

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

1. Period of the Report

01.01.2012 - 31.12.2012

2. Title of the Association

EREGLI IRON AND STEEL WORKS, INC.

3. Members of the Board of Directors and Auditors

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors and Auditors are executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership or in Auditors' Board 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 2011 Regular General Assembly has been executed on 30.03.2012.

An extraordinary General Assembly of the Shareholders was held on 29 June 2012 in order to accept the necessary Executive Board changes including the election of the independent board members and to adopt the required amendments of the articles of association stipulated by the Turkish Capital Market Board's Communique n° Serial: IV No:56 dated 30 December 2011 named "Communique on the Determination and Implementation of the Corporate Governance Principles".

According to the Enforcement and Application of Turkish Commercial Code numbered 6103, Article 25, Board Members have resigned and instead of those Board of Director Memberships the election has been made depending on the resolutions of Board of Directors numbered 9163, 9164, 9165 and 9166 under Turkish Commercial Code Article 363 and Articles of Association Article 11.

In accordance with the Turkish Capital Markets Board's respective legislation on the Determination and Implementation of the Corporate Governance Principles and Turkish Commercial Code Article 363 and Articles of Association Article 11, the election of Independent Members of Board of Directors has been made.

The active members of the Board of Directors as of 31.12.2012:

Board of Directors	Title	Effective from
ATAER Holding A.Ş. Represented by: Fatih Osman TAR)	Chairman – Executive Director (till the first General Assembly)	11.09.2012
OYAK Girişim Danışmanlığı A.Ş. (Represented by: Nihat KARADAĞ)	Deputy Chairman– Executive Director (till the first General Assembly)	12.09.2012
Republic of Turkey Prime Ministry Privatization Administration (Represented by: Mehmet SARITAŞ)	Board Member (till the first General Assembly)	04.01.2013

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

OMSAN Lojistik A.Ş. (Represented by: Dinç KIZILDEMİR)	Board Member - Executive Director (till the first General Assembly)	11.09.2012
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by: Ertuğrul AYDIN)	Board Member (till the first General Assembly)	12.09.2012
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by: Fatma CANLI)	Board Member (till the first General Assembly)	13.09.2012
Nazmi DEMİR	Independent Board Member (1 year)	29.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member (1 year)	29.06.2012
Ali Aydın PANDIR	Independent Board Member (till the first General Assembly)	20.09.2012

Changes in the Executive Board within the Period

Board member Arzu Hatice ATİK who had been elected as a Board Member on 26.02.2008, resigned on 13.03.2012. Ahmet AKSU was elected to fill this vacancy on the same date. On the Shareholders General Meeting of 30.03.2012 Ahmet AKSU was elected as a member of the Executive Board once again.

At the extraordinary General Assembly of the Shareholders of 29.06.2012, Memberships to the Executive Board were increased from 7 to 9, and a new election was made, and in addition to Fatih Osman TAR, Nihat KARADAĞ, Ahmet AKSU, Dinç KIZILDEMİR, Ertuğrul AYDIN and Fatma CANLI, who were re-elected as Board Members, Ali Husrev BOZER, Nazmi DEMİR and Atilla Tamer ALPTEKİN were also elected as independent members to the Board.

Oğuz Nuri ÖZGEN's membership to the Board, which had been started on 17.07.2006, ended as of the extraordinary General Assembly of the Shareholders of 29.06.2012.

Ali Husrev BOZER, who was elected to the Board as an independent member at the extraordinary General Assembly of the Shareholders of 29.06.2012, resigned on 05.07.2012. Ali Aydın PANDIR was elected as Independent Board Member effective from 20.09.2012 till the first General Assembly instead of Ali Husrev BOZER.

With the 359th Article of new Turkish Commercial Code effective from 1 July 2012 it is stated that legal entities can be selected as board members and if selected a real person to act on behalf of the legal entity should also be registered.

According to the 359th and 363th articles of the Turkish Commercial Code, The Members of Board of Directors who were elected at the extraordinary General Assembly of the Shareholders of 29.06.2012; Fatih Osman TAR and Dinç KIZILDEMİR resigned on 11.09.2012, Nihat KARADAĞ and Ertuğrul AYDIN resigned on 12.09.2012, Fatma CANLI resigned on 13.09.2012, Ahmet AKSU resigned on 20.09.2012. Effective from 11.09.2012 ATAER Holding A.Ş. (Represented by Fatih Osman TAR) and OMSAN Lojistik A.Ş. (Represented by Dinç KIZILDEMİR), effective from 12.09.2012 OYAK Girişim Danışmanlığı A.Ş. (Represented by Nihat KARADAĞ) and OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by Ertuğrul AYDIN), effective from 13.09.2012 OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by Fatma CANLI), effective from 20.09.2012 Republic of Turkey

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

Prime Ministry Privatization Administration (Represented by Ahmet AKSU) were elected as Board Members till the first General Assembly.

Board Member Privatization Administration who has beneficial right on the group A shares had informed the Company that its representative Ahmet AKSU had resigned on 03.01.2013 and instead of him Mehmet SARITAŞ had been assigned. Depending on the resolution of Board of Directors, dated 04.01.2013 and numbered 9178, it has been resolved to register and notice the assignment of Mehmet SARITAŞ as representative of the Board Member Privatization Administration under Turkish Commercial Code Article 364.

The active members of the Board of Auditors as of 31.12.2012:

Board of Auditors	Title	Effective from
Ahmet Türker ANAYURT	Board of Auditors Member (1 year)	09.03.2010
Ünal TAYYAN	Board of Auditors Member (1 year)	31.03.2011

Changes in the Board of Auditors within the Period

None.

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

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

Information About Board Members' and Executive Management's Titles out of the Company

Information about Board Members' and executive management's titles out of the Company is given in App.1.

Members of Board Committees, Frequency of Meetings, Operating Principals also Including Activities Performed and Evaluation of the Board on the Effectiveness of the Committees

Board of Auditors held 6 meetings in 2012 and continued its activities in accordance with CMB Principles. The operating principles of the Board of Auditors have been determined with the policy entitled Board of Auditors Policy dated 21 November 2012.

Number of Meetings of the Board of Directors and Attendance of the Board Members

Board of Directors held 8 meetings in 2012. Board Members participated in the meetings regularly. The wages of the Board of Directors have been determined by resolutions of the General Assembly. No extra payments were made to Board of Directors other than that had been determined by General Assembly, personal accident and life insurances were arranged and no other benefits were given.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

4. Executive Management

Executive Management	Title	Effective from	Education	Experience
Fatih Osman TAR (by proxy)	Chief Executive Officer	02.07.2012	Boğaziçi University – Business Administration	37 Years
Esat GÜNDAY	Executive Vice President (Operations)	13.07.2006	Middle East Technical University – Metallurgical Engineering	32 Years
Kaan BÖKE	Executive Vice President (Human Resources and Admin. Affairs)	02.04.2012	Gazi University – Labor Economics	22 Years
Bülent BEYDÜZ	ERDEMİR Group Financial Affairs Coordinator	11.04.2011	Hacettepe University - Business Administration	26 Years
Sami Nezh TUNALITOSUNOĞLU	Executive Vice President (Financial Affairs)	11.04.2011	Gazi University - Economy	29 Years
Mustafa Ayhan KALMUKOĞLU (by proxy)	ERDEMİR Group Marketing and Sales Coordinator	12.07.2010	Middle East Technical University – Business Administration	34 Years
Ahmet Samim ŞAYLAN (by proxy)	ERDEMİR Group Procurement Coordinator	12.07.2012	Middle East Technical University – Business Administration	40 Years
Ahmet Samim ŞAYLAN	Executive Vice President (Procurement)	23.03.2011	Middle East Technical University – Business Administration	40 Years
Mehmet Müçteba BEKCAN	Executive Vice President (Technical Services and Investments)	14.07.2010	Middle East Technical University – Industrial Engineering	35 Years
Öner SONGÜL	ERDEMİR Group Information Technologies Coordinator	12.08.2010	Middle East Technical University – Industrial Engineering	33 Years
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	29 Years
Mesut Uğur YILMAZ	ERDEMİR Grup Technology Coordinator	02.07.2012	Middle East Technical University – Metallurgical Engineering	32 Years

Ahmet Samim ŞAYLAN, who has been conducting the Executive Vice Presidency for Procurement by proxy since 23.03.2011, has been appointed as Executive Vice President for Procurement, effective from 02.04.2012.

Also, Kaan BÖKE was appointed as the Executive Vice President for Human Resources and Administration Affairs effective from 02.04.2012.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

Effective upon 02.07.2012, two new positions, "ERDEMİR Group Production Coordinatorship" and "ERDEMİR Group Technology Coordinatorship" were introduced. Oğuz Nuri ÖZGEN was assigned as ERDEMİR Group Production Coordinator, while Mesut Uğur YILMAZ was commissioned as ERDEMİR Group Technology Coordinator. Şafak ÇAPAR was assigned to the Vice Presidency of Iskenderun Demir ve Çelik A.Ş. Responsible for the Facilities. The Company's Chairman and the Executive Director Fatih Osman TAR was assigned as the Proxy Chief Executive Officer.

However as of 12.07.2012, Ahmet Samim ŞAYLAN substituted for Şafak ÇAPAR as Proxy ERDEMİR Group Procurement Coordinator.

Other than the wages determined by Company Rating System efficiency premium payment was made once in 2012 with Board's decision according to effectiveness periods. All healthcare costs of the management are covered with insurance.

5. 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 2011 were met during the period 01.01.2012 – 31.12.2012. In this context, in order to strengthen our capacity of capital markets legislation, qualified personnel has been charged. "Corporate Governance Principles Compliance Report" the Company issues is given in App.2.

6. Amendments in The Articles of Association

At the extraordinary General Assembly of the Shareholders of 29.06.2012, some provisions of the articles of association of the company were amended as follows:

"Capital:

Article 7 – The Company has adopted the Registered Capital System in accordance with provisions of the Capital Markets Law no.2499 as amended by the law no. 3794, and started to use this system with the permission of the Capital Markets Board no. İDİD/150/2416 dated 15.08.1983.

The upper limit of the registered capital of the Company is TL 7,000,000,000.00 (seven billion Turkish Liras) The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, between the years 2012 and 2016, in accordance with the requirements as set forth herein.

The permission granted by the Capital Markets Board in respect of the upper limit of the registered capital is valid for the years between 2012 and 2016 (5 years). Even if the upper limit of the registered capital as permitted is not reached by the end of the year 2016, in order to adopt a resolution for increasing the capital after 2016, the board of directors shall be required to obtain authority from the general meeting of shareholders for a new period by means of gaining permission from the Capital Markets Board for the upper limit precisely permitted or a new upper limit. In case of the failure to obtain such authority, the Company shall be deemed to have quit the registered capital system.

BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29

The Board of Directors is authorized to restrict the rights of the shareholders to receive new shares, and also authorized to issue shares at such prices greater than their nominal values.

Each share has one 1 voting right.

The Issued Capital of the Company is TL 3.090.000.000,00 (three billion and ninety million Turkish Liras), all of which is paid. This capital is composed of 309.000.000.000 (three hundred and nine billion) shares each with a nominal value of 1 Kuruş (One Kuruş).

Shares representing the capital shall be traced in records in accordance with the basis of dematerialization.

This capital is divided into Group A and B shares. Out of such shares, 1 (one) registered share corresponding to the capital in the amount of 1 Kr (one Kuruş) shall constitute the Group A, and 308.999.999.999_ (three hundred and eight billion nine hundred and ninety-nine million nine hundred and ninety-nine thousand nine hundred and ninety-nine) shares corresponding to the capital in the amount of TL 3.089.999.999,99 (three billion eighty nine million nine hundred and ninety-nine thousand and nine hundred ninety-nine Turkish liras and ninety-nine Kuruş) shall constitute the Group B.

A beneficial right is to be established on the Group A shares in the name of the Directorate of Privatization Administration, which shall be valid until otherwise decided by the High Board of Privatization. All voting rights pertaining to the Group A shares shall be exercised by the beneficial owner ("beneficial right").

Board of Directors:

Article 10- Company's business and management is governed by the Board of Directors.

Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly of Shareholders among shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law.

The number and the qualifications of the independent members that shall take office in the Board of Directors are determined according to the regulations of Capital Market Board regarding corporate management.

General Assembly of Shareholders determines the number of members to be selected for Board of Directors in such a manner to ensure the members to perform effective and creative activities, to take quick and rational decisions and efficiently organize their activities as well as formation of committees.

As the General Assembly of Shareholders can select the members of Board of Directors fully or partially among the candidates shown by the same legal entity acting as the Company's partner, legal entities acting as the Company's partners can be represented by multiple members at Board of Directors.

One of the members to the Board of Directors is appointed by the General Assembly of Shareholders among the candidates to be nominated by Privatization Administration as the beneficial owner to represent the Group A shares.

Term of Board of Directors:

Article 11- Members of Board of Directors are appointed for one year, and those for whom the term of election has expired may be re-elected. In case of vacancy in a position of a member for any reason, the Board of Directors shall appoint someone with the qualifications stipulated in Turkish Commercial Code, Capital Markets Board legislation and the present Articles of Association temporarily for this position, and submit to the approval of first coming General Assembly of Shareholders. So the elected member completes the former member's post term.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

General Assembly of Shareholders is entitled to change members of the Board of Directors whenever it deems necessary.

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 beneficial owner to represent the Group A shares.

Meetings:

Article 12- Board of Directors gathers at the corporate headquarters or at another location upon the resolution of Board of Directors at least six times a year or whenever deemed necessary for the Company's business. Should no negotiation is requested on the issue, the resolutions may be passed by receiving the written consent of the members without holding a meeting. Board of Directors elects a chairman and a vice chairman to act as proxy in his absence among the members during the first meeting of each year. 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 gathers with participation of 3 persons when 5 members are available, 4 when 7 are available, and 5 when 9 are available. In other circumstances, the quorum for meeting is one plus half of the full number of members. Resolutions of Board of Directors are entered into the official minutes book. It is also signed by the chairman and the members. Without prejudice to the rights conferred upon the Group A by the article 22 of the present Articles of Association; Board of Directors may grant all or some part of the authority of representation and administration to one or several executive directors who are also the members of Board of Directors other than independent board members.

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 representative of the beneficial owner 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 41 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the representative of the beneficial owner to represent the Group A shares.

The member of Board of Directors representing the beneficial owner 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 selected among the candidates to be shown by that representative.

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 shall be sought.

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 representing the beneficial owner.

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.

It's mandatory that the member of Board of Directors representing the beneficial owner also casts an affirmative vote on resolutions to be passed concerning the rights granted to the Group A shares.

BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29

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 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 subsidiary transactions of the company as well as the transactions for giving security and establishing pledge and mortgage in favor of third persons.

Committees:

Article 19 – The provisions of the related legislation are applied regarding the formation, duties and working principles of the committees that the Board of Directors is obliged to establish under the related legislation as well as their relations with the Board of Directors.

Announcement:

Article 33 - Announcements pertaining to the Company shall be made through a daily newspaper published in the location where the principal office of the Company is situated without prejudice to the provisions of Turkish Commercial Code.

Regarding the General Assembly meetings, it is observed the terms and principles for the announcements provided for in the applicable Turkish Commercial Code and Capital Markets Board Corporate Management Principles.

In the official web site of the company, besides the notices and explanations that the company is required to make as per legislation, it is also included the matters stipulated in the Corporate Management Principles of Capital Markets Board.

The Capital Markets Board arrangements concerning the announcements to be made are reserved.

For announcements pertaining to capital decrease and liquidation, provisions of Turkish Commercial Code and capital markets legislation are applied.

7. The Nature and Amount of Issued Capital Market Instruments

In accordance with the decision of the Board of Directors dated 15.02.2012 and numbered 9111, it was decided to raise the paid up capital from TRY 2.150.000.000, to TRY 3.090.000.000, by an increase of TRY 940.000.000, 43,7209% of the consisting paid up capital. Registration and publication of the Capital Market Board document dated 12.04.2012 and numbered 1061 has been completed with the publication of Turkish Trade Registry Gazette dated 17.04.2012 and numbered 8050.

8. Main Factors that Effect the Company's Performance, Significant Changes Occurring in the Environment the Company Operates in and the Policies Executed by the Company in Return, Policy of Investment and Dividends the Company Executes to Enhance the Company's Performance

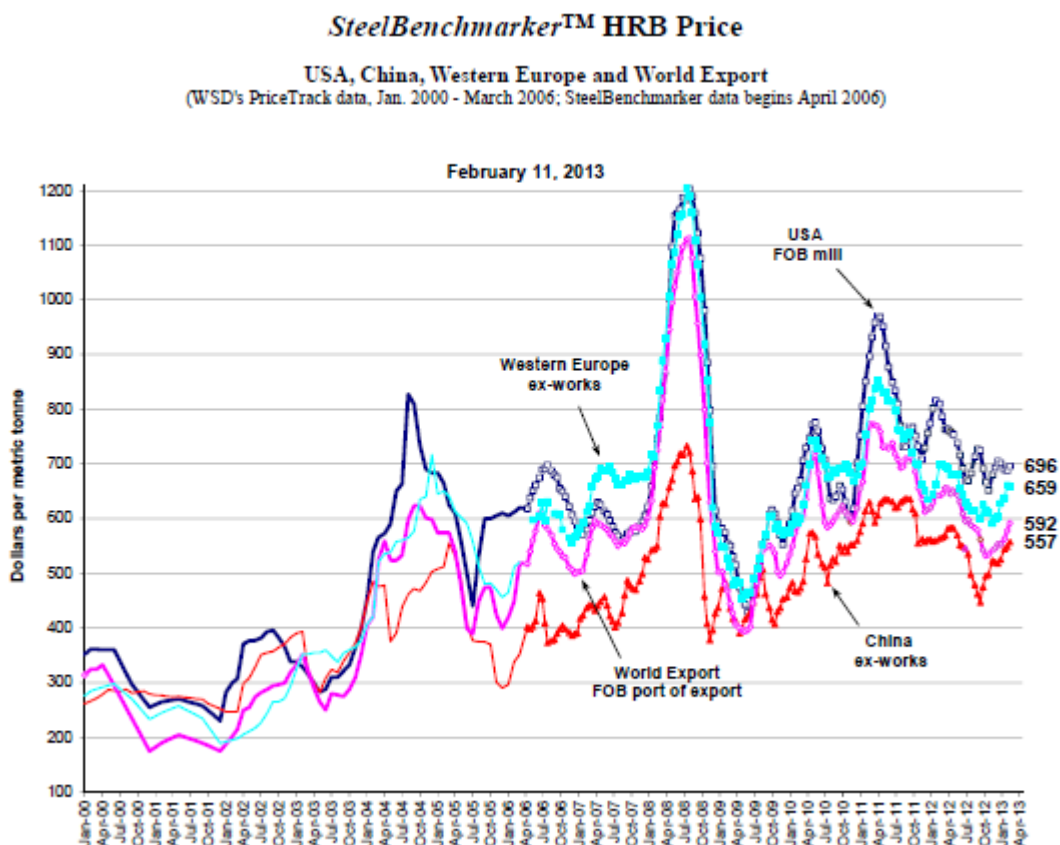
While no significant changes occurred in the environment the company operates in, the effects of developments in neighboring countries to Erdemir Group are measured and necessary precautions are taken. Information in relevant subjects are given in other sections of the Report.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29**

9. Information about the sector

The world crude steel output in 2012, reached 1.55 billion mt, increasing by 1.2 percent on year-on-year basis, hitting a new record for global crude steel production. In 2012, crude steel output in Asia amounted to 1 billion mt, up 2.6 percent, with 716.5 million mt produced by China, up 3.1 percent, 107.2 million mt produced by Japan, down 0.3 percent, and 69.3 million mt produced by South Korea, up 1.2 percent - with all comparisons on year-on-year basis. The Asia region's share of world steel production increased slightly from 64.5 percent in 2011 to 65.4 percent in 2012. EU-27 countries produced 169.4 million mt of crude steel in 2012, down 4.7 percent compared with 2011. In 2012, Germany's output was 42.7 million mt, down by 3.7 percent year on year, Italy's crude steel output was 27.2 million mt, down 5.2 percent year on year, and Spain's crude steel output was 13.6 million mt, down 12.1 percent year on year. The CIS registered a crude steel output of 111.3 million mt in 2012, down 1.2 percent year on year. In North America in 2012, crude steel output reached 121.9 million mt, up 2.5 percent year on year. Meanwhile, crude steel output in South America in 2012 declined to 46.9 million mt, down by three percent year on year. In December 2012, the average capacity utilization of steel mills across the globe was 73.2.

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



Turkey produced 35.9 million metric tons of crude steel in 2012, with a 5.2 percent increase over 2011, ranking the eighth largest crude steel producer in the world, rising from 10th place in 2011. Turkey has produced 35.9 million tons of crude steel in 2012, out of 26.6 million tons have been produced in electrical arc furnaces while 9.3 million tons have been produced in integrated plants.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

10. The Position of Erdemir Group within the Sector

Erdemir Group's production in 2012 has been expanded to 7.867 million tons. In 2012, the crude steel production in Ereğli Plant has decreased by 4% because of Blast Furnace No.2 relining and went down to 3,236,162 tons while the crude steel production in İskenderun went up to 4,630,531 tons with an increase of 12.9%.

11. Research and Development Activities

Homologation studies and industrial trial tests in Ereğli Iron and Steel Works Inc continued in accordance with the demands of leading companies of the automobile industry within the period. After getting successful results from homologation and trial tests, special steel qualities were developed for the companies and presented to the market. The first steps have been taken towards the establishment of an R&D center and the core team has been formed.

12. 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, Ereğli Steel Service Center projects' contracts for all lines were signed and the site activities are continuing. Tender studies related to 'Blast Furnace Top Pressure Recovery Turbines' projects have currently been in progress. 'Air Separation Plant No.7', 'New Turbo Blower' and 'TinCal Automation Modernization' project's main contracts were signed; engineering and construction works were initiated. 'Modernization activities aiming the replacement of Combined Rolling Mills at Hot Strip Mill No.1' has been completed and 'Investments in BOF and Continuous Casting Facilities in accordance with reline' is almost completed.

On the other hand, in İskenderun Facilities; 'Modernization of the Coke Oven Battery No.4', 'Harbor Investments', 'Environmental Investments' and "Alternative Reladling Pit, Changing Crane Girders" and "Hot Slitting Line" projects are in progress. 'Improvement of Desulfurization' and 'Development of Existing Coil Stock Yard' projects have been completed.

Total investments (except the routine fixed asset expenditure) in Ereğli and İskenderun plants in 2012 amount to USD 151.492.073 as of 31 December 2012 (31 December 2011: USD 163.135.072).

13. Government Grants

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

(TRY)	1 January - 31 December 2012	1 January- 31 December 2011
Research and Development Grant	678.942	821.679
Social Security Grant	500.839	460.792
Total	1.179.781	1.282.471

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

There is an investment incentive right of the Group amounting to TRY 204.883.114 with indefinite useful life, deductible in the next periods within the concept of the law numbered 5479, article 2 which repealed the 19th article of Income Tax Law (ITL) as of 1 January 2006 (31 December 2011: TRY 46.016.899).

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29****14. Developments Regarding the Plants**

The financial risks in the Euro Area stills stay as number one topic in the agenda. The leaders of the Euro Area insisted on their commitment to keep Greece in the common currency. Another major development in the Euro Area was at the banking system. The leaders showed the sign of an approval for a unified control mechanism after accepting the recovery fund for Spanish banks. However, the industrial production of the region continues to decline. Decreasing industrial production and recession have led record-breaking unemployment rates.

Presidential election was the most important item of US agenda in the last quarter. After a short-relief provided by Barack Obama's re-election; markets passed last months of 2012 under the threat of fiscal cliff. Despite the negative effects of fiscal cliff, U.S. economy continued its positive trend. The country's unemployment fell rapidly and the housing market, considered one of the most positive indicators of the economy made progress. On the other hand U.S. still has a high level of unemployment rate. FED keeps supporting the economy in order to reduce the unemployment rate and to cool financial markets by taking actions.

In the last quarter, China's economy kept global markets under its influence as well as the whole of 2012. The incentives, in order to support the economy, declared by the acceded new government relieved the markets in the last months of the year. In spite of the conflicting data; the expectations for a better economy in 2013 are very high. The country's expenditures remained under pressure in 2012 and spending delayed to 2013 is expected to support high growth potential of the country's economy.

Despite the negative developments in neighboring countries; Turkey continued to grow with the effect of increasing exports. On the other hand, the growth rate is expected to be slightly below the previous estimates; far below the high level captured in 2011. However, upgraded credit ratings, decreased unemployment rate and improved balance deficit were extremely positive developments in 2012. Turkey is expected to show a better performance in 2013.

According to the WSA data, Turkey produced 35,9 million tons of crude steel in 2012 and increased its production by 5,2% compared to 2011. Turkey climbed to the eighth place in the ranking of top 10 steel producers with the highest growth rate of all.

Apparent steel use in European Union is expected to decline by 5.6% in 2012, and no recovery is expected in 2013 as per the recent developments. Consequently, European Parliament calls the Commission for an action plan in order to preserve the industrial heritage of Europe and the workforce involved. Besides the negative environment in EU, WSA estimates a 3,2% increase in the global apparent steel use.

Turkish Iron and Steel Producers Association (TISPA) reported that consumption of flat and long finished products increased 5.6% in 2012 and reached 28.5 million tons. The consumption of flat finished steel products reached to 13.6 million tons with a 3.1% increase and long finished steel products reached to 14.8 million tons with a 7.9% increase.

Erdemir Group increased its total flat product sales volume by 3% and reached to 6 million tons level. Group's domestic flat product sales volume by 13% and reached to 5.4 million tons level; whereas, as a result of the slowdown in North African and European markets, export volume shrunk by 44% and realized as 592 ktons. It is estimated that ERDEMIR Group increased its market share and reached to 34%.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29**

ERDEMİR Group increased its total long products sales volume by 86% and reached to 1.47 million tons level. While domestic shipments increased 54% compared to the previous year; the export shipments of long products increased more than two times of 2011 and reached 481 ktons. It is estimated that ERDEMİR Group market share in wire rods products is 23%.

15. 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		

16. Production Plants and Productivity

The information about the capacities of main product groups by Ereğli Iron and Steel Works Inc. are stated below:

	1 January- 31 December 2012	1 January- 31 December 2011
	C.U.P. (%)	C.U.P. (%)
Liquid Steel	86	90
Tinplate	95	91
Galvanized	102	107
Cold Rolled	80	83
Hot Rolled	70	73
Plate	82	82

The information about the capacities of main product groups by İskenderun Iron and Steel Works Co. is stated below:

	1 January- 31 December 2012	1 January- 31 December 2011
	C.U.P. (%)	C.U.P. (%)
Liquid Steel	90	80
Billet	62	33
Wire Rod	115	89
Hot Rolled	68	67

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

17. Production (quantity)

Final Products (000 Tons)	1 January - 31 December 2012	1 January - 31 December 2011
Erdemir	3.631	3.771
Isdemir	3.871	3.142
Ermaden	2.832	2.862

18. Developments Regarding Sales

ERDEMİR Group's investments made in recent years, new organizational structure, customer-oriented approach and sustainable growth trend were noticed in the international area and, World Steel Dynamics (WSD), one of the world's most respected research companies in steel business, has rated the Erdemir Group as a first-class steel producer.

In the last quarter of 2012, major progress is taken at the conducted projects. We started to collect orders for the slitting line of the new modern steel service center to be commissioned at Ereğli. Moreover, trapezium and multiblanking lines will be commissioned in the first quarter of 2013. Another great improvement has achieved at Customer Relationship Management (CRM) project. CRM system is planned to be put in operation in the first quarter of 2013.

The sales executives and regional representatives continued and increased their planned customer visits in order to increase customer loyalty. In the third quarter of 2012, in addition to the regional customer meetings, sector-specific meetings have also been organized for the customers in panel radiator and automotive industries.

Our dynamically managed product mix has been improved with renewals and additions coming from end-user oriented quality and product development studies for fulfillment of customer needs. In 2012, 29 steel qualities and 9 new product sub-groups are added to our product range.

Also feasibility studies, regarding investments for the continuous improvement of service quality delivered by ERDEMİR Group, are carried on at full speed.

Sales (quantity)

Final Products (000 Tons)	1 January - 31 December 2012	1 January - 31 December 2011
Erdemir	3.695	3.539
Isdemir	3.797	3.108
Ermaden (*)	2.895	2.904

(*) 2.479 thousand tons of Ermaden's sales are to Group Companies as of 31 December 2012. (31 December 2011: 2.629 thousand tons).

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

19. Indicators and Ratios

Financial statements are prepared in accordance with the CMB's Communiqué Serial:XI, No:29 and have been audited as of 31 December 2012 and 31 December 2011.

Summary of Balance Sheet

(TRY)	(Audited)	(Audited)
	Current Period	Previous Period
	1 January - 31 December 2012	1 January - 31 December 2011
Current Assets	5.854.230.082	6.024.733.105
Non-current Assets	7.287.190.543	7.365.849.568
Total Assets	13.141.420.625	13.390.582.673
Current Liabilities	2.880.173.816	2.470.408.918
Non-current Liabilities	2.845.334.724	3.632.625.683
Shareholders' Equity	7.415.912.085	7.287.548.072
Total Liabilities	13.141.420.625	13.390.582.673

Summary of Income Statement

(TRY)	(Audited)	(Audited)
	Current Period	Previous Period
	1 January - 31 December 2012	1 January - 31 December 2011
Sales Revenue	9.570.396.709	8.920.544.781
Operating Profit	682.678.306	1.725.144.839
Profit from Continuing Operations Before Taxation	645.450.240	1.297.013.448
Profit for the Period (*)	454.749.480	1.039.128.177
EBITDA	1.026.390.990	2.038.703.114
Earnings Per Share	%13,73	%32,54

(*) Shareholder's share in the net profit for the period is TRY 424.181.040 in December 2012 (December 2011: TRY 1.005.562.503).

Key Ratios

(%)	1 January - 31 December 2012	1 January - 31 December 2011
Operating Profit Margin	7,1	19,3
Profit Margin	4,4	11,3
EBITDA Margin	10,7	22,9

20. Collective Labor Agreement Applications and the Benefits

23rd Period Collective Labor Agreement, which had been valid between 01.09.2010 - 31.08.2012, was signed on May 5, 2011 between the Turkish Employers' Association of Metal Industries (MESS) on behalf of our company and the Turkish Metalworkers Union as the collective bargaining agency. There has been no progress in collective labor agreement process since 31.08.2012.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

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

Bereavement allowance (in the case the worker dies), meal allowance, and transportation 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, 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.

Provision for employee benefits on 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Employee Termination Benefits	265.082.814	199.372.291
Seniority Incentive Premium	18.896.395	18.750.643
	283.979.209	218.122.934

The number of the personnel on 31 December 2012 and 31 December 2011 are as follows:

	31 December 2012	31 December 2011
Monthly paid personnel (A)	3.180	3.368
Hourly paid personnel (B)	9.096	8.640
Candidate worker (C)	675	1.293
Contractual personnel (D)	18	20
Contractual personnel (Contractor)	76	112
TOTAL	13.045	13.433

21. Shareholding and Capital Structure

Authorized Capital : TRY 7.000.000.000
Paid-in Capital : TRY 3.090.000.000

Shareholders	Shares (TRY)	%
Ataer Holding A.Ş.	1.522.913.196	49,29
Publicly Held	1.471.882.268	47,63
Erdemir's Own Shares	95.204.536	3,08
Total	3.090.000.000	100,00

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29****22. Dividend Distribution Policy**

Erdemir Groups' Dividend Distribution Policy is as follows:

"Clause 37 of our Articles of Association titled "Determinaton and Distribution of the Dividend", which is drafted in accordance with Capital Market Board's respective regulations, explains the procedure and the merits of our dividend distribution.

Our Company tries to balance the financial burden of the investments with our shareholders' expectations for corporate governance in determining the ratio of the cash or bonus shares to be distributed from the net distributable profit of the period calculated according to the aforementioned clause of our Articles of Association and legislation, without ignoring Capital Markets Board's compulsory minimum distribution ratio, and aims to distribute the maximum dividend that the financial leverage ratios allow.

As stated above, in the determination and distribution of the dividend, Our Company abides by Capital Markets Board's regulations, distributes dividends within the legally specified periods, and informs shareholders at General Meetings about every issue regarding dividend distribution."

23. 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.

24. 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.

In the calculation of Group's currency risk, the Value at Risk (VaR) is calculated by using the parametric method arising from the consolidated foreign currency position including derivative financial instruments. Based on this method; the effects of changes in currency rates on the foreign currency position are determined. Since there are no stock portfolios and interest bearing treasury products among assets, the Value at Risk related to interest rates and equity prices is not calculated. After evaluations, the committee provides valid precautions to be taken. The calculations of Value at Risk are supported by stress tests and scenario analyses. The testing of potential losses in extraordinary market conditions helps the determination of the Group financial strategies.

Almost all of our receivables are guaranteed with the Direct Debit System and the Credited Direct Collection System. Risk positions of our customers are monitored daily 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.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

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. According to firm and market situation, derivative instruments are recommended to executives and also bank offers are analyzed for compliance test.

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

Financial valuation and technical assessment report of investments is presented to the Consolidation and the Group Risk Management Center. According to the investment amount and duration of investment, production and sales volumes, the expected net cash flows of the project, the net present value, internal rate of return and Payback Period, Consolidation and Group Risk Management Center evaluates the results of the financial affairs and reports to Finance Coordinator. Investment advices not approved by Consolidation and Group Risk Management Center will not be offered to the Board of Directors.

25. 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	2012 Share %	2011 Share %
İskenderun Demir ve Çelik A.Ş.	Turkey	Iron and Steel	92,91	92,91
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	Iron and Steel	100,00	100,00
Erenco Erdemir Müh. Yön. ve Dan. Hiz. A.Ş.	Turkey	Management and Consultancy	100,00	100,00
Erdemir Romania S.R.L.	Romania	Iron and Steel	100,00	100,00
Erdemir Lojistik A.Ş.	Turkey	Logistics Services	100,00	100,00

Erdemir Gaz San. ve Tic. A.Ş. as disclosed in non-current financial investments is excluded from consolidation, as it has not been dormant operating since its establishment and as it does not significantly affect the consolidated financial statements of the Group.). In the Extraordinary General Meeting of Erdemir Gaz San. ve Tic. A.Ş. dated 7 May 2012, liquidation of the Company has been decided.

In the General Meeting of Erdemir Lojistik A.Ş. dated 8 June 2012, the merger of the Company with Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. has been decided. Merger operations are completed as of 13 February 2013. This merger had no impact on the financial position of the Group.

The consolidated financial statements incorporate the financial statements of the Group and its subsidiaries controlled by the Group. This control is normally evidenced when Group is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Subsidiaries

The companies which the Group, directly or indirectly, has above 50% ownership interest or 50% voting rights or has power to exercise control on operations, have been fully consolidated. If the Group has the power to govern the financial and operating policies of the subsidiaries for its own benefit, control is deemed to present.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The accounting policies of the subsidiaries consolidated are changed and aligned with the Group's accounting policies when necessary. All significant transactions and balances between the Company and its subsidiaries are eliminated during consolidation.

When the Group purchases a company, the assets and liabilities of the relevant subsidiary are measured at their fair values at the date of acquisition. The amount of the non-controlling interest shares is obtained by the calculation of the fair values of assets and liabilities with respect to the proportion of the non-controlling interest. The operational results of subsidiaries are included or excluded from consolidation according to their effective dates of acquisition and disposal, respectively.

Non-controlling interests in the net assets of the subsidiaries included in consolidation, appears as a separate item in Group's equity. Non-controlling interests consist of non-controlling party's amount that already exists as of the first acquisition date and the amounts take place during the changes in the parent company's equity related to non-controlling interest after the first acquisition date. Losses of the non-controlling interests are distributed to the shares of the non-controlling interests. The equity and net income attributable to non-controlling interests are shown separately in the consolidated balance sheet and income statement, respectively.

26. Organizations Out of the Headquarters

None.

27. Donations Made

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

(TRY)	1 January- 31 December 2012	1 January- 31 December 2011
Cooperative Activities with Public Institutions and Organizations	499.971	681.095
Education and Training Activities	751.725	1.640.075
Volunteer Studies and Cooperative Activities for Charities	226.620	180.326
Cooperative Activities with Foundations, Associations, Organizations, Institutes	42.573	29.919
Sportive Activities	4.000	-
Cultural and Artistic Activities	29.429	10.500
Health-Benefit and Financial Support Activities	445	290
Total	1.554.763	2.542.205

28. Information about Administrative Sanctions and Penalties Inflicted on the Company and Members of the Board due to Practices Contrary to Legislation

None.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29****29. Information About Ongoing Lawsuits Filed Against the Company and Possible Conclusions**

The Company, prepared its interim consolidated financial statements as of 31 March 2005, 30 June 2005 and 30 September 2005 according to CMB's Communiqué Serial XI No 25 on "Accounting Standards to be implemented in Capital Markets" which is not in effect today, whereas its consolidated financial statements of 31 December 2005 was prepared according to International Financial Reporting Standards by virtue of the Article 726 and Temporary Article 1 of the aforementioned Communiqué, and CMB's letter no. SPK.017/83-3483 dated 7 March 2006, sent to the Company Management. The aforementioned Communiqué (Serial XI No. 25 on the "Accounting Standards to be implemented in Capital Markets"), and Communiqués inserting some provisions thereto together with the Communiqués amending it, became effective starting with the consolidated financial statements of the first interim period ending after 1 January 2005.

CMB asked the Company to prepare its consolidated financial statements of 31 December 2005 all over again according to the same accounting standards set used during the period, to publish those statements, and to submit them to the General Assembly Approval as soon as possible, by stating on its decision no. 21/526 dated 5 May 2006 that the Company's changing the accounting standards set used during the term (Serial XI, No 25) at the end of the same term (IFRS) caused decrease amount of TRY 152.329.914 on the period income.

The Company challenged the aforementioned decision before the 11th Administrative Court of Ankara (E. 2006/1396). This lawsuit was rejected on 29 March 2007, but the Company appealed this rejection on 11 September 2007. 13th Chamber of the Council of State rejected the appeal on 12 May 2010; however the Company also appealed this rejection on 2 September 2010. However, 13th Chamber of the Council of State also dismissed this appeal against rejection on 6 June 2012 with its decision No. E. 2010/4196, K. 2012/1499. This decision was notified to the Company's lawyers on 16 July 2012.

CMB, prepared the Company's consolidated financial statements as of 31 December 2005, which had been prepared according to the IFRS, by adding the negative goodwill of TRY 152.329.914, that had previously been added to the accumulated earnings, to the profit of 2005 on its own motion and account, and published them on Istanbul Stock Exchange Bulletin on 15 August 2006; with the rationale that the Company had not fulfilled its due demand on grounds that "Article 726 and Temporary Provision 1 of CMB's Communiqué Serial XI, No. 25 authorize the use of IFRS on consolidated financial statements of 2005, although CMB had given the Company a 'permission' No. SPK.0.17/83-3483 of 7 March 2006, and the lawsuits regarding this issue are still pending". The Company challenged CMB's aforementioned decision by a separate lawsuit on 10 October 2006. 11th Administrative Court of Ankara rejected this case on 25 June 2007. The Company appealed this rejection 11 October 2007; 13th Chamber of the Council of State, accepted the appeal request and abolished the rejection judgment. CMB appealed the Chamber's decision on 6 September 2010. 13th Chamber of the Council of State accepted CMB's appeal and reverted its previous abolishment decision, and ratified 11th Administrative Court of Ankara's judgement by the majority of the votes on 30 May 2012 with its decision no. E. 2010/4405; K. 2012/1352. This decision was notified to the Company's lawyers on 20 July 2012.

In the meeting no. 29/1110 dated 7 December 2008, CMB imposed administrative fine upon management of the Company as the Company did not obey the decision of CMB dated 2 December 2006 asking the Company to restate its consolidated financial statements of 31 December 2005. The Company appealed against the administrative fine. Ankara 1. Criminal Court of Peace accepted the appeal request with its decision no. 2006/1480 dated 7 July

BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29

2009. CMB appealed this decision. However, this time Ankara 3. High Criminal Court rejected CMB's appeal request with its decision no. 2009/320 dated 10 August 2009 and the rejection decision is final and definite.

Consequently, the decisions given by two different courts conflicted with each other.

In 1 August 2012, the Company applied to 11th Administrative Court of Ankara to remove the decision conflict of these courts by adopting Ankara 1. Criminal Court of Peace's decision no. 2006/1480 dated 7 July 2009 instead of decisions no E.2006/2548, K.2007/1071 dated 25 June 2007 and no. E.2006/1396, K.2007/494 dated 29 March 2007.

Meanwhile, 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 were 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 35.673.249 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).

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 2012 and 31 December 2011 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 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 result of its claim about removal of decision conflict and 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 68.312.520 USD 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. Therefore the case is still pending (E. 2013/17) before the 7th Commercial Court of Ankara and the next court hearing is on 11 April 2013.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

30. Information about Amendments in Legislation That May Significantly Affect the Company's Activities

None.

31. 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.

32. Social Rights of Employees, Professional Training and Other Activities of the Company that Cause Communal and Environmental Consequences

As Erdemir Group training policy; with the belief that the Company's most important asset towards building a stronger presence is well-qualified manpower, to equip all personnel with the competence to meet present and future requirements educational plans are prepared and applied in the relevant period. Professional training activities in Erdemir are to reach the goals in Erdemir Strategic Business Plan. Annual Training Plan is prepared in accordance with the yearly objectives of the Company. The trainings that are planned should supplement and regard the fundamental principles of Quality, Occupational Health and Safety, Environment and Energy Management Systems in "Erdemir Management Systems Policy". While preparing and implementing the Training Plans; the issues of improving team skills, forming new educational opportunities and enhancing the work experience of the personnel are taken into consideration. Educational Programs contribute to the development of the Company's performance based on products, services and processes.

Wide range of facilities such as lodging, guesthouses, cultural centers, cafes and restaurants, beaches and swimming pools, outdoor and indoor tennis courts, fitness centers, stadiums, day nurseries continued to serve to strengthen the communication between Erdemir Group employees and their families, to raise their motivation and enrich their social lives. Cooperation was maintained with public bodies and institutions, nongovernmental organizations, universities and industrial corporations; internship opportunity was offered to university and vocational college students. Group Companies actively attended fire, flood etc. rescue operations in their region with their teams and equipment.

Erdemir Group adopted the principle of sustainable development to meet the requirements of existent and future generations and has set social improvement to meet everyone's needs, protection of natural resources and the environment we live in, technological development and supplying stabilized employment as its main purpose. Erdemir was deemed worthy of one of the most prestigious awards of European Union Environment Awards in the category of management in the Turkey Program in year 2006, where the institutions with strategic vision and that continuously improves their contribution to sustainable development are evaluated. Erdemir made the total of 400 million \$ investment on environment up to the day.

Assistance to Turkey for the United Nations Conference on Sustainable Development 2012 (Rio+20) preparations in the context of selection process for the Best Practices in Turkey in Sustainable Development and Green Economy 2012 application have been made with Erdemir Environmental Management System, Environmental Performance Index and Sustainability Activities and received an award.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29**

33. Information About Approval Given by the Board to Controlling Shareholders, Board Members, Executive Management and Relatives up to the Second Degree to Make Transactions and Get into Competition with the Company or Its Subsidiaries That May Cause Conflicts of Interest

None.

34. Information About the Report on the Conditions and Market Comparison of Transactions That Amount to 10% or more of the Total Assets or Gross Sales in Annual Financial Statements in Accordance with the Capital Markets Board Legislation

None.

35. Information for Shareholders

None.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

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

Board of Directors	Title	Titles out of the Company
ATAER Holding A.Ş. Representative - Fatih Osman TAR	Chairman and Executive Director	- İskenderun Demir ve Çelik A.Ş. – Chairman/Executive Director - Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. – Chairman
OYAK Girişim Danışmanlığı A.Ş. Representative - Nihat KARADAĞ	Deputy Chairman and Executive Director	- İskenderun Demir ve Çelik A.Ş. – Chairman/Executive Director - Akdeniz Kimya San. ve Tic. A.Ş.- Chairman - Akdeniz Kimyasal Ürünler Pazarlama İç ve Dış Tic. A.Ş.- Chairman - OYAK Yatırım Menkul Değerler A.Ş. – Chairman - HEKTAŞ Ticaret T.A.Ş.– Chairman - TUKAŞ Gıda San. ve Tic. A.Ş.– Chairman
Turkish Privatization Administration Representative - Mehmet SARITAŞ	Board Member	- General Directorate of Public Accounts - General Manager - İller Bankası A.Ş. – Board Member
OMSAN Lojistik A.Ş. Representative - Dinç KIZILDEMİR	Board Member and Executive Director	- İskenderun Demir ve Çelik A.Ş. – Deputy Chairman/Executive Director - Erdemir Madencilik San. ve Tic. A.Ş.– Chairman - ERDEMİR Lojistik A.Ş. – Chairman - ERDEMİR Romania SRL – Chairman - OYAK Birleşik Enerji A.Ş.- Chairman - Ayas Enerji Üretim ve Ticaret A.Ş.– Chairman - İskenderun Enerji Üretim ve Ticaret A.Ş. – Deputy Chairman - Akdeniz Kimya San. ve Tic. A.Ş.- Board Member - Akdeniz Kimyasal Ürünler Pazarlama İç ve Dış Tic. A.Ş.- Board Member - OYAK Elektrik Enerjisi Toptan Satış A.Ş.- Chairman - OYAK Pazarlama Hizmet ve Turizm A.Ş.- Chairman - OYAK Girişim Danışmanlığı A.Ş.- Chairman

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

Board of Directors (cont'd)	Title (cont'd)	Titles out of the Company (cont'd)
OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. Representative - Ertuğrul AYDIN	Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Board Member - Ayas Enerji Üretim ve Ticaret A.Ş.– Board Member - İskenderun Enerji Üretim ve Ticaret A.Ş. – Board Member - OYAK Girişim Danışmanlığı A.Ş. – Board of Auditors Member - OYAK Anker Bank GmbH – Supervisory Committee Member - ATAER Holding A.Ş. – Deputy Chairman
OYAK Pazarlama Hizmet ve Turizm A.Ş. Representative - Fatma CANLI	Board Member	<ul style="list-style-type: none"> - İskenderun Demir ve Çelik A.Ş. – Board Member - Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. – Deputy Chairman - OYAK Anker Bank GmbH – Supervisory Committee Member - OYAK Birleşik Enerji A.Ş.- Board Member - OYAK Renault Otomobil Fabrikaları A.Ş. – Board of Auditors Member - Ayas Enerji Üretim ve Ticaret A.Ş.– Board Member - Akdeniz Kimya San. ve Tic. A.Ş.- Board Member - İskenderun Enerji Üretim ve Ticaret A.Ş. – Board Member - MAİS Motorlu Araçlar İmal ve Satış A.Ş. – Board of Auditors Member - Vize Agregası Asfalt Madencilik Sanayi ve Ticaret A.Ş. – Chairman - Marmara Madencilik San. ve Tic. Ltd. Şti. – Board Member - Aslan Çimento Health, Educational and Cultural Foundation – Chairman
Ali Aydın PANDIR	Board Member – Independent Member	TOFAŞ Board Member
Nazmi DEMİR	Board Member – Independent Member	<ul style="list-style-type: none"> - Head of Bilkent University Banking and Finance -Academic Member of Bilkent University - Economics
Atilla Tamer ALPTEKİN	Board Member – Independent Member	<ul style="list-style-type: none"> - 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

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

Executive Management	Title	Titles out of the Company
ATAER Holding A.Ş. Representative - Fatih Osman TAR	Chairman and Chief Executive Officer (Proxy)	- İskenderun Demir ve Çelik A.Ş.- Chairman/Executive Director - Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. – Chairman
Esat GÜNDAY	Executive Vice President (Operations)	- Erdemir Romania S.R.L. – Board Member
Kaan BÖKE	Executive Vice President (Human Resources and Administrative Affairs)	
Bülent BEYDÜZ	Chief Financial Officer	
Sami Nezih TUNALITOSUNOĞLU	Executive Vice President (Finance)	- World Steel Association Economic Committee Member
Ahmet Samim ŞAYLAN	Executive Vice President (Procurement)	- Turkish Iron and Steel Producers' Association – Board Member - Turkish Iron and Steel Producers' Association – Advisory Board Member - MESS Educational Foundation – Board Member
Mustafa Ayhan KALMUKOĞLU (by proxy)	ERDEMİR Group Marketing and Sales Coordinator	- Steel Exporters' Association – Board Member - Foreign Economic Relations Board - American Business Council Member
Mehmet Mücteba BEKCAN	Executive Vice President (Technical Services and Investments)	- ERDEMİR Foundation – Chairman
Öner SONGÜL	ERDEMİR Group Information Technologies Coordinator	
Oğuz Nuri ÖZGEN	ERDEMİR Group Production Coordinator	- Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. – Board Member - Turkish Employers' Association of Metal Industries – Board Member - Turkish Employers' Association of Metal Industries – Chairman of Ankara Regional Delegation - Turkish Iron and Steel Producers' Association – Advisory Board Member
Mesut Uğur YILMAZ	ERDEMİR Grup Technology Coordinator	- Turkish Iron and Steel Producers' Association –Board Member - Turkish Iron and Steel Producers' Association – Advisory Board Member

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29****App.2: Corporate Governance Principles Compliance Report****CORPORATE GOVERNANCE AT ERDEMİR**

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. is aware of its responsibilities towards its stakeholders as a pioneer and a leader in Turkish industry and one of the widest publicly-held companies of Turkey. Transparency, management accountability, compliance with ethics and regulations have become the integral parts of corporate management, and ERDEMİR has always fulfilled all of its statutory liabilities in a proper and timely manner.

Our Company assigned personnel having the licenses which are compulsory as per the Capital Market Board Legislation with a view to ensure coordination in increasing the level of commitment to 'Principles of Corporate Governance' and of harmony in fulfillment of its liabilities arising from the Capital Market Legislation.

In 2012, the company had paid strict attention to the compliance of compulsory or optional regulations of Corporate Governance Principles, that was revised in 2011, in which the details are given below. Additionally, in the same period, the company had begun for preliminary preparatory to the compliance for the Communiqué Serial: IV, No: 56 on Principles Regarding Determination and Application of Corporate Governance Principles which was published on official gazette dated 30.12.2011 and numbered 28158 by CMB. An extraordinary General Assembly of the Shareholders was held on 29 June 2012 in order to accept the necessary Executive Board changes including the election of the independent board members and to adopt the required amendments of the articles of association stipulated by the abovementioned Communiqué.

COMPLIANCE WITH PRINCIPLES OF CORPORATE GOVERNANCE**I. RELATIONSHIPS WITH SHAREHOLDERS**

Relationships with our partners, corporate investors and analysts are systematically carried out, supporting the corporate values. For this purpose, meetings are organized with domestic and foreign investors, material disclosures are announced to the public immediately, responsibilities towards regulatory authorities such as ISE and CMB are fulfilled, and questions of our partners, analysts and portfolio managers are forthwith responded.

Request for information coming from our shareholders via telephone and mail within the year, such as stock updates, entry into the registration system, general meeting and dividend distribution; the issues are shared with independent auditors of the company and required answers are provided when and where necessary depending on the nature of information needed.

Our Company's Financial Statement and footnote explanations along with material disclosures are announced to investors in ISE and the public by means of Public Disclosure Platform; and also financial statements and footnotes are published on the company's web site.

Relationships with shareholders are carried out by Investor Relations Department and contact information is available in the annual report and on the company's web page.

Investor Relations Department
E-mail: erdemir_ir@erdemir.com.tr

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

General Assembly:

Ereğli Demir ve Çelik Fabrikaları T.A.Ş. General Meeting is held at least once a year subsequent to the year-end of the Company's accounting period. The meeting date is announced to the Capital Market Board and İstanbul Stock Exchange when ascertained by The Board of Directors. All of our partners are invited to attend the General Meeting via the web site of our Company and press, and are informed about the agenda.

The Annual General Meeting of our Company for the year 2011 was held on 30.03.2012, at which 50,28% of the shares were represented. The balance sheet, income statement, The Board of Directors' and Auditor's Reports as of 2011 were submitted to our shareholders for review at our Headquarters and regional directorate from 15.03.2012 and a copy of these documents was provided upon request.

Our shareholders who wanted to raise their concerns out of the agenda at the Annual General Meeting asked questions about the company's performance and strategies, which were responded to by the Assembly President and related executives under the President's guidance. Minutes of the Meeting and the List of Attendants were released on our Company's web site.

An extraordinary General Assembly of the Shareholders was held on 29 June 2012 in order to accept the necessary Executive Board changes including the election of the independent board members and to adopt the required amendments of the articles of association stipulated by the Turkish Capital Market Board's Communique no Serial: IV No:56 dated 30 December 2011 named "Communique on the Determination and Implementation of the Corporate Governance Principles".

Amendments in the Articles of Association within the Period:

The amendments in the articles of association executed in the extraordinary General Assembly of the Shareholders on 29.06.2012 are as follows:

Capital:

Article 7 – The Company has adopted the Registered Capital System in accordance with provisions of the Capital Markets Law no.2499 as amended by the law no. 3794, and started to use this system with the permission of the Capital Markets Board no. İDİD/150/2416 dated 15.08.1983.

The upper limit of the registered capital of the Company is TL 7,000,000,000.00 (seven billion Turkish Liras) The board of directors may, at any time it may think necessary, increase the capital by means of issuing bearer shares each with a nominal value of 1 Kr (one Kurus) up to the amount of the registered capital, between the years 2012 and 2016, in accordance with the requirements as set forth herein.

The permission granted by the Capital Markets Board in respect of the upper limit of the registered capital is valid for the years between 2012 and 2016 (5 years). Even if the upper limit of the registered capital as permitted is not reached by the end of the year 2016, in order to adopt a resolution for increasing the capital after 2016, the board of directors shall be required to obtain authority from the general meeting of shareholders for a new period by means of gaining permission from the Capital Markets Board for the upper limit preciously permitted or a

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

new upper limit. In case of the failure to obtain such authority, the Company shall be deemed to have quit the registered capital system.

The Board of Directors is authorized to restrict the rights of the shareholders to receive new shares, and also authorized to issue shares at such prices greater than their nominal values.

Each share has one 1 voting right.

The Issued Capital of the Company is TL 3.090.000.000,00 (three billion and ninety million Turkish Liras), all of which is paid. This capital is composed of 309.000.000.000 (three hundred and nine billion) shares each with a nominal value of 1 Kuruş (One Kuruş).

Shares representing the capital shall be traced in records in accordance with the basis of dematerialization.

This capital is divided into Group A and B shares. Out of such shares, 1 (one) registered share corresponding to the capital in the amount of 1 Kr (one Kuruş) shall constitute the Group A, and 308.999.999.999 (three hundred and eight billion nine hundred and ninety-nine million nine hundred and ninety-nine thousand nine hundred and ninety-nine) shares corresponding to the capital in the amount of TL 3.089.999.999,99 (three billion eighty nine million nine hundred and ninety-nine thousand and nine hundred ninety-nine Turkish liras and ninety-nine Kuruş) shall constitute the Group B.

A beneficial right is to be established on the Group A shares in the name of the Directorate of Privatization Administration, which shall be valid until otherwise decided by the High Board of Privatization. All voting rights pertaining to the Group A shares shall be exercised by the beneficial owner ("beneficial right").

Board of Directors:

Article 10- Company's business and management is governed by the Board of Directors.

Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly of Shareholders among shareholders under the provisions of Turkish Commercial Code and Capital Markets Board Law.

The number and the qualifications of the independent members that shall take office in the Board of Directors are determined according to the regulations of Capital Market Board regarding corporate management.

General Assembly of Shareholders determines the number of members to be selected for Board of Directors in such a manner to ensure the members to perform effective and creative activities, to take quick and rational decisions and efficiently organize their activities as well as formation of committees.

As the General Assembly of Shareholders can select the members of Board of Directors fully or partially among the candidates shown by the same legal entity acting as the Company's partner, legal entities acting as the Company's partners can be represented by multiple members at Board of Directors.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

One of the members to the Board of Directors is appointed by the General Assembly of Shareholders among the candidates to be nominated by Privatization Administration as the beneficial owner to represent the Group A shares.

Term of Board of Directors:

Article 11- Members of Board of Directors are appointed for one year, and those for whom the term of election has expired may be re-elected. In case of vacancy in a position of a member for any reason, the Board of Directors shall appoint someone with the qualifications stipulated in Turkish Commercial Code, Capital Markets Board legislation and the present Articles of Association temporarily for this position, and submit to the approval of first coming General Assembly of Shareholders. So the elected member completes the former member's post term.

General Assembly of Shareholders is entitled to change members of the Board of Directors whenever it deems necessary.

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 beneficial owner to represent the Group A shares.

Meetings:

Article 12- Board of Directors gathers at the corporate headquarters or at another location upon the resolution of Board of Directors at least six times a year or whenever deemed necessary for the Company's business. Should no negotiation is requested on the issue, the resolutions may be passed by receiving the written consent of the members without holding a meeting. Board of Directors elects a chairman and a vice chairman to act as proxy in his absence among the members during the first meeting of each year. 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 gathers with participation of 3 persons when 5 members are available, 4 when 7 are available, and 5 when 9 are available. In other circumstances, the quorum for meeting is one plus half of the full number of members. Resolutions of Board of Directors are entered into the official minutes book. It is also signed by the chairman and the members. Without prejudice to the rights conferred upon the Group A by the article 22 of the present Articles of Association; Board of Directors may grant all or some part of the authority of representation and administration to one or several executive directors who are also the members of Board of Directors other than independent board members.

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 representative of the beneficial owner 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 41 of the present Articles of Association without the affirmative vote of the member of Board of Directors as the representative of the beneficial owner to represent the Group A shares.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

The member of Board of Directors representing the beneficial owner 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 selected among the candidates to be shown by that representative.

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 shall be sought.

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 representing the beneficial owner.

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.

It's mandatory that the member of Board of Directors representing the beneficial owner also casts an affirmative vote on resolutions to be passed concerning the rights granted to the Group A shares.

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 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 subsidiary transactions of the company as well as the transactions for giving security and establishing pledge and mortgage in favor of third persons.

Committees

Article 19 – The provisions of the related legislation are applied regarding the formation, duties and working principles of the committees that the Board of Directors is obliged to establish under the related legislation as well as their relations with the Board of Directors.

Announcement:

Article 33 - Announcements pertaining to the Company shall be made through a daily newspaper published in the location where the principal office of the Company is situated without prejudice to the provisions of Turkish Commercial Code.

Regarding the General Assembly meetings, it is observed the terms and principles for the announcements provided for in the applicable Turkish Commercial Code and Capital Markets Board Corporate Management Principles.

In the official web site of the company, besides the notices and explanations that the company is required to make as per legislation, it is also included the matters stipulated in the Corporate Management Principles of Capital Markets Board.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

The Capital Markets Board arrangements concerning the announcements to be made are reserved.

For announcements pertaining to capital decrease and liquidation, provisions of Turkish Commercial Code and capital markets legislation are applied.

Dividend Distribution Policy and Timing:

Our Company's policy on dividend distribution is outlined in article 37 titled 'Calculation and Distribution of Profit'. As for estimation of the rate to be allocated to our shareholders in cash and/or in form of bonus shares from the Net Distributable Profit for the Period estimated according to the legislation in force and to the procedure described in the related clause of the Articles of Association, Our Company aims for maximum distribution of profit to the extent allowed by financial leverage rates in accordance with principles of corporate management, making efforts to balance the financial burden resulting from investment expenditures with the Corporate Management expectations of the partners. Dividend distribution is performed within legal periods and principles regarding dividend distribution are disclosed to the knowledge of shareholders at the General Assembly.

Transfer of Shares:

There is no restriction regarding transfer of our Company's shares, and provisions of Turkish Commercial Code shall be applicable on the issue.

II. PUBLIC DISCLOSURE AND TRANSPARENCY

Our web site includes introductory and important information, financial statements and the corporate governance compliance report both in Turkish and English. An e-mail address is given for investors to submit any questions and requests.

Our Company immediately discloses any progress included in scope of our Company's Material Disclosure Communiqué under the responsibility of being a publicly held company, and continuously updates and discloses any changes and progresses to the public. A total of 48 material disclosures were made by the Company in 2012.

With the ERDEMİR Group Regulation on Principles Regarding Public Disclosure enforced on 03.03.2009 and revised on 14.01.2013, our Company aims to provide equal, concurrent, transparent and accurate information actively to all "stakeholders" such as domestic/foreign shareholders, beneficiaries, investors and capital market institutions regarding the past performance and future expectations of our Company.

Disclosure activities are carried out in compliance with our Company's Disclosure Policy, Capital Markets Legislation, decisions of the Capital Markets Board and other related legislations, and the issues to be explained are disclosed to the public in an exact, correct and timely manner.

In line with this objective; it is essential to ensure that the necessary information and explanations except commercial secrets are forwarded to all beneficiaries including shareholders, investors, employees and customers in a timely, accurate, correct, comprehensible, easy manner at the lowest cost under equal conditions.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

All employees who are able to access to the information which might affect our Company's capital market instruments, disclose to the public any purchase-sales transactions they perform with the capital market instruments issued by the Company.

With a view to inform the public, Company's web site (www.erdemir.com.tr) is actively in use, containing annual assessment messages of the Chairman of the Board of Directors and the CEO, Corporate Governance, Corporate Governance Principles and Management Declaration, Board of Directors, Executive Management, Capital Structure, Trade Registry Information, Articles of Association, Minutes of General Assembly, Information about Golden Share, List of Attendants, Safe Harbour Statement, Stock Price Information, Ratings, Annual Reports, Analyst Meeting Reports and Presentations, Interim Reports, Financial Statements, Summary Information for Investors, Financial and Operational Highlights and ISE Disclosures, Dividend Payments and Capital Increases, Analyst Information, Disclosure Policy and General Assembly Proxy Form under the title of Investor Relations.

III. BENEFICIARIES

Written or verbal information is provided for beneficiaries such as the company's employees, customers, suppliers, labour unions, Non-governmental organizations, government and potential investors, when they request for information on issues concerning themselves in addition to the information available in financial statements and reports disclosed to the public as per CMB (Capital Markets Board).

The Company's employees are informed through monthly released news bulletin and announcements containing company's practices on the intranet.

Improved product qualities and sizes, and any changes to the sales conditions are immediately disclosed to all of our customers with Customer Information Notes. Demands and expectations of our customers are received through customer visits, and new quality improvement activities are carried out depending on the changing demand in the market. Customer complaints are handled accordingly and necessary corrective actions are taken.

Tender method is applied in all domestic goods and service purchases and announced via fax/ e-mail; specifications are announced on the web site of our company. Cooperation activities are in progress for development of manufacturer suppliers in our region.

Our Company exchanges ideas with potential customers and suppliers during its participation in exhibitions.

Opinions and suggestions of our employees are received with ERDEMİR Suggestion System (ERSS) and Performance Management System and necessary improvements and developments are put into effect.

Our Company also fulfills its responsibilities towards the surrounding social environment.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29****IV. BOARD OF DIRECTORS**

Board of Directors consists of minimum 5 and maximum 9 members to be selected by the General Assembly among shareholders under the provisions of Turkish Commercial Code. Members of the Board of Directors are selected for one year. 9 members were selected of which 3 of them were independent at the extraordinary General Assembly of the Shareholders dated 29.06.2012. Our Chairman, Vice Chairman and a member of Board are Managing Directors. In addition, a Member of our Board of Directors was authorized as the Managing Director. The procedure to be followed to assemble the Board of Directors, the quorum for the meeting and the resolution, voting are subject to provisions of Turkish Commercial Code. The Committee in Charge of Audit consisting of 2 members, Early Detection of Risk Committee consisting of 3 members and Corporate Governance Committee consisting of 3 members are constituted within the body of the Board of Directors. Our Company is audited by minimum 1 and maximum 3 auditors to be elected by the General Board for a period of 1 year. 2 auditors were elected at the Annual General Meeting dated 30.03.2012.

8 Meetings of the Board of Directors were held in 2012.

Changes in the Executive Board within the Period

Board member Arzu Hatice ATİK who had been elected as a Board Member on 26.02.2008, resigned on 13.03.2012. Ahmet AKSU was elected to fill this vacancy on the same date. On the Shareholders General Meeting of 30.03.2012 Ahmet AKSU was elected as a member of the Executive Board once again.

At the extraordinary General Assembly of the Shareholders of 29.06.2012, Memberships to the Executive Board were increased from 7 to 9, and a new election was made, and in addition to Fatih Osman TAR, Nihat KARADAĞ, Ahmet AKSU, Dinç KIZILDEMİR, Ertuğrul AYDIN and Fatma CANLI, who were re-elected as Board Members, Ali Husrev BOZER, Nazmi DEMİR and Atilla Tamer ALPTEKİN were also elected as independent members to the Board.

Oğuz Nuri ÖZGEN's membership to the Board, which had been started on 17.07.2006, ended as of the extraordinary General Assembly of the Shareholders of 29.06.2012.

Ali Husrev BOZER, who was elected to the Board as an independent member at the extraordinary General Assembly of the Shareholders of 29.06.2012, resigned on 05.07.2012. Ali Aydın PANDIR was elected as Independent Board Member effective from 20.09.2012 till the first General Assembly instead of Ali Husrev BOZER.

The Members of Board of Directors who were elected at the extraordinary General Assembly of the Shareholders of 29.06.2012; Fatih Osman TAR and Dinç KIZILDEMİR resigned on 11.09.2012, Nihat KARADAĞ and Ertuğrul AYDIN resigned on 12.09.2012, Fatma CANLI resigned on 13.09.2012, Ahmet AKSU resigned on 20.09.2012. Effective from 11.09.2012 ATAER Holding A.Ş. (Represented by Fatih Osman TAR) and OMSAN Lojistik A.Ş. (Represented by Dinç KIZILDEMİR), effective from 12.09.2012 OYAK Girişim Danışmanlığı A.Ş. (Represented by Nihat KARADAĞ) and OYKA Kağıt Ambalaj Sanayii ve Ticaret A.Ş. (Represented by Ertuğrul AYDIN), effective from 13.09.2012 OYAK Pazarlama Hizmet ve Turizm A.Ş. (Represented by Fatma CANLI), effective from 20.09.2012 Republic of Turkey

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUE SERIAL:XI, NO:29**

Prime Ministry Privatization Administration (Represented by Ahmet AKSU) were elected as Board Members till the first General Assembly.

Internal Audit Mechanism:

The proficiency and functioning of internal control systems of our Company are monitored by the Business Process Control and Analysis Directorate affiliated to the Chair of the Board of Directors.

Our Company's basic code of conduct is ascertained with the rules of code of ethics. The code of ethics contain common values of our company along with the change in legal, social and economic conditions.

Moreover, the rules of issues such as the working order within our Company, managerial hierarchy, responsibility, compliance with the Company's interests, relationships with customers and employers, compulsory attendance, assignment and transfer, confidentiality, prohibition of commercial activities and employment out of the company, kinship, releases and declarations about the Company, security, wishes and complaints are set out in the Personnel Regulation.

RISK MANAGEMENT

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.

In the calculation of Group's currency risk, the Value at Risk (VaR) is calculated by using the parametric method arising from the consolidated foreign currency position including derivative financial instruments. Based on this method; the effects of changes in currency rates on the foreign currency position are determined. Since there are no stock portfolios and interest bearing treasury products among assets, the Value at Risk related to interest rates and equity prices is not calculated. After evaluations, the committee provides valid precautions to be taken. The calculations of Value at Risk are supported by stress tests and scenario analyses. The testing of potential losses in extraordinary market conditions helps the determination of the Group financial strategies.

Almost all of our receivables are guaranteed with the Direct Debit System and the Credited Direct Collection System. Risk positions of our customers are monitored daily 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. According to firm and market situation, derivative instruments are recommended to executives and also bank offers are analyzed for compliance test.

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

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN
ACCORDANCE WITH THE COMMUNIQUÉ SERIAL:XI, NO:29**

Financial valuation and technical assessment report of investments is presented to the Consolidation and the Group Risk Management Center. According to the investment amount and duration of investment, production and sales volumes, the expected net cash flows of the project, the net present value, internal rate of return and Payback Period, Consolidation and Group Risk Management Center evaluates the results of the financial affairs and reports to Finance Coordinator. Investment advices not approved by Consolidation and Group Risk Management Center will not be offered to the Board of Directors.