



EREĞLİ DEMİR VE ÇELİK FABRİKALARI T.A.Ş.

For the Period 1 January – 30 September 2016
Board of Directors' Activity Report

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

A – GENERAL INFORMATION

1. Period of the Report

01.01.2016 - 30.09.2016

2. Information About the Association

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

3. Shareholding and Capital Structure

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

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

No change has occurred in shareholding and capital structure in the period.

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

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors is executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next general assembly to be approved. The Company's 2015 Regular General Assembly has been executed on 31 March 2016.

The membership number of Board of Directors has determined as 9 and 6 Board Members have been elected for three years and 3 independent board members have been elected for one year by the General Assembly executed on 31 March 2014 according to the 10th and 11th articles of Articles of Association within the framework of Turkish Commercial Code and Capital Market Law. Due to this, 3 independent board members have been elected for one year instead of the 3 independent board members whose duties expired, by the General Assembly executed on 31 March 2016.

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The active members of the Board of Directors as of 30.09.2016:

Board of Directors	Title	Effective from
OYTAŞ İÇ VE DIŞ TİCARET A.Ş. (Represented by: Ali Aydın PANDIR)	Chairman – Executive Director	27.05.2013
OYKA Kağıt Ambalaj Sanayii ve Tic. A.Ş. (Represented by: Ertuğrul AYDIN)	Deputy Chairman	12.09.2012
Republic of Turkey Prime Ministry Privatization Administration (Represented by: H. Abdullah KAYA)	Board Member	20.09.2012
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member	13.09.2012
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Güliz KAYA)	Board Member	12.09.2012
OMSAN Lojistik A.Ş. (Represented by: Ahmet Türker ANAYURT)	Board Member	11.09.2012
Emin Hakan EMİNSOY	Independent Board Member	04.03.2014
Hakkı Cemal ERERDİ	Independent Board Member	31.03.2015
Yunus ARINCI	Independent Board Member	31.03.2016

Changes in the Executive Board within the Period

Due to the end of duties of Hakkı Cemal ERERDİ , Ali Tuğrul ALPACAR and Emin Hakan EMİNSOY who have been elected as independent board members for one year on 31 March 2015, Emin Hakan EMİNSOY, Hakkı Cemal ERERDİ and Yunus ARINCI have been elected as independent board members for one year at the Regular General Assembly executed on 31 March 2016.

It has been decided to be registered and to be announced of the assignments of Dursun Özer ÖZDİNÇ as the representative of OYAK Girişim Danışmanlığı A.Ş. due the end of Nihat KARADAĞ'S duty; H. Abdullah KAYA as the representative of Republic of Turkey Prime Ministry Privatization Administration due to the end of Ali KABAN'S duty and Ahmet Türker ANAYURT as the representative of OMSAN Lojistik A.Ş. due to the end of Dinç KIZILDEMİR's duty in the Trade Registry Gazette by the resolution of Board of Directors, dated 1 April 2016 and numbered 9408.

OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş (Represented by Ertuğrul AYDIN) has been elected as Deputy Chairman by the resolution of Board of Directors, dated 1 April 2016 and numbered 9409.

It has been decided to be registered and to be announced of the assignment of Güliz KAYA as the representative of OYAK Girişim Danışmanlığı A.Ş. due the end of Dursun Özer ÖZDİNÇ's duty; in the Trade Registry Gazette by the resolution of Board of Directors, dated 16 June 2016 and numbered 9417.

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

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

Executive Management

Executive Management	Title	Effective from	Education	Experience
Sedat ORHAN	Chief Executive Officer	16.08.2013	Karadeniz Technical University – Mechanical Engineering	30 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	36 Years
Aylin VELİOĞLU ÇELİK	Executive Vice President (Human Resources)	15.08.2016	Middle East Technical University- Political Science and Public Administration	27 Years
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011	Hacettepe University - Business Administration	30 Years
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	33 Years
Başak TURGUT	ERDEMİR Group Marketing and Sales Coordinator	01.02.2013	Middle East Technical University – Business Administration	19 Years
Şevkinaz ALEMDAR	ERDEMİR Group Procurement Coordinator	18.05.2013	Boğaziçi University – Business Administration	21 Years
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	33 Years
Eric Andre Cornil VITSE	ERDEMİR Grup Technology Coordinator	14.10.2015	University of Nancy France- Science Mechanics	34 Years
Vacant	ERDEMİR Group Human Resources Coordinator			
Naci Özgür ÖZEL	ERDEMİR Group Strategy and Business Development Coordinator	29.05.2014	İstanbul Technical University – Industrial Engineering	20 years
Banu KALAY ERTON	ERDEMİR Group Corporate Affairs Coordinator	13.06.2014	Mimar Sinan University - City and Regional Planning	22 years
Ahmet Tunç NOYAN	ERDEMİR Group Information Technologies Coordinator	01.07.2014	Naval Academy - Electronics Engineering	27 years
Oya ŞEHİRLİOĞLU	ERDEMİR Grup Legal Coordinator	14.01.2015	Ankara University – Faculty of Law	22 years

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Kaan BÖKE, Executive Vice President (Human Resources), resigned from his duty by 15 July 2016. Aylın VELİOĞLU ÇELİK has assigned to Executive Vice President (Human Resources) position by 15 August 2016.

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

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

6. Collective Labor Agreement Applications and the Benefits

In Ereğli Iron and Steel Factory, 25th Period Collective Labor Agreement, which covering the period between 01.09.2013-31.08.2016 has ended. The 26th Collective Labor Agreement negotiations between our company's representative Turkish Employers' Association of Metal Industries (MESS), of which Ereğli Demir ve Çelik Fabrikaları T.A.Ş. is a member, and Turkish Metal Union which is authorized, have been started on July 18th, 2016. 26th period Collective Labor Agreement negotiations are continuing between the parties.

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

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

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

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The number of the personnel on 30 September 2016 and 31 December 2015 are as follows:

	30 September 2016	31 December 2015
	Personnel	Personnel
Blue Collar	8.321	8.537
White Collar	4.019	4.122
	12.340	12.659

7. Compliance With The Corporate Governance Principles

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity Report for the year ending 2015 were met during the period 01.01.2016 – 30.09.2016.

8. Amendments in The Articles of Association

No amendment has been made.

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 2016 is as follows:

In the 9th article of the agenda related to the Rate Setting of the Board Members', the proposal was read by the representative of ATAER Holding A.Ş. Çiğdem AYIK OKUR, and with no other comment, it was submitted to the General Assembly's approval and in accordance with the proposal;

It was decided by the majority of votes that; no wages will be paid to the Board members representing Group B shares, the monthly net wage that will be paid to the members representing Group A shares will be TRY 2.360 (monthly, in cash), the wages of independent Board members will be TRY 6.000 (monthly, in cash) and the new wages will be valid from the date of 1 April 2016.

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.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
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A total of TRY 19.342 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

C – Research and Development Studies

Within the scope of establishing Raw Material and Ironmaking R&D, and Product Development Simulation Labs embodied within Erdemir R&D Center, interviews of procurement and purchasing with related companies are going on regarding to building of new facility and purchasing of targeted simulators. On the other hand, existing building restoration project's contract has been signed and restorations are going to begin at October 2016.

In response to demands from customers in the automotive industry, new product development trials production has been tried to implement in a busy production schedule. During the 9 months' period, 4 TUBITAK TEYDEB project application has been realized while 3 of these projects have gained right to be supported and the evaluation period of 1 project is still in ongoing stage. One of the R&D project, "Recycling of Generated Organic Wastes During Production of Iron and Steel", which supported by TEYDEB in 2015, is completed successfully in this term.

Within the scope of catching up the last trends and developments in iron and steel industry, increasing the visibility of our company and building additional R&D Network across the globe; 1 conference paper in "Resistant Welding Conference", 2 conference papers in "AISTech 2016 Conference" and 1 conference paper in "10th International Conference on "Molten Slags, Fluxes and Salts (MOLTEN16)" organized at USA, 1 conference paper in "Rolling Conference/Austria", 1 conference paper both in "Strategies in Car Body Painting 2016 Conference" and "GTT Workshop Annual User Meeting 2016" organized at Germany, 2 conference papers in "Heat Treatment Symposium/Istanbul", 8 conference papers in "18th International Metallurgy & Materials Congress, IMMC 2016/Istanbul" and 1 conference paper in "National Solid Wastes Management Congress/Kastamonu-Turkey", 18 conference papers in total were presented in national and international organizations.

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

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

In Ereğli plant; In Air Separation Plant No.7 punch list items are being worked on for final acceptance. Most of the projects related to Environmental Investments and Erdemir Additional Environmental Investments_1 were commissioned and remaining projects are ongoing. Hot Mill No.2 Level 2 Systems Modernization will be managed with Hot Strip Mill No.2 Quality and Sustainability Investments by board approval. Main Plant purchasing process continues for Modernization of Level 1-2 Automation Systems for BOF & CC and CPL No.2 Welding Machine with Side Trimmer and Scrap Cutting Unit Revamping Projects. Purchasing process in order to identify the main contractor is ongoing for No 6 Steam Boiler project. Also, EIA process continues. Technical specification is being prepared for 60 MW New Steam Generator which is included in the scope of No.6 Steam Boiler project.

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In Galvanizing Line No.2 Project, main contractor has started field works. In Blast Furnace Top Pressure Recovery Turbines project, main and other equipment installations and civil works are at the last stage.

In CPL-TCM Modernization Project, detailed engineering continues for welding equipment modernization. Senior management decision is expected for main plant modernization part. In Erdemir Coke Oven Battery No.4 and Modernization of the By-Product Plant Project, revision of the technical specification is planned according to the study of group coke balance. Manufacturing and installation studies are ongoing for No. 1 Blast Furnace Stove Project. In ERDEMİR R&D Simulation Center, purchasing process of simulators has reached the final stage and the contract was signed for the restoration of the old building of education directorate. In Converting Ladle Treatment to the Ladle Furnace project site applications are ongoing. Activities related to Raw Material Stocking and Blending Yard Modernization are ongoing. Reconstruction of Gülüç Enterance Zone as Delivery Gate projects' site applications are ongoing. In Converter Slack Stopping System Modernization Project equipment shipping was finished and first converter slack stopper is commissioned. Civil works continue for New Central Baths and Dining Hall Buildings. Tender studies of Online Surface Inspection Equipment and Additional Investments for Energy Distribution Systems are ongoing. Dynamic UPS and Panels, BOF Convertors Modernization and New EDT Machine Investments have started by the decision of board.

On the other hand, in İskenderun Facilities; Top Pressure Recovery Turbines for Blast Furnaces 3 and 4 have been commissioned sequentially and commercial operation certificate has been signed. 17 of the Environmental Package which consists of 25 environmental projects has been completed; field activities continue for others. Site applications are ongoing for South Harbour 1st Stage project. Hot Rolling Mill Harmonic Filter / Compensation System was commissioned and performance tests have been ongoing. In No. 8 Air Separation Plant, site applications have begun due to contract signed on the basis of "Joint Venture". Materials manufacturing continues for Hot Slab Marking Machine Project. Contract has been signed for Electrical arc ladle furnace - dedusting & water cooling systems modernization project. In Hot Rolling Mill Revamping and Modernization of the Coke Oven Battery No.3, tender and evaluation stages are ongoing. Vacuum Degassing, Gathering Storehouses at One Location, Conversion of Administration Building into Education Building and Mold Level Control System Renewal investments have started by the decision of board.

Total investments in Erdemir Group is amounting to USD 120 million as of 30 September 2016 (30 September 2015: USD 125 million).

2. Internal Control System and Internal Auditing Activities

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

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

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

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

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	2016 Share %	2015 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel Manufacturing	95,07	95,07
Erdemir Madencilik San. ve Tic. A.Ş.	Turkey	Iron Ore and Pellet	90	90
Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş.	Turkey	Steel Service Center	100	100
Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100	100
Erdemir Romania S.R.L.	Romania	Silica Steel Production	100	100
Erdemir Asia Pacific Private Limited	Singapore	Trading	100	100

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.

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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 not been reviewed as of 30 September 2016.

Summary of Balance Sheet

	(Unaudited)	(Audited)
	Current Period	Previous Period
(Thousand TRY)	30 September 2016	31 December 2015
Current Assets	8.346.366	7.999.975
Non-current Assets	10.819.061	10.634.515
Total Assets	19.165.427	18.634.490
Current Liabilities	3.052.707	2.615.423
Non-current Liabilities	3.288.505	3.480.875
Shareholders' Equity	12.824.215	12.538.192
Total Liabilities	19.165.427	18.634.490

Summary of Income Statement

	(Unaudited)	(Unaudited)
	Current Period	Previous Period
(Thousand TRY)	1 January - 30 September 2016	1 January - 30 September 2015
Sales Revenue	7.946.916	8.915.238
Gross Profit	1.528.615	1.733.441
Operating Profit	1.314.468	1.536.652
Profit Before Tax	1.264.882	1.392.891
Profit for the Period	1.013.470	1.118.199
Shareholder's share in the Profit for the Period	977.770	1.088.125
EBITDA	1.738.284	1.891.655
Earnings Per Share	0,2794	0,3109

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

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

2. Key Ratios

(%)	1 January - 30 September 2016	1 January - 30 September 2015
Gross Profit Margin	19,2%	19,4%
Operating Profit Margin	16,5%	17,2%
EBITDA Margin	21,9%	21,2%
Profit Margin	12,8%	12,5%
Shareholder's Share in the Profit Margin	12,3%	12,2%

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

4. Dividend Distribution Policy

Erdemir Groups' Dividend Distribution Policy is as follows:

“As a principle, Company implements the policy of distributing all of its distributable profit in cash within the provision of forecasted free cash flow generation by considering financial leverage ratios, investment/ financing needs and anticipation of the market under the scope of effective regulations and clauses of Company's Articles of Association. Dividend distribution policy is reviewed by the Board of Directors every year considering national and global economic conditions, Company's projects on agenda and funds.

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

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

Dividend distribution (gross dividend per share: TRY 0,3000) amounting to TRY 1.050.000 thousand from 2015 net profit was approved during Annual General Assembly Meeting dated 31 March 2016. The dividend distribution was completed as of 25 May 2016.

5. Information about the sector

Global crude steel production in August this year increased by 1,9 percent year on year to 134 million tons. In the given month, the average capacity utilization of steel mills across the globe was 68,5 percent, up from 68 percent recorded in August 2015 and up 0,1 percentage points compared to July this year.

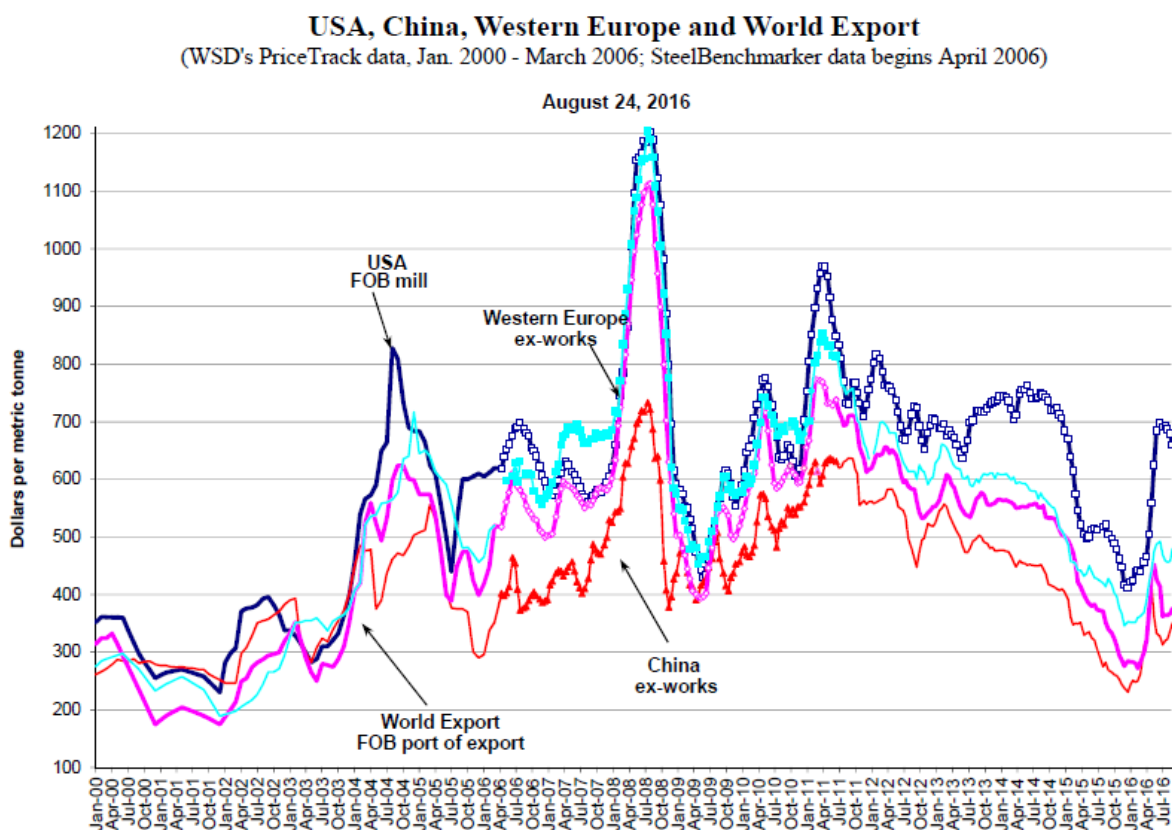
In the January-August period of this year, global crude steel production decreased to 1,1 billion tons, down 0,9 percent year on year.

In August this year, crude steel output in Asia amounted to 93,9 million tons, up 3,4 percent, with 68,6 million tons produced by China, up three percent, 8,9 million tons produced by Japan, increasing by 1,5 percent, 8,1 million tons produced by India, up 9,4 percent, and 5,9 million tons produced by South Korea, rising by 1,8 percent - with all comparisons on year-on-year basis. EU-28 countries produced 12,0 million tons of crude steel in August, down 1,4 percent year on year. In August, Germany's output was 3,5 million tons, rising by 2,4 percent year on year, Italy's crude steel output was 1,1 million tons, up 7,4 percent year on year, and France's crude steel output amounted to 1,0 tons, down 5,2 percent year on year.

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Iran's crude steel production in August this year amounted to 1,4 million tons, up 8,1 percent year on year. The CIS registered a crude steel output of 8,4 million tons in August, down 2,7 percent year on year, with Russia producing 5,9 million tons, decreasing by 1,9 percent, and Ukraine producing 1,8 million tons, down 4,1 percent, both on year-on-year basis. In North America in August, crude steel output totaled 9,5 million tons, down three percent, with the US producing 6,7 million tons, decreasing by 3,4 percent, and Mexico producing 1,69 million tons, up 1,9 percent, all on year-on-year basis. Crude steel output in South America in August amounted to 3,5 million tons, down 6,6 percent from August 2015, with Brazil's output totaling 2,8 million tons, decreasing by 1,1 percent year on year.

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



Turkish crude steel output in August this year increased by 7,2 percent month on month and 12,9 percent year on year to 2,9 million tons. In the given month, Turkey's crude steel output by electric arc furnaces rose by 18,8 percent year on year to 1,9 million tons, while crude steel output by integrated plants increased by 3,1 percent year on year to 983.600 tons.

Meanwhile, in the january-august period, Turkey's crude steel production increased by 4,7 percent year on year to 22 million tons. In the given period, Turkey's crude steel output by electric arc furnaces rose by 4,6 percent to 14,3 million tons, while production by integrated plants increased by 4,9 percent to 7,7 million tons, both year on year.

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6. The Position of Erdemir Group within the Sector

Erdemir Group's production in 2015 has been expanded to 8,9 million tons. In the first nine months of 2016, the crude steel production in Ereğli Plant has decreased 6,9% and went down to 2,687 thousand tons while the crude steel production in İskenderun went up to 4.110 thousand tons with an increase of 8,5%. In the first nine months of 2016 Erdemir Group's production has increased by 1,9% and went up to 6.797 thousand tons.

7. Operational Developments

Turkey's first and only integrated flat steel producer, Erdemir Group, who carries out production, operation, maintenance and modernization activities within its all facilities completed 2015 with production records. Manufacturing 28% of all crude steel production in Turkey, Erdemir Group again continued its operations in line with the principle of optimal costs, maximum productivity and quality of production in the first nine months of 2016.

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

To supply just in time deliveries and storage services mainly for the customers operating in the Marmara region of Turkey, Erdemir Group continues its sales from Darıca, İzmit which has 30 thousand tons storage capacity.

Production Plants and Productivity

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

Capacity used (%)	1 January - 30 September 2016	1 January - 30 September 2015
Liquid Steel	96%	100%
Slab	86%	85%
Billet	61%	58%

8. Products

The main products of Erdemir Group are as follows:

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

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9. Production (quantity)

Final Products (000 Tons)	1 January - 30 September 2016	1 January - 30 September 2015
Flat Products	5.359	5.558
Long Products	1.131	1.046
Iron Ore and Pellet	1.557	1.813

10. Development in Sales

The iron and steel industry is a delivering force in national economies and Turkey is one of the leading countries in terms of both production and consumption of steel, ranking as the world's 8th largest steel consumer with 11,7% consumption increasing in 2015. Steel consumption of Turkey rose %4 in the first eight months of 2016.

Total flat product sales of the Erdemir Group of Companies reached to the level of 5,2 million tons in the first nine months of 2016. The domestic flat product sales reached 4,6 million tons %4 less than 2015. Long products sales increased 11% (Y.O.Y.) and went to 1.128 thousand tons. The domestic long product sales increased 11% (Y.O.Y.) and went to 982 thousand tons.

Erdemir Group of Companies also exported 561 thousand tons of flat products to 37 countries and 146 thousand tons of long products to 12 countries. The level of Erdemir Group's export sales is 11% of total sales.

Erdemir Group continues to deliver shipments in line with its objectives in industries such as metal packaging, automotive or steel pipe. As a result of its customer oriented strategy, ERDEMİR Group has added 14 new customers to long product portfolio and 22 new customers to flat product portfolio totaling 36 new customers during the first nine months of 2016.

In order to provide rapid and effective response to the needs of the steel market, our industrially structured marketing and sales organization have continued to customer visits, congress and exhibition participations in Turkey and abroad, meetings with industry unions and organizations of customer activities. Our product range are managed dynamically and tailored to customer expectations. Additionally, product developments and newer steel grade works aiming the final user demand, keeps developing.

11. Sales (quantity)

Final Products (000 Tons)	1 January - 30 September 2016	1 January - 30 September 2015
Flat Products	5.217	5.297
Long Products	1.128	1.014
Iron Ore and Pellet Sales (*)	1.612	1.659

(*) 1.414 thousand tons of Ermaden's sales are to Group Companies as of 30 September 2016 (30 September 2015: 1.562 thousand tons).

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
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F - Risks and Evaluation of the Board

1. Risk Management Policy

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

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

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

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

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

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

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

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2. Committee of Early Risk Detection

The Early Detection of Risk Committee (Committee) was set up in accordance with the Capital Market Board's legislation. The duties and working principles directive of the Committee were published on the company's website on the Investor Relations / Policies tab.

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

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

G - Other Information

1. Organizations Out of the Headquarters

None.

2. Information about Related Party Transactions

None.
