTDA (Brazil) – Member of Supervisory Council

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Board of Directors (cont'd)	Title (cont'd)	Titles out of the Company (cont'd)
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Board Member (Representative) - OYAK Birleşik Enerji A.Ş.- Board Member (Representative) - Ayas Enerji Üretim ve Ticaret A.Ş.- Board Member (Representative) - İskenderun Enerji Üretim ve Ticaret A.Ş. – Board Member (Representative)- - OYAK Anker Bank GmbH – Member of Supervisory Committee - ATAER Holding A.Ş. – Vice Chairman of the Board (Representative) - OSİAT Sigorta Acentelik Hizmetleri A.Ş. – Board Member (Representative) - Chemson Polymer Additive AG (Austria) – Member of Supervisory
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Board Member (Representative) - Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. – Deputy Chairman of the Board (Representative) - OYAK Anker Bank GmbH – Member of Supervisory Committee - OYAK Birleşik Enerji A.Ş.- Board Member (Representative)- - AYAS Enerji Üretim ve Tic. A.Ş.- Board Member (Representative) - Akdeniz Kimya San. ve Tic. A.Ş.- Board Member (Representative)- - İskenderun Enerji Üretim ve Tic. A.Ş.- Board Member (Representative)–
Emin Hakan EMİNSOY	Independent Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Independent Board Member - Sardes Faktoring A.Ş. – Chairman - AK Sigorta A.Ş.-Independent Board Member - AON Sigorta ve Reasürans Brokerliği A.Ş. – Consultant
Hakkı Cemaî ERERDİ	Independent Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Independent Board Member
ALİ Tuğrul ALPACAR	Independent Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Independent Board Member - Alpacar Yönetim Danışmanlık A.Ş. – Chairman

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Executive Management	Title	Titles out of the Company
Sedat ORHAN	General Manager	- Erdemir Madencilik San. ve Tic. A.Ş.- Deputy Chairman and Executive Director (Representative)
Esat GÜNDAY	Executive Vice President (Operations)	None
Kaan BÖKE	Executive Vice President (Human Resources)	None
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	-Erdemir Romania S.R.L –Board Member - Erdemir Asia Pacific Private Limited – Director
Sami Nezh TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	- World Steel Association Member of Economy Committee
Başak TURGUT	ERDEMİR Group Marketing and Sales Coordinator	-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) - Erdemir Asia Pacific Private Limited – Director Turkish Steel Procuders Association – Board Member - Turkish Steel Procuders Association -Member of High Advisory Council
Şevkinaz ALEMDAR	ERDEMİR Group Procurement Coordinator	- Erdemir Asia Pacific Private Limited – Director
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	- Turkish Employers' Association of Metal Industries – Board Member - Turkish Employers' Association of Metal Industries – Ankara Region Chairman of Representatives Board
Eric Andre Cornil VITSE	ERDEMİR Group Technology Coordinator	-World Steel Association Member of Technology Committee
Naci Özgür ÖZEL	ERDEMİR Group Strategy and Business Development Coordinator	None
Banu KALAY ERTON	ERDEMİR Group Corporate Affairs Coordinator	None
Ahmet Tunç NOYAN	ERDEMİR Group Information Technologies Coordinator	None
Oya ŞEHİRLİOĞLU	ERDEMİR Group Legal Coordinator	None

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APP.2: CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

**SECTION I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE
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 2015, 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 2015, 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 2015, 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 entry into the registration system, 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 Officer Banu Kalay Erton. 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	Manager	+90-216-578 81 49	ionay@erdemir.com.tr
Ahmet Görpeoğlu	Specialist	+90-216-578 80 97	agorpeoglu@erdemir.com.tr

İdil Önay 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. 2015 activity report presented in BoD meeting dated 15 February 2016.

The table below present's activities performed within 2015 so that investors could be informed in-depth concerning the operations of the Company:

The number of investors and analysts who have been contacted	409
The number of tele-conferences held regarding financials	4
The number of meetings held regarding financials	3

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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 2015 were carried out by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (i.e. A Member Firm of Ernst & Young Global 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 2014 was held on March 31, 2015 in Istanbul and 66.21% 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 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.erdemirgrubu.com.tr no later than 3 weeks prior to the General Assembly in order to reach the highest number of shareholders possible.

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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 Karadeniz Ereğli branch and at the Head Office of the Company in İstanbul and 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.erdemirgrubu.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 2015, 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 at 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.

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 2013 and 2014, which amounted to 926,757 TRY and 1,398,594 TRY, respectively.

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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 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.

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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 disclosed to shareholders 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.

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

At March 31, 2015 dated Ordinary General Assembly, it has been decided to distribute TRY 1,400 million cash dividend based on 2014 financial results and as of May 26, 2015 dividend distribution has 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.

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SECTION III – THE PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Its Contents

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

- Corporate Governance	- Financial Statements
- Corporate Governance Principles Compliance Report	- Summary Information for Investors
- Corporate Governance Compliance Rating Report	- Presentations
- Board of Directors	- Financial and Operational Highlights
- 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

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

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.

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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.

4.3. Human Resources Policy

Operating in an industry where competitive market conditions prevail, Erdemir 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.

Erdemir 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.

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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 2015 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.erdemirgrubu.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, Erdemir 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 2015. In order to provide a number of activities: improving the physical conditions and technical equipment of the health and education institutions, 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, 2015. 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: Ali Aydın PANDIR) 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.

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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: Ali Aydın PANDIR)	Chairman – Executive Director	27.05.2013
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman	12.09.2012
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı (Represented by: Ali KABAN)	Board Member	20.09.2012
OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member	11.09.2012
OYKA Kağıt Ambalaj San. ve Tic. A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	12.09.2012
OYAK Pazarlama Hizmet ve Tur. A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014
Hakkı Cemal ERERDİ	Independent Board Member	31.03.2015
Ali Tuğrul ALPACAR	Independent Board Member	31.03.2015

Three applications to our Company were evaluated in 2015 for Independent Board Member position. In our Company tasks of Candidate Nomination Committee are carried out by Corporate Governance Committee. The Committee reports, prepared by the Committee on February 05, 2015, pertaining to the candidacy of Mr Emin Hakan Eminsoy, Mr Hakkı Cemal Ererdi and Mr Ali Tuğrul Alpacar as the independent board members were submitted to the Board of Directors on February 10, 2015. 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 2015, no situation has occurred for violation of the independency.

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.

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

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 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 2015. The attendance rate was 95% 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.

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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.

The amount of the insurance, which covers personal responsibilities of Board Members arising from the legal obligations, is USD 75 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
Hakkı Cemal Ererdi	Chairman	Board Member	Independent / Not Executive
Ali Tuğrul Alpacar	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
Emin Hakan Eminsoy	Chairman	Board Member	Independent / Not Executive
Hakkı Cemal Ererdi	Member	Board Member	Independent / Not Executive

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

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Corporate Governance Committee

Name-Surname	Title	Relation with the Company	Details
Emin Hakan Eminsoy	Chairman	Board Member	Independent / Not Executive
Ali Tuğrul Alpacar	Member	Board Member	Independent / Not Executive
İdil Önay	Member	Investor Relations Manager	Non-independent / Not Executive

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

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 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 Affairs Coordinator.

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

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 the target deployment systematic.

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, 2015, 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 2,360 TRY per month (at the beginning of the relevant month, paid in advance, net) and the Independent Board Members shall be paid 5,500 TRY per month (at the beginning of the relevant month, paid in advance, net).

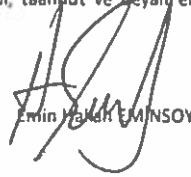
At the determination of the monetary rights of the Board members, a rewarding that is based on performance and showing the performance of the Company is not applied. No loans were offered to either a board member or an executive within the period. No loan utilization was granted directly or through a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

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App.3: DECLERATIONS OF INDEPENDENT BOARD MEMBERS

BAĞIMSIZ YÖNETİM KURULU ÜYELİK BEYANI

Sermaye Piyasası Kurulu'nun II-17.1 Kurumsal Yönetim Tebliğinde yer alan Kurumsal Yönetim İlkelerini okuyup, anladığımı, ilkede sayılan ve İşbu beyanın ekinde de yer alan Bağımsız Yönetim Kurulu Üyeliği kriterlerinin tamamını taşıdığımı kabul, taahhüt ve beyan ederim.
21/01/2016


Emin Mahan EMINSOY

EK:1 SPK II-17.1 Kurumsal Yönetim Tebliğ

EK:2 SPK II-17.1 Kurumsal Yönetim Tebliğ çerçevesinde hazırlanan kriterler

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BAĞIMSIZ YÖNETİM KURULU ÜYELİK BEYANI

Sermaye Piyasası Kurulu'nun II-17.1 Kurumsal Yönetim Tebliğinde yer alan Kurumsal Yönetim İlkelerini okuyup, anladığımı, ilke de sayılan ve işbu beyanın ekinde de yer alan Bağımsız Yönetim Kurulu Üyeliği kriterlerinin tamamını taşıdığımı kabul, taahhüt ve beyan ederim.
21/01/2016

Hakkı Cemal ERERDİ




EK:1 SPK II-17.1 Kurumsal Yönetim Tebliğ

EK:2 SPK II-17.1 Kurumsal Yönetim Tebliğ çerçevesinde hazırlanan kriterler

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BAĞIMSIZ YÖNETİM KURULU ÜYELİK BEYANI

Sermaye Piyasası Kurulu'nun II-17.1 Kurumsal Yönetim Tebliğinde yer alan Kurumsal Yönetim İlkelerini okuyup, anladığımı, ilke de sayılan ve işbu beyanın ekinde de yer alan Bağımsız Yönetim Kurulu Üyeliği kriterlerinin tamamını taşıdığımı kabul, taahhüt ve beyan ederim.
21/01/2016


ALİ TUĞRUL ALPACAR

EK:1 SPK II-17.1 Kurumsal Yönetim Tebliğ

EK:2 SPK II-17.1 Kurumsal Yönetim Tebliğ çerçevesinde hazırlanan kriterler