



ERDEMİR Group

EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

For the Period 1 January – 31 December 2014
Board of Directors' Activity Report





Güney Bağımsız Denetim ve
SMMM AŞ
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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 2014.

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 February 10, 2015 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 Auditing Standards of Turkey issued by Public Oversight Accounting and Auditing Standards Authority of Turkey. 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.



Other Responsibilities Arising From Regulatory Requirements

In accordance with the third paragraph of Article 402 of Turkish Commercial Code ("TCC") no 6102, it has not been noted any issue related to the going concern assumption of the Group in the foreseeable future, in the context of ISA 570 "Going Concern".

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

Ethem Kutucular SMMM
Partner

10 February 2015
İstanbul, Türkiye

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

(Amounts are expressed in thousand Turkish Liras ("TRY Thousand") unless otherwise indicated.)

A – GENERAL INFORMATION**1. Period of the Report**

01.01.2014 - 31.12.2014

2. Information About the Association

- Title: EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.
- Trade Registry Number: 863637
- Address: Merdivenköy Yolu Cad. No: 2 34750 Küçükbakkalköy 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

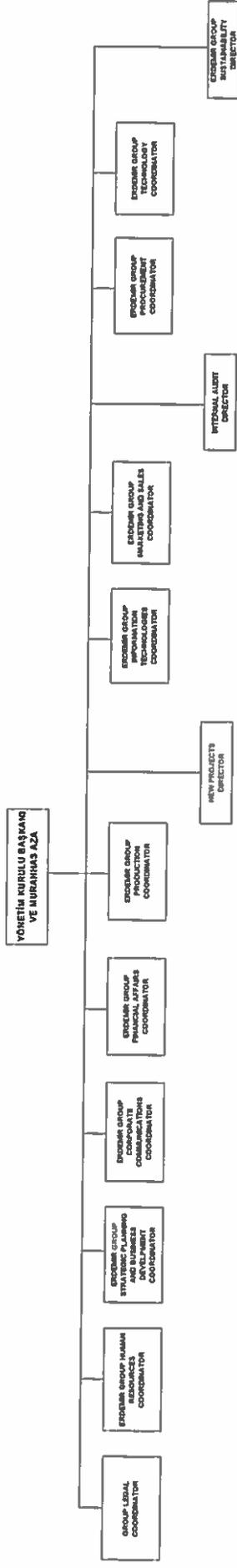
Shareholders	Shares (Thousand TRY)	%
Ataer Holding A.Ş.	1.724.982	49,29
Publicly Held	1.667.181	47,63
Erdemir's Own Shares	107.837	3,08
Total	3.500.000	100,00

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 o represent the Group A shares."*
 - In 2nd Item of 12th Article of Articles of Association stated as *"Board of Directors shall have to discuss on a detailed report issued by the General Directorate showing the quarterly progress of investment projects, and to pass a resolution upon the suggestions made by the member of Board of Directors as the usufructuary to represent the Group A shares. The development of investment projects is reflected on the annual report of Board of Directors in detail. Furthermore, no resolution can be passed by Board of Directors on the issues mentioned in articles 22 and 37 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the usufructuary to represent the Group A shares."*
 - In 3rd Item of 12th Article of Articles of Association stated as *"The member of Board of Directors in the capacity of usufructuary or a person to be addressed by him shall participate in the General Assemblies of Shareholders of Subsidiaries to represent the Group A shares of the Company in Subsidiaries. One of the members of Board of Directors of the Subsidiary shall be elected among the candidates to be shown by that representative or the member of the Board of Directors."*
 - In 4th Item of 12th Article of Articles of Association stated as *"In the event that a resolution is to be passed in General Assemblies of the Subsidiary on issues concerning the rights granted to the Group A shares in the Subsidiary, the affirmative vote of the said representative or the member of the Board of Directors shall be sought."*
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- In 5th Item of 12th Article of Articles of Association stated as *"Resolutions to be passed by the Company's Board of Directors on any rights and obligations regarding the Group A shares in the Subsidiaries shall be passed upon the affirmative vote of the member of Board of Directors in the capacity of the usufructuary."*
- In 6th Item of 12th Article of Articles of Association stated as *"For the purposes of the present Articles of Association, "Subsidiary" refers to İskenderun Demir ve Çelik Anonim Şirketi and Erdemir Madencilik Sanayi ve Ticaret Anonim Şirketi."*
- In 7th Item of 12th Article of Articles of Association stated as *"It's mandatory that the member of Board of Directors in the capacity of usufructuary also casts an affirmative vote on resolutions to be passed concerning the rights granted to the Group A shares."*
- In 22th Article stated as *"Resolutions regarding any amendment in the Articles of Association which are likely to affect, directly or indirectly, the obligations in the Share Sale Agreement in respect of investment and employment, and, the rights granted to the Group A shares in connection with those obligations as well as the amendments which are to affect the quorum for meeting and resolution of Board of Directors and the rights belonging to the Group A shares,*
 - *Resolutions regarding closedown or sales of or an encumbrance upon the integrated steel production facilities and mining facilities owned by the Company and/or its subsidiaries or a resolution on reduction in capacity of such facilities,*
 - *Resolutions regarding closedown, sales, demerger or merger or liquidation of the Company and / or its subsidiaries owning the integrated steel production facilities and mining facilities,*

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

- In 37th Article stated as *"Provided that it will be effective from the signature date of the Share Sale Agreement to be signed following the realization of the privatization transaction concerning the shares pertaining to the Republic of Turkey Prime Ministry Privatization Administration as per the Law no 4046, the fulfillment of commitments contemplated in the Share Sale Agreement concerning investment and employment shall be under the responsibility of the Company's Board of Directors. This present Article 37 may be amended with the affirmative vote of the usufructuary representing Group A shares."*
 - In Temporary Article 1st *"The provisions of the Articles of Association concerning the right of usufruct, other than the amendments made in the clause 9 of the Article 7 of the Articles of Association of the Company, shall be eliminated when the usufruct established on Group A shares are removed.*
 - *Usufruct established in favor of the Republic of Turkey Prime Ministry Privatization Administration comes to an end through a resolution to be taken by the Privatization High Council concerning this subject. This circumstance shall be reflected to the Company's Articles of Association.*
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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 2013 Regular General Assembly has been executed on 31 March 2014.

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.

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The active members of the Board of Directors as of 31.12.2014:

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– Executive Director	12.09.2012
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Ali KABAN)	Board Member	20.09.2012
OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member - Executive Director	11.09.2012
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member	12.09.2012
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012
Nazmi DEMİR	Independent Board Member	29.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member	29.06.2012
Emin Hakan EMINSOY	Independent Board Member	04.03.2014

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

Changes in the Executive Board within the Period

Depending on the resolution of Board of Directors, dated 7 March 2014 and numbered 9301, it has been resolved to register and notice the assignment of Ali KABAN as representative of the Board Member Privatization Administration under Turkish Commercial Code Article 364.

According to the 363rd article of Turkish Commercial Code and depending on the resolution of Board of Directors, dated 4 March 2014 and numbered 9287, Emin Hakan EMINSOY has been elected to the independent board membership which had been vacant because of the resignation of Ali Aydın PANDIR on 14 November 2013.

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

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

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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 2014 and continued its activities in accordance with CMB Principles. Board Members participated in the meetings regularly. The operating principles of the Board of Auditors have been determined with the policy entitled Board of Auditors Policy dated 21 November 2012.

Early Detection of Risk Committee held 6 meetings and Corporate Governance Committee 4 meetings in 2014. 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 2014. 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	28 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	34 Years
Kaan BÖKE	Executive Vice President (Human Resources)	02.04.2012	Gazi University – Labor Economics	24 Years
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011	Hacettepe University - Business Administration	28 Years
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	31 Years
Başak TURGUT	ERDEMİR Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	17 Years
Şevkinaz ALEMDAR	ERDEMİR Group Procurement Coordinator	18.05.2013	Boğaziçi University – Business Administration	19 Years
Mehmet Müçteba BEKCAN	Executive Vice President (Technical Services and Investments)	14.07.2010	Middle East Technical University – Industrial Engineering	37 Years
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	31 Years
Mesut Uğur YILMAZ	ERDEMİR Grup Technology Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	34 Years
Vacant	ERDEMİR Group Human Resources Coordinator			
Naci Özgür ÖZEL	ERDEMİR Group Strategic Planning and Business Development Coordinator	29.05.2014	Istanbul Technical University – Industrial Engineering	18 Years
Banu KALAY ERTON	ERDEMİR Group Corporate Affairs Coordinator	13.06.2014	Mimar Sinan University - City and Regional Planning	20 Years
Ahmet Tunç NOYAN	ERDEMİR Group Information Technologies Coordinator	01.07.2014	Naval Academy - Electronics Engineering	25 Years
Oya ŞEHİRLİOĞLI	ERDEMİR Group Legal Coordinator	14.01.2015	Ankara University- Faculty of Law	21 Years

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ERDEMİR Group Human Resources Coordinator position has been established. Aylin SATUN OLSUN has been assigned to this position on 10.02.2014. Aylin SATUN OLSUN's duty as Erdemir Group Human Resources Coordinator has ended as of 13.10.2014. No assignment to this position has been carried out yet.

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

ERDEMİR Group Corporate Affairs Coordinator position has been established. Banu KALAY ERTON has been assigned to this position on 13.06.2014.

Due to Öner SONGÜL's duty as ERDEMİR Group Information Technologies Coordinator ended on 15.04.2014, Ahmet Tunç NOYAN has been assigned as ERDEMİR Group Information Technologies Coordinator on 1.07.2014.

Mehmet Mücteba BEKCAN's duty as Executive Vice President (ERDEMİR Technical Services and Investments) has ended as of 9.01.2015 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. No assignment to this position has been carried out yet.

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 2014, 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, which will be valid between January 1, 2013 and December 31, 2014 has been signed on August 5, 2013 between Iskenderun Iron & Steel Co. and Steel Trade Union as the collective bargaining agency.

In the scope of collective agreement applications, the rights and benefits of the blue-collar workers are classified under bonuses, social benefits, and vacations. Bonuses and social benefits; bonuses, holiday pay, heating allowance, paid annual leave allowance, marriage allowance, birth allowance, bereavement allowance (worker's death, spouse, children, mother, father or sibling, in the case of a death as a result of a work accident it will pass onto the worker's heir), military service allowance, children allowance, educational

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allowance (primary school, secondary school, higher education), meal allowance and transportation allowance. Vacations; paid annual leaves, accompaniment leaves for medical purposes, excused absences, unpaid leaves, and other paid leaves consisting marital leaves, bereavement leaves, maternity leaves, nursing leaves and leaves in case of a natural catastrophe.

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

The Group's payables for employee benefits as of 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Due to personnel	74.611	66.871
Social security premiums payable	24.909	22.676
Income tax due to personnel	24.202	19.247
	<u>123.722</u>	<u>108.794</u>

Provision for employee benefits on 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Employee Termination Benefits	393.478	307.528
Seniority Incentive Premium	25.389	17.667
Provision For Unpaid Vacations	68.857	67.037
	<u>487.724</u>	<u>392.232</u>

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

	31 December 2014 Personnel	31 December 2013 Personnel
Blue collar	8.813	9.267
White collar	4.059	3.534
	<u>12.872</u>	<u>12.801</u>

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9. Compliance With The Corporate Governance Principles

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity Report for the year ending 2013 were met during the period 01.01.2014 – 31.12.2014. "Corporate Governance Principles Compliance Report" the Company issues is given in App.2.

10. Amendments in The Articles of Association

None.

B – Financial Rights Given to Board Members and Executive Management

1. Total amount of financial rights like attendance fee, wages, bonus, premium and dividend payments

The relevant section of the minutes of the General Assembly Dated 31 March 2014 is as follows:

In the 11th article of the agenda related to the Rate Setting of the Board Members', the proposal was read by the representative of ATAER Holding A.Ş. Ahmet Türker ANAYURT, and with no other comment, it was submitted to the General Assembly's approval and in accordance with the proposal;

It was decided by the majority of votes as opposed to 2.994.471.426,800 refusal votes, that; no wages will be paid to the Board members representing Group B shares, the monthly net wage that will be paid to the members representing Group A shares will be 2.360 TRY (monthly, in cash), the wages of independent Board members will be 5.000 TRY (monthly, in cash) and the new wages will be valid from the date of 1 April 2014.

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.

A total of TRY 7.516 thousand is paid to Company's Executive Management as wage and success incentive premium as of reporting period.

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

C – Research and Development Studies

Establishment activities of ERDEMİR R&D Center has been completed and the center has been approved and certified by Ministry of Science, Industry and Technology. Our R&D center has become the first certified center in Iron and steel production sector in Turkey. ERDEMİR R&D center has four main laboratories consisting of material preparation, microstructure evaluation, dynamic thermo-mechanic simulation and metal forming laboratories. In the meantime, new steel grades studies which are requested by respected customers are still going on. Two progressing R&D projects are supported by TÜBİTAK-TEYDEB (TÜBİTAK Technology and Innovation Grant Programs Directorate) in 2014 and TRY 339 thousand is granted by TÜBİTAK-TEYDEB due to these projects actions.

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

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

In Ereğli plant; in Ereğli Steel Service Center, commercial operation for all lines (Cold Slitting Line, Oscillating Cut to Length Line, Multi Blanking Line, Hot Slitting Line and Hot Cut to Length Line) has began and production on each line continues. Investments in BOF and Continuous Casting Facilities in accordance with reline, TinCal Automation Modernization, Improvement of Level 1 and 2 Systems in BOF and Continuous Casting Facilities, Installation of External Combustion System at the Cogeneration Power Plant, The Integration of the Coal Grinding Plant No.3 into the Coal Injection Plant (PCI) and Modernization of 3rd SF and Evaporative Cooling System (ECS) Application Projects are completed. Load Tests in Air Separation Plant No.7 are completed and commissioning phase started. Preparations for commissioning of Oxygen Pressure Reduction Station are completed. Activities related to Environmental Investments and Hot Mill No.2 Level 2 Systems Modernization Projects continue. After signing the contract for Blast Furnace Top Pressure Recovery Turbines, major engineering activities are completed, detail engineering and construction permit activities are ongoing. In Galvanizing Line No.2 project, second tender phase completed and evaluation of second proposals is ongoing. In Steam Generator No.6, after the tender process started, questionnaire continues. CPL-TCM Modernization is in proposal evaluation phase. In Erdemir Coke Oven Battery No.4 and Modernization of the By-Product Plant. feasibility studies has began. Tender studies of BF No.1 Stove and CPL No.2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping Projects are ongoing. ERDEMİR R&D Simulation Center has been approved, tender studies and contract negotiations continue. In November, the contract of Converting Ladle Treatment to the Ladle Furnace Project signed and major engineering studies have started. At the end of the 2014, Normalizing Furnace Modernization, Modernization of Level 1-2 Automation Systems for BOF and CC, Reconstruction of Gülüç Entrance Zone as Delivery Gate, New Central Baths and Dining Hall Buildings, Online Surface Inspection Equipment and Converter Slack Stopping System Modernization Projects are approved and are in progress phase.

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On the other hand, in Iskenderun Facilities; commercial operation of Modernization of the Coke Oven Battery No.4 Project has begun in May, project team tries to complete punch items. In April, assembly of Crane Girders in Alternative Reladling Pit, Changing Crane Girders Project is completed and the project is finished. Activities related to Harbour Investments and Environmental Investments are ongoing. In June commercial operation of Hot Slitting Line has begun. In Hot Rolling Mill Revamping Project contract negotiations have been made and agreement studies are ongoing. Contract of Blast Furnace Top Pressure Recovery Turbines No.3 and 4 Project signed, major engineering studies have finished and detail engineering activities are ongoing. Evaluation of proposals for Air Separation Plant No:8 Project is completed and the contract signing is expected. In 2014, Modernization of the Coke Oven Battery No.3 feasibility studies have finished and project is in bidding phase. In No.2 Blast Furnace Reline and Stove Modernization Project, design studies are continued by Erdemir and İsdemir project teams.

Total investments in Erdemir Group plants is USD 161.505 thousand as of 31 December 2014 (31 December 2013: USD 161.628 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	2014 Share %	2013 Share %
Iskenderun 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
Ereco 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	-

In order to carry out business activities in Far East, the Group has established "Erdemir Asia Pacific Private Limited (EAPPL)" with a capital of USD 250.000 in Singapore in 4 July 2014.

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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, 2014 and 2013 (%) and their functional currencies:

	31 December 2014			31 December 2013		
	<u>Functional Currency</u>	<u>Ownership Interest</u>	<u>Effective Shareholding</u>	<u>Functional Currency</u>	<u>Ownership Interest</u>	<u>Effective Shareholding</u>
İsdemir	US Dollars	95,07	95,07	ABD Doları	95,07	95,07
Ersem	US Dollars	100,00	100,00	ABD Doları	100,00	100,00
Ermaden	Turkish Lira	90,00	90,00	Türk Lirası	90,00	90,00
Erenco	Turkish Lira	100,00	100,00	Türk Lirası	100,00	100,00
Erdemir Romania S R L	Euro	100,00	100,00	Avro	100,00	100,00
Erdemir Asia Pacific Private Limited	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 2014, the Company holds its own shares with a nominal value of TRY 107.837 thousand (31 December 2013: 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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6. Subjects Related to Law**a) Lawsuits**

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 3th Commercial Court of Ankara once again. Therefore the case is still pending (E. 2011/551). The next hearing day is 17 April 2015.

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 file number is E. 2014/734 and the next court hearing is on 1 April 2015.

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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. No hearing date has been notified to the Company yet.

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 2 April 2015.

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 2014 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 2014	1 January- 31 December 2013
Cooperative Activities with Public Institutions and Organizations	8.286	7.116
Education and Training Activities	471	555
Volunteer Studies and Cooperative Activities for Charities	281	248
Cooperative Activities with Foundations, Associations, Organizations, Institutes	1.063	478
Sportive Activities	86	103
Cultural and Artistic Activities	26	7
Health-Benefit and Financial Support Activities	-	22
Total	10.213	8.529

9. Group Companies

a) Transactions

A report prepared by the Board of Directors to describe the relationship between the Entity and its Controlling Shareholder and Subsidiary in accordance with Turkish Commercial Code Article No: 199. The report has been approved as of February 10, 2015. The final section of the report as follows;

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 2014. In year 2014, all commercial transactions between our Company and our Controlling Shareholder and its subsidiaries are executed according to market conditions.

In 2014, commercial activities between the Entity and its subsidiary İskenderun Demir ve Çelik A.Ş exceed 10% under CMB II-17.1 Corporate Governance Communiqué. It is predict that by the year 2015 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 2014 and 31 December 2013.

Summary of Balance Sheet

(Thousand TRY)	(Audited)	(Audited)
	Current Period	Previous Period
	1 January - 31 December 2014	1 January - 31 December 2013
Current Assets	7.371.353	6.008.498
Non-current Assets	8.562.321	8.025.986
Total Assets	15.933.674	14.034.484
Current Liabilities	3.105.422	2.475.406
Non-current Liabilities	2.517.945	2.852.258
Shareholders' Equity	10.310.307	8.706.820
Total Liabilities	15.933.674	14.034.484

Summary of Income Statement

(Thousand TRY)	(Audited)	(Audited)
	Current Period	Previous Period
	1 January - 31 December 2014	1 January - 31 December 2013
Sales Revenue	11.484.137	9.780.751
Gross Profit	2.438.485	1.858.899
Operating Profit	2.094.412	1.537.802
Profit from Continuing Operations Before Taxation	1.965.571	1.248.162
Net Profit for the Period	1.660.791	960.408
Equity Attributable to the Parent	1.601.415	919.974
EBITDA	2.483.905	1.877.722
Earnings Per Share	45,75%	26,28%

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 2014	1 January - 31 December 2013
Gross Profit Margin	21,2%	19,0%
Operating Profit Margin	18,2%	15,7%
EBITDA Margin	21,6%	19,2%
Net Profit Margin	14,5%	9,8%
Net Profit Margin Attributable to the Parent	13,9%	9,4%

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

As of 13 March 2013, completed sales of the Group is the total nominal value of TRY 200.000 thousand floating rate bond issue with 6-months coupon payments, principal payment at the maturity date of 11 March 2015 and 150 basis points added to the benchmark interest payments that is determined at coupon payment dates.

5. Dividend Distribution Policy

Erdemir Groups' Dividend Distribution Policy is as follows:

"Company implements the policy of distributing the maximum dividend which the financial leverage ratios and expectation of future cash flow generation allow within the scope of effective legal regulations and clauses of Company's Articles of Association. In accordance with this policy, Company will distribute cash dividend which is gross 91,8190%, net 78,0461% of the distributable profit by the end of 2013. Dividend distribution policy is reviewed by the Board of Directors every year considering national and global economic conditions, Company's projects on agenda and funds.

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

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

Dividend distribution (gross dividend per share: TRY 0,2343) amounting to TRY 820.000 thousand from 2013 net profit was approved during Annual General Assembly dated 31 March 2014. Dividend payment was completed as of 26 May 2014.

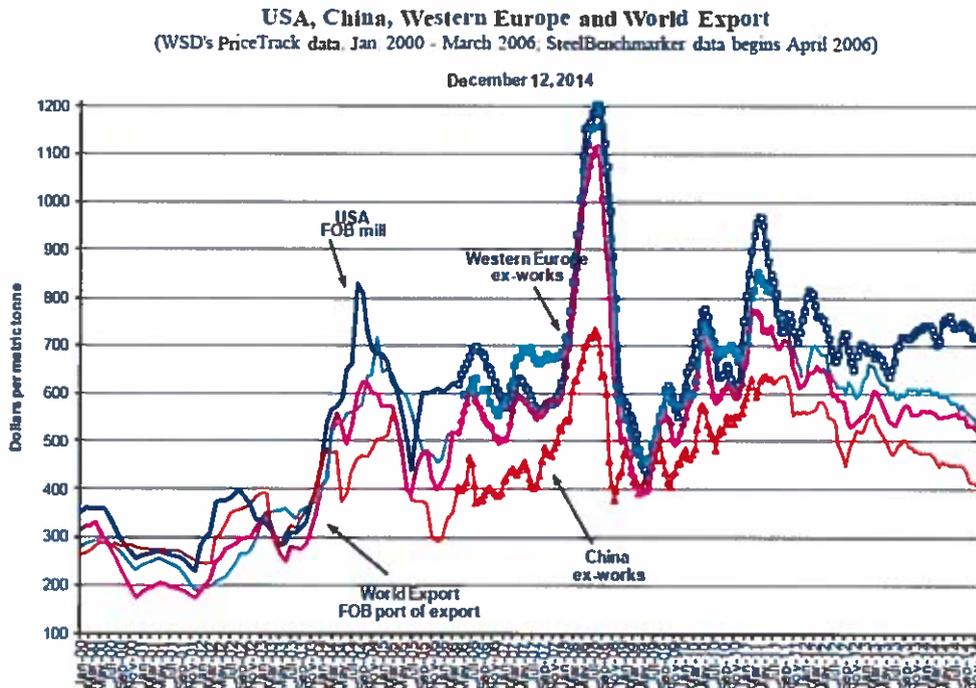
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6. Information about the sector

The world crude steel output in 2014, reached 1.64 billion mt, increasing by 1.1 percent on year-on-year basis. In 2014, crude steel output in Asia amounted to 1.11 billion mt, up 1.4 percent, with 822.7 million mt produced by China, up 0.9 percent, 110.7 million mt produced by Japan, up 0.1 percent, and 71 million mt produced by South Korea, up 7.5 percent - with all comparisons on year-on-year basis. EU-28 countries produced 169.2 million mt of crude steel in 2014, up 1.8 percent compared with 2013. In 2014, Germany's output was 42.9 million mt, up 0.7 percent year on year, Italy's crude steel output was 23.7 million mt, down 1.4 percent year on year, and France's crude steel output was 16.1 million mt, up 2.9 percent year on year. The CIS registered a crude steel output of 105 million mt in 2014, down 2.8 percent year on year. In North America in 2014, crude steel output reached 121.2 million mt, up 2 percent year on year. Meanwhile, crude steel output in South America in 2014 declined to 45.2 million mt, down by 1.4 percent year on year. In 2014, the average capacity utilization of steel producers across the globe was 76.7%.

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



In 2014, Turkey's crude steel output recorded a decrease of 1.8 percent year on year, totaling 34 million mt. In the given period, Turkey's crude steel production by electric arc furnaces declined by 3.9 percent to 23.8 million metric tons and production by blast furnaces increased by 3.5 percent to 10.3 million metric tons, both on year-on-year basis.

7. The Position of Erdemir Group within the Sector

Erdemir Group's production in 2013 has been expanded to 8.3 million tons. In 2014, the crude steel production in Ereğli Plant has decreased 0.8% and went down to 3.732 thousand tons while the crude steel production in İskenderun went up to 4.761 thousand tons with an increased of 5.7%. In 2014 Erdemir Group's production has increased by 2.7% and went up to 8.493 thousand tons.

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8. Government Grants

Government grants and incentives, received by Erdemir Group are as follows:

(thousand TRY)	1 January – 31 December 2014	1 January – 31 December 2013
Research and development grants	364	130
Social security grants	1.895	1.348
Tax grants	167	-
Total	2.426	1.478

These grants and incentives can be used by all companies who meet the related legislative requirements.

9. Developments Regarding the Plants

Being the only integrated flat steel producer in Turkey and having the most comprehensive flat steel product range among Turkish producers, The Erdemir Group of Companies (Erdemir Group) continues to provide product and service quality to customers. Additionally, throughout modernization of production lines and steel service center investments, Erdemir Group endures its sustainable growth goal in a stable fashion as it has been achieved during the recent years.

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

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 2014	1 January - 31 December 2013
Liquid Steel	96%	93%
Slab	84%	79%
Billet	45%	56%

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		

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12. Production (quantity)

Final Products (000 Tons)	1 January - 31 December 2014	1 January - 31 December 2013
Flat Products	6.954	6.427
Long Products	1.153	1.356
Iron Ore and Pellet	2.666	2.459

13. Developments Regarding Sales

Despite shrinkage in Turkey's steel consumption, total flat product sales of the Erdemir Group of Companies increased 9% in 2014 and reached to the level of 7 million tons. The domestic flat product sales increased 8% (Y.O.Y.) and reached 6,3 million tons. Due to the maintenance activities in İskenderun Iron and Steel Works total long products sales decreased 14% (Y.O.Y.) and went to 1,2 million tons. The domestic long product sales decreased 13% (Y.O.Y.) and went down to 935 thousand tons.

Erdemir Group of Companies also export 678 thousand tons of flat products to 38 countries and 227 thousand tons of long products to 8 countries. Erdemir Group has increased its export sales to the level of 11% of the total sales. Erdemir Group has opened "Erdemir Asia Pasific Private Limited (EAPPL)", a wholly-owned subsidiary, in Singapore in 2014 to conduct its trading activities in the Far East. Also to increase the effectiveness in foreign markets, Erdemir Group has established sales office in Canada.

Despite the geopolitical problems in the region of Middle East, Erdemir Group continues to deliver shipments in line with its objectives in industries such as packing, automotive or steel pipe. As a result of its customer oriented strategy, ERDEMİR Group has added 31 new customers to long product portfolio and 70 new customers to flat product portfolio totaling 101 new customers during 2014.

In order to develop our relations with customers who have become a focus point with reconstruction of the Sales & Marketing Organization; customer visits, congress and exhibition participations in Turkey and abroad, meetings with industry unions and organizations of customer activities have continued. Our product range are managed dynamically and tailored to customer expectations. Additionally, product developments and newer steel grade works aiming the final user demand, keeps developing.

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

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14. Sales (quantity)

Final Products (000 Tons)	1 January - 31 December 2014	1 January - 31 December 2013
Flat Products	6.933	6.338
Long Products	1.163	1.346
Iron Ore and Pellet Sales (*)	2.853	2.399

(*) 2.486 thousand tons of Ermaden's sales are to Group Companies as of 31 December 2014 (31 December 2013: 2.228 thousand tons).

F - Risks and Evaluation of the Board

1. Risk Management Policy

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

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

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

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

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

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

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

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2. 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 2014. Especially the surplus capacity due to Europe is putting pressure on steel prices. Furthermore the fluctuation of iron ore prices which depends on China's iron ore demand cause fluctuation in raw material prices due to the quarterly contracts on iron ore prices. The fluctuation of iron ore and coke prices that are the inputs of our Group, the fluctuation of steel products that are the outputs of our Group and the fluctuations that arise from the duration of the process between procurement and delivery which takes longer in iron and steel market compared to other markets are the most specific market risks.

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 macroeconomic 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. Besides there are facilities such as lodging, guesthouses, cultural centres, cafes and restaurants, beaches and swimming pools, outdoor and indoor sports areas to enrich our employee's social lives. 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 2014 is 114.604 man/ 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, Enviroiment 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.

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

Beside these training programmes, developing teaching skills of our internal instructors, a workshop programme is made consisting of many applications.

Since its establishment, Erdemir has been creating value for the industry and the economy of our country with its production and profitability as well as direct and indirect opportunities of employment it has provided and taxes it has paid. Playing a significant role in settlement of local problems and contributing to social development, Erdemir has also supplied provisions for 2600 households in Ereğli in 2014. 85 children including not only the children of Erdemir's employees but also those of the families in financial need enjoyed the Circumcision Fest in Ereğli this year.

Erdemir has been organizing children's theatre for 5 years to introduce little children to drama and to support their intellectual and emotional development through art in Ereğli, which is actually destitute of theatre facilities. In the year 2014, 1000 children watched the play "Pinocchio" and met the magic world of drama during the event which was organized for April 23, National Sovereignty and Children's Day, and which later became a traditional theatre festival.

Having implemented exemplary practices in field of occupational safety, Erdemir provided Occupational Safety Training by means of Class A Occupational Safety Specialists for 330 students at vocational high schools in Ereğli in 2014, with a view to raise awareness of young people on occupational safety within the period of their education as a support for their future business life in line with their principle of sharing their knowledge for the sake of public interest.

In order to enhance living standards of disabled individuals, to reduce elements isolating them from an active social life and to create positive changes in their lives, Erdemir also supports non-governmental organizations performing activity for the disabled. For this purpose, 10 battery-powered wheelchairs were purchased in 2014, and they were donated to Kdz Ereğli Association of the Physically Disabled so as to be delivered to individuals in need.

Activities promoting educational opportunities in our country, which has an intense young population, are considered of significance and priority by Erdemir. In this frame, Erdemir has been meeting the needs for electricity, water and heating at various school buildings located near the factory area in Ereğli as well as demands of local educational institutions for technical equipment, maintenance & repair and educational materials and supporting children to continue their education under better physical conditions. In 2014, Erdemir supplied smart boards and projectors and 5 computers to 10 village schools in the district.

ERDEMİR's environmental performance is monitored continuously through the audits within the context of ISO 14001 Environmental Management System, and the feedbacks acquired from the audits are used in improvements.

In accordance with the Regulation on Environmental Permits and Licenses, ERDEMİR renewed the Temporary Operating License on 01.08.2014 and commenced the licensing process. In 2014 environmental investments such as maintenance works, improving dust collection systems were continued.

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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.

	31 December 2014	31 December 2013
<u>Due from related parties (short term)</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	27.886	27.443
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	3.887	4.263
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	4.071	4.689
Other	565	299
	<u>36.409</u>	<u>36.694</u>

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

	31 December 2014	31 December 2013
<u>Due to related parties (short term)</u>		
Omsan Lojistik A.Ş. ⁽¹⁾	3.306	2.531
Omsan Denizcilik A.Ş. ⁽¹⁾	4.982	2.469
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	5.361	2.894
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	2.876	2.263
Omsan Logistica SRL ⁽¹⁾	-	479
OYAK Yatırım Menkul Değerler A.Ş. ⁽¹⁾	-	2.141
Other	1.804	1.666
	<u>18.329</u>	<u>14.443</u>

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

(1) Subsidiaries of the parent company

(2) Joint venture

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	1 January – 31 December 2014	1 January – 31 December 2013
<u>Major sales to related parties</u>		
Oyak Renault Otomobil Fab. A.Ş. ⁽²⁾	128.005	97.797
Adana Çimento Sanayi T.A.Ş. ⁽¹⁾	19.262	15.465
Bolu Çimento Sanayi A.Ş. ⁽¹⁾	16.929	13.010
Aslan Çimento A.Ş. ⁽¹⁾	2.652	1.757
Mardin Çimento Sanayi ve Ticaret A.Ş. ⁽¹⁾	1.098	450
Other	2.564	892
	170.510	129.371

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

	1 January – 31 December 2014	1 January – 31 December 2013
<u>Major purchases from related parties</u>		
Omsan Denizcilik A.Ş. ⁽¹⁾	110.485	68.151
Oyak Pazarlama Hizmet ve Turizm A.Ş. ⁽¹⁾	42.422	26.841
Omsan Lojistik A.Ş. ⁽¹⁾	32.243	26.603
Oyak Savunma ve Güvenlik Sistemleri A.Ş. ⁽¹⁾	30.539	23.481
Omsan Logistica SRL ⁽¹⁾	7.758	7.021
Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. ⁽¹⁾	-	5.384
Other	7.018	6.712
	230.465	164.193

(1) Subsidiaries of the parent company

(2) Joint venture

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The period end balances are non-secured, interest free and their collections will be done in cash. As of 31 December 2014, the Group provides no provision for the receivables from related parties (31 December 2013: none).

Also a report is prepared to give information about transactions between Controlling Company and its Subsidiaries according to Article 199 of Turkish Commercial Code (TCC) and it is approved as of 10 February 2014. The conclusion of the report is stated as: "There is no act of law conducted beneficial to Our Company's Controlling Shareholder Ordu Yardımlaşma Kurumu (OYAK) or/and its subsidiaries or there is no measure taken beneficial to Ordu Yardımlaşma Kurumu (OYAK) or/and its subsidiaries in business year 2014. In year 2014, all commercial transactions between our Company and our Controlling Shareholder and its subsidiaries are executed according to market conditions. "

6. Information for Shareholders

According to the decision of Iskenderun Demir ve Çelik A.Ş. Board of Directors, dated 12 January 2015 and numbered 333;

Within the frame of Turkish Commercial Code's provisions related "becoming a shareholder", according to the decision of The Board of Directors of our subsidiary Iskenderun Demir ve Çelik A.Ş. (Isdemir), dated 24 March 2014 and numbered 314, it is decided to record the 7.120 people to Isdemir's shareholders' stock register. By reason of the fact that number of the shareholders becomes more than 500 as of register date 24.03.2014, the Company applied to the Capital Markets Board (CMB) for approval of becoming a public company. The approval of the Capital Markets Board was announced to the public on the Board's Bulletin dated 27.06.2014 by CMB. In accordance with the 2. paragraph of article 16 of Capital Markets Law and CMB's "II-16.1 Communiqué on Principles Pertaining to Removal of Corporations From The Scope of Law and Obligation of Trading of Shares on Exchange"; General Management is authorized for applying to Borsa İstanbul A.Ş. and CMB and fulfilling the requirements to make its own shares tradable on Borsa İstanbul A.Ş. Free Trade Platform in a certain period of time.

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

Board of Directors	Title	Titles out of the Company
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. Represented by: Ali Aydın PANDIR	Chairman – Executive Director	<p>İskenderun Demir ve Çelik A.Ş. – Chairman/Executive Director (Representative)</p> <p>Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.- Chairman (Representative)</p> <p>- Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. – Chairman (Representative)</p> <p>- Erdemir Romania S.R.L. – Chairman</p> <p>Erdemir Asia Pacific Private Limited – Chairman</p>
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman and Executive Director	<p>- İskenderun Demir ve Çelik A.Ş. – Board Member and Executive Director (Representative)</p> <p>- Akdeniz Kimya San. ve Tic. A.Ş.- Chairman of the Board (Representative)</p> <p>- Akdeniz Kimyasal Ürünler Pazarlama İç ve Dış Tic. A.Ş.- Chairman of the Board (Representative)</p> <p>- OYAK Yatırım Menkul Değerler A.Ş. – Chairman of the Board (Representative)</p> <p>- HEKTAŞ Ticaret T.A.Ş.- Chairman of the Board (Representative)</p> <p>-</p> <p>- Atterbury S.A. (Luxembourg)- Member of Supervisory Committee</p> <p>- Chemson Polymer Additive AG (Austria) – Member of Supervisory Committee</p> <p>- Chemson Ltd. (England) – Board Member</p> <p>- Chemson Inc.(USA) – Board Member</p> <p>- Chemson Pacific PTY Ltd. (Australia) – Board Member</p> <p>- Chemson LTDA (Brazil) – Member of Advisory Council</p> <p>- Dalian Chemson Chemical Products Co.Ltd.(China) – Board Member</p>
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Ali KABAN)	Board Member	<p>-Governor of Zonguldak Province</p> <p>-Ministry of Interior- Provinces Service Union – Council Member</p> <p>- Zonguldak Özel Sivil Havacılık Sanayi ve Ticaret A.Ş. – Chairman</p>

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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 - Executive Director</p>	<ul style="list-style-type: none"> - Iskenderun Demir ve Çelik A.Ş. – Deputy Chairman and Executive Director (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) - Iskenderun 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) – Member of Supervisory Committee - Chemson Polymer Additive AG (Austria) – Member of Supervisory Committee - Chemson Ltd. (England) – Board Member - Chemson Inc. (USA) – Chairman of the Board - Chemson Pacific PTY Ltd. (Australia) – Board Member - Chemson LTDA (Brazil) – Member of Advisory Council - Innostar Vertriebs Und Entwicklungs GmbH (Australia) - Member of Advisory Council - Dalian Chemson Chemical Products Co.Ltd. (China) – Board Member

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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)— - Denizli Çimento San. T.A.Ş. – Board Member (Representative) - Modern Beton San. ve Tic. A.Ş. – Board Member (Representative) - Aslan Health, Educational and Cultural Foundation – Chairman of the Board
Nazmi DEMİR	Independent Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. Independent Board Member - Head of Bilkent University Banking and Finance Department -Academic Member of Bilkent University
Atilla Tamer ALPTEKİN	Independent Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Independent Board Member - Saray Halı A.Ş. Board Member - Saray Tarım Hayvancılık A.Ş. Board Member - Akmetal Madencilik A.Ş. Board Member - Gümüştaş Madencilik A.Ş. Board Member
Emin Hakan EMINSOY	Independent Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Independent Board Member - Sardes Faktoring A.Ş. – Chairman - AON Sigorta ve Reasürans Brokerliği A.Ş. – Consultant Batıçim Batı Anadolu Çimento San. A.Ş. – Consultant

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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
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 (Representative) - Turkish Steel Procuders Association – Board Member - Turkish Steel Procuders Association - Member of High Advisory Council
Şevkinaz ALEMDAR	ERDEMİR Group Procurement Coordinator	None
Mehmet Mücteba BEKCAN	Executive Vice President (Technical Services and Investments)	- ERDEMİR Foundation – Chairman of the Board - Turkish Steel Procuders Association – Board Member
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
Mesut Uğur YILMAZ	ERDEMİR Grup Technology Coordinator	- Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. Genel Müdürü - Turkish Steel Procuders Association – Member of High Advisory Council
Naci Özgür ÖZEL	ERDEMİR Grup Stratejik Planlama ve İş Geliştirme Koordinatörü	None
Banu KALAY ERTON	ERDEMİR Grup Kurumsal İlişkiler Koordinatörü	None
Ahmet Tunç NOYAN	ERDEMİR Grup Bilgi Teknolojileri Koordinatörü	None
Oya ŞEHİRLİOĞLU	ERDEMİR Grup Hukuk Koordinatörü	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. ERDEMİR 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 2014, 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. 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 2014, 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 Öney	Manager	+90-216-578 81 49	ionay@erdemir.com.tr
Ahmet Görpeoğlu	Specialist	+90-216-578 80 97	agorpeoglu@erdemir.com.tr

İdil Öney 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. 2014 activity report presented in BoD meeting dated 10 February 2015.

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The table below present's activities performed within 2014 so that investors could be informed in-depth concerning the operations of the Company:

The number of the investor meetings attended in Turkey and abroad:	35
The number of investors and analysts who have been contacted:	426
The number of tele-conferences held regarding financials:	4
The number of analyst meetings held:	3

2.2. The Use of Shareholders' Rights to Obtain Information

Pursuant to the inquiry 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) and statutory auditor, appointed by the General Assembly/Board, regularly and periodically. The independent auditing procedures for the year 2014 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, yet, been received by our Company.

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 2013 was held on March 31, 2014 in İstanbul and 63.75% of the shares were represented in the General Assembly.

Invitations to the General Assembly Meetings are issued by the BoD in compliance with the TCC, Capital Markets Code and Company's Articles of Association. The public is informed

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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 website at www.erdemir.com.tr no later than 3 weeks prior to the General Assembly in order to reach the highest number of shareholders possible.

Prior to the General Assembly Meeting, the agenda items and related documents are announced to the public in compliance with all legal processes and regulations. Balance sheets, income statements and annual reports are prepared prior to the General Shareholders' Meetings and made available to shareholders within the period determined in the applicable regulation via the website, 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 at www.erdemir.com.tr.

Open ballot voting is used in the General Assembly for voting on agenda articles simply by raising hands. 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.

A number of shareholders intended to raise their concerns outside of the agenda during the speeches they delivered at the Ordinary General Assembly Meeting. They addressed queries relating to the Company's performance and strategies. Such questions were replied by the Assembly Chairman and the relevant executives under the guidance of the Chairman. No shareholders submitted a written question to the Investor Relations Department on the basis of not having received an answer at the General Assembly.

During the Ordinary General Assembly Meeting held in 2014, 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 Shareholders' Meetings are disclosed to public via the Company's website, 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 shareholders' 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 Shareholders' Meetings are shared with the public via disclosures.

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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 policy, the Shareholders were kept informed of the donations and aids realized in 2012 and 2013, which amounted to 379,526 TRY and 926,757 TRY, respectively.

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.

No cross shareholding relations exist in the capital of the Company. Minority shares are not represented in the management. Minority rights are not determined less than one in twenty by the Articles of Association. Cumulative voting system is not mentioned in the Articles of Association.

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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:

"Company implements the policy of distributing the maximum dividend which the financial leverage ratios and expectation of future cash flow generation allow within the scope of effective legal regulations and clauses of Company's Articles of Association. In accordance with this policy, Company will distribute cash dividend which is gross 91,8190%, net 78,0461% of the distributable profit by the end of 2013. Dividend distribution policy is reviewed by the Board of Directors every year considering national and global economic conditions, Company's projects on agenda and funds.

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

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

At March 31, 2014 dated Ordinary General Assembly, it has been decided to distribute TRY 820 million cash dividend based on 2013 financial results and as of May 26, 2014 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 website (www.erdemir.com.tr) is actively in use both in Turkish and English. The website includes the following issues under the Investor Relations heading:

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

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

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.

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3.3. Disclosure Policy

Disclosure activities are carried out in compliance with our Company's "Disclosure Policy", the Capital Markets Legislation, the Capital Markets Board decisions and other related legislations. The issues which require explanation or announcement are disclosed to the public explicitly, accurately and promptly.

In line with this objective, it is essential that the Company establish a continuous, efficient and transparent communication with all its stakeholders including native/foreign shareholders, potential investors, employees, customers and relevant authorized institutions by informing them about Company's past performance and future expectations other than trade secrets, in a complete, fair, correct, timely, comprehensible and easily accessible manner.

Our Company's Disclosure Policy is established and implemented under the authority of the Board of Directors. Our Company's Disclosure Policy is announced to the public on our web site which is actively in use. In accordance with the relevant regulations, Board of Directors reserves the right to revise and make changes in this policy from time to time. Disclosure Policy and the amendments to be made thereon are published on the Company's website upon the approval of the Board of Directors. Investor Relations Department, which details such name and title given in Article 2.1., is responsible for supervision and monitoring of the Disclosure Policy.

Considering the fact that the Company is publicly-held and is expected to act accordingly in view of this arising responsibility, the necessary announcements in relation to all the developments under the scope of a Communiqué regarding Material Disclosures are undertaken promptly both to the investors and to the public. All changes and developments that may arise are constantly updated and shared with the public. A total of 53 material disclosures were made by the Company in 2014.

Forward-looking evaluations are based on reasonable assumptions and estimations. In cases, where there is a significant deviation between the matters previously disclosed and the actual realizations, due to unforeseeable risks and developments, the Company makes a public disclosure on the causes of such deviations.

In addition, the investors are provided with an email account with which they can address all sorts of queries and requests. The Investors Relations Department is in charge of responding to the questions addressed by the shareholders in compliance with our Company's disclosure policy whose principles of integrity require accurate, complete and fair responses.

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 news bulletins 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.

The tender system is practiced for procurement of the domestic goods and services. The tenders are disclosed through fax and e-mail messages. The specifications are also published on the Company website. On the other hand, cooperative actions are carried out to assist the manufacturer suppliers in our region to expand their business in turn.

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 ERDEMİR Recommendation System (ERÖS) 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, ERDEMİR 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.

ERDEMİR 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

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and appointments in a manner that would maximize business productivity in line with objective criteria.

Relations with unionized workforce are carried out through the representatives of the trade union. For white-collar employees, there is no extra trade union representative. However, the required divisions such as the Human Resources, the Training, the Administrative Affairs, the Occupational Health and Safety have been established within the Group in order to carry out relations with our employees. The Group did not receive any complaints from the employees in relation to any cases concerning discrimination in 2014 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 website (www.erdemir.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, ERDEMİR 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 2014. 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.

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9 members, 3 of whom would be independent members, were elected at the Ordinary General Assembly Meeting dated March 31, 2014. Our Chairman, Vice/Deputy Chairman of the Board and one Board Member were appointed as the Managing Directors. Although there is no executive board in the Company, Mr Ali Aydın Pandır, Mr Dinç Kızıldemir and Mr Nihat Karadağ serve as the Managing Directors. Sedat Orhan was appointed as Chief Executive Officer of Ereğli Demir ve Çelik Fabrikaları T.A.Ş. in 16.08.2013.

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– Executive Director	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 - Executive Director	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
Nazmi DEMİR	Independent Board Member	29.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member	29.06.2012
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014

Depending on the resolution of Board of Directors, dated 7 March 2014 and numbered 9301, it has been resolved to register and notice the assignment of Ali Kaban as representative of the Board Member Privatization Administration under Turkish Commercial Code Article 364.

According to the 363rd article of Turkish Commercial Code and depending on the resolution of Board of Directors, dated 04 March 2014 and numbered 9287, Emin Hakan Eminsoy has been elected to the independent board membership which had been vacant because of the resignation of Ali Aydın Pandır on 14 November 2013.

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Three applications to our Company were evaluated in 2014 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 03, 2014, pertaining to the candidacy of Mr Nazmi Demir, Mr Atilla Tamer Alptekin and Mr Emin Hakan Eminsoy as the independent board members were submitted to the Board of Directors on February 03, 2014. 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 2014, 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.

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 2014. 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

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right. All members, including the Chairman, have equal voting rights. Dissenting opinions and votes, disclosed at Board of Directors' meetings, are written down in the minutes.

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

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

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

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

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

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.

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Ali Aydın Pandır who was one of the Independent Board Members had resigned on 14 November 2013. Due to the resignation, Emin Hakan Eminsoy was appointed as an independent board member on March 04, 2014.

Audit Committee

Name-Surname	Title	Relation with the Company	Details
Atilla Tamer Alptekin	Chairman	Board Member	Independent / Not Executive
Nazmi Demir	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
Nazmi Demir	Chairman	Board Member	Independent / Not Executive
Emin Hakan Eminsoy	Member	Board Member	Independent / Not Executive

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

Corporate Governance Committee

Name-Surname	Title	Relation with the Company	Details
Emin Hakan Eminsoy	Chairman	Board Member	Independent / Not Executive
Atilla Tamer Alptekin	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 website.

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.

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

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

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

The feasibility reports, including all types of technical and financial evaluations, related to all planned investments in the Erdemir Group's mid/long term strategic road map are prepared by the System Development Department under the Deputy General Manager of the relevant Group Companies and are submitted to Business Development Directorate. The Business Development Department examines the feasibility reports from their consistency and accuracy perspectives, then prepares the financial evaluation reports by analyzing "Internal Rate of Return, Net Present Value, Return on Investment period and ratio, then submits these reports to the Group Financial Affairs Coordinator. No planned investments can be submitted to the Board of Directors without the approval of the Group Financial Affairs Coordinator.

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.

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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 website. 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 website. 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 the footnotes of the financial statements.

According to the decisions made by the General Assembly Meeting held on March 31, 2014, 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 5,000 TRY per month (at the beginning of the relevant month, paid in advance, net).

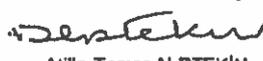
No loans were offered to either a board member or an executive within the period. No loan utilization was granted directly or through a third party. Furthermore, no collaterals such as bails were offered in favour.

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App.3: DECLERATIONS OF INDEPENDENT BOARD MEMBERS**BAĞIMSIZ YÖNETİM KURULU ÜYELİK BEYANI**

Sermaye Piyasası Kurulu'nun Seri: IV, No: 56 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ (KYI Tebliğ) ve eki, ayrıca KYI Tebliğinde değişiklik yapılmasına ilişkin yayınlanan Seri: IV, No: 57, Seri: IV, No:60 sayılı Tebliğler'inde yer alan Sermaye Piyasası Kurulu Kurumsal Yönetim İlkelerinin okuyup, anladığımı, ilkede sayılan ve işbu beyanın ekinde de yer alan Bağımsız Yönetim Kurulu Üyeliği kriterlerinin tamamını taşıdığımı kabul, taahhüt ve beyan ederim. 21.01.2013


Atilla Tamer ALPTEKİN

EK:1 Sermaye Piyasası Kurulu'nun Seri: IV, No: 56 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ, SPK Seri: IV, No: 57 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ'de Değişiklik Yapılmasına Dair Tebliğ ve SPK Seri: IV, No: 60 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ'de Değişiklik Yapılmasına Dair Tebliğ

EK:2 SPK Seri: IV No:56, SPK Seri: IV No: 57 ve SPK Seri: IV No:60 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğler çerçevesinde hazırlanan kriterler

*Ereğli Demir ve Çelik Fabrikaları T.A.Ş.'de (ve Ereğli Demir ve Çelik Fabrikaları T.A.Ş.'nin grup şirketlerinde) son on yıl içerisinde altı yıldan fazla yönetim kurulu üyesi olmaması, ayrıca söz konusu şirketlerde son 5 yıl içerisinde icracı yönetim kurulu üyesi olmaması, ilavelen

a) Şirket, şirketin ilişkili taraflarından biri veya şirket sermayesinde doğrudan veya dolaylı olarak %5 veya daha fazla paya sahip hissedarların yönetim veya sermaye bakımından ilişkili olduğu tüzel kişiler ile kendisi, eşi ve ikinci dereceye kadar kan ve sıhrî hisimleri arasında, son beş yıl içinde, doğrudan veya dolaylı önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda istihdam, sermaye veya önemli nitelikte ticari ilişkinin kurulmamış olması,

b) Son beş yıl içerisinde, başta şirketin denetimini, derecelendirilmesini ve danışmanlığını yapan şirketler olmak üzere, yapılan anlaşmalar çerçevesinde şirketin faaliyet ve organizasyonunun tamamını veya belli bir bölümünü yürüten şirketlerde çalışmamış ve yönetim kurulu üyesi olarak görev almamış olması,

c) Son beş yıl içerisinde, şirkete önemli ölçüde hizmet ve ürün sağlayan firmaların herhangi birisinde ortak, çalışan veya yönetim kurulu üyesi olmaması,

d) Yönetim kurulu görevi dolayısıyla hissedar ise sermayede sahip olduğu payın oranının %1'den fazla olmaması ve bu payların imtiyazlı olmaması,

e) Bağımsız yönetim kurulu üyesi olması sebebiyle üstleneceği görevleri gereği gibi yerine getirecek mesleki eğitim, bilgi ve tecrübeye sahip olması,

f) Bağlı oldukları mevzuata uygun olması şartıyla Üniversite öğretim üyeleri hariç, kamu kurum ve kuruluşlarında üye olarak seçildikten sonra tam zamanlı çalışmıyor olması,

g) Gelir Vergisi Kanunu'na göre Türkiye'de yerleşmiş sayılması

h) Şirket faaliyetlerine olumlu katkılarda bulunabilecek, şirket ortakları arasındaki çıkar çatışmalarında tarafsızlığını koruyabilecek, menfaat sahiplerinin haklarını dikkate alarak özgerçe karar verebilecek güçlü etik standartlara, mesleki itibara ve tecrübeye sahip olması,

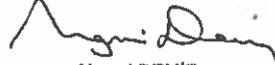
i) Şirket faaliyetlerinin işleyişini takip edebilecek ve üstlendiği görevlerin gereklerini tam olarak yerine getirebilecek ölçüde şirket işlerine zaman ayırabiliyor olması.*

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

(Amounts are expressed in thousand Turkish Liras ("TRY Thousand") unless otherwise indicated.)

BAĞIMSIZ YÖNETİM KURULU ÜYELİK BEYANI

Sermaye Piyasası Kurulu'nun Seri: IV, No: 56 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ (KYİ Tebliğ) ve eki, ayrıca KYİ Tebliğinde değişiklik yapılmasına ilişkin yayınlanan Seri: IV, No: 57, Seri: IV, No:60 sayılı Tebliğler'inde yer alan Sermaye Piyasası Kurulu Kurumsal Yönetim İlkelerinin okuyup, anladığımı, ilkede sayılan ve işbu beyanın ekinde de yer alan Bağımsız Yönetim Kurulu Üyeliği kriterlerinin tamamını taşıdığımı kabul, taahhüt ve beyan ederim. 21.01.2013


Nazmi DEMİR

EK:1 Sermaye Piyasası Kurulu'nun Seri: IV, No: 56 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ, SPK Seri: IV, No: 57 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ'de Değişiklik Yapılmasına Dair Tebliğ ve SPK Seri: IV, No: 60 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğ'de Değişiklik Yapılmasına Dair Tebliğ

EK:2 SPK Seri: IV No:56, SPK Seri: IV No: 57 ve SPK Seri: IV No:60 sayılı Kurumsal Yönetim İlkelerinin Belirlenmesine ve Uygulanmasına İlişkin Tebliğler çerçevesinde hazırlanan kriterler

"Ereğli Demir ve Çelik Fabrikaları T.A.Ş.'de (ve Ereğli Demir ve Çelik Fabrikaları T.A.Ş.'nin grup şirketlerinde) son on yıl içerisinde altı yıldan fazla yönetim kurulu üyesi olmaması, ayrıca söz konusu şirketlerde son 5 yıl içerisinde icracı yönetim kurulu üyesi olmaması, ilaveten

- a) Şirket, şirketin ilişkili taraflarından biri veya şirket sermayesinde doğrudan veya dolaylı olarak %5 veya daha fazla paya sahip hissedarların yönetim veya sermaye bakımından ilişkili olduğu tüzel kişiler ile kendisi, eşi ve ikinci dereceye kadar kan ve sıhrı hısımları arasında, son beş yıl içinde, doğrudan veya dolaylı önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda istihdam, sermaye veya önemli nitelikte ticari ilişkinin kurulmamış olması,
- b) Son beş yıl içerisinde, başta şirketin denetimini, derecelendirilmesini ve danışmanlığını yapan şirketler olmak üzere, yapılan anlaşmalar çerçevesinde şirketin faaliyet ve organizasyonunun tamamını veya belli bir bölümünü yürüten şirketlerde çalışmamış ve yönetim kurulu üyesi olarak görev almamış olması,
- c) Son beş yıl içerisinde, şirkete önemli ölçüde hizmet ve ürün sağlayan firmaların herhangi birisinde ortak, çalışan veya yönetim kurulu üyesi olmaması,
- d) Yönetim kurulu görevi dolayısıyla hissedar ise sermayede sahip olduğu payın oranının %1'den fazla olmaması ve bu payların imtiyazlı olmaması,
- e) Bağımsız yönetim kurulu üyesi olması sebebiyle üstleneceği görevleri gereği gibi yerine getirecek mesleki eğitim, bilgi ve tecrübeye sahip olması,
- f) Bağlı oldukları mevzuata uygun olması şartıyla Üniversite öğretim üyeleri hariç, kamu kurum ve kuruluşlarında üye olarak seçildikten sonra tam zamanlı çalışmıyor olması,
- g) Gelir Vergisi Kanunu'na göre Türkiye'de yerleşmiş sayılması
- h) Şirket faaliyetlerine olumlu katkılarda bulunabilecek, şirket ortakları arasındaki çıkar çatışmalarında tarafsızlığını koruyabilecek, menfaat sahiplerinin haklarını dikkate alarak özgürce karar verebilecek güçlü etik standartlara, mesleki fübara ve tecrübeye sahip olması,
- i) Şirket faaliyetlerinin işleyişini takip edebilecek ve üstlendiği görevlerin gereklerini tam olarak yerine getirebilecek ölçüde şirket işlerine zaman ayırabiliyor olması."

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BAĞIMSIZ YÖNETİM KURULU ÜYELİK BEYANI

Sermaye Piyasası Kurulu'nun II-17.1 sayılı "Kurumsal Yönetim Tebliği"nde yer alan Sermaye Piyasası Kurulu 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. 03.02.2014


Emin Hakan EMINSOY

EK:1 Sermaye Piyasası Kurulu'nun II-17.1 sayılı "Kurumsal Yönetim Tebliği"

EK:2 Sermaye Piyasası Kurulu'nun II-17.1 sayılı "Kurumsal Yönetim Tebliği" çerçevesinde hazırlanan kriterler

"a) Şirket, şirketin yönetim kontrolü ya da önemli derecede etki sahibi olduğu ortaklıklar ile şirketin yönetim kontrolünü elinde bulunduran veya şirkette önemli derecede etki sahibi olan ortaklar ve bu ortakların yönetim kontrolüne sahip olduğu tüzel kişiler ile kendisi, eşi ve ikinci dereceye kadar kan ve sıhrî hısımları arasında; son beş yıl içinde önemli görev ve sorumluluklar üstlenecek yönetici pozisyonunda istihdam ilişkisinin bulunmaması, sermaye veya oy haklarının veya imtiyazlı payların %5 inden fazlasına birlikte veya tek başına sahip olunmaması ya da önemli nitelikte ticari ilişkinin2 kurulmamış olması.

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

c) Bağımsız yönetim kurulu üyesi olması sebebiyle üstleneceği görevleri gereği gibi yerine getirecek mesleki eğitim, bilgi ve tecrübeye sahip olması.

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

d) 31/12/1980 tarihli ve 193 sayılı Gelir Vergisi Kanunu (G.V.K.)'na göre Türkiye'de yerleşmiş sayılması.

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

f) Şirket faaliyetlerinin işleyişini takip edebilecek ve üstlendiği görevlerin gereklerini tam olarak yerine getire-bilecek ölçüde şirket işlerine zaman ayırabiliyor olması.

g) Şirketin yönetim kurulunda son on yıl içerisinde altı yıldan fazla yönetim kurulu üyeliği yapmamış olması.

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

h) Yönetim kurulu üyesi olarak seçilen tüzel kişi adına tescil ve ilan edilmemiş olması."