

İSKENDERUN DEMİR VE ÇELİK A.Ş.

Annual Report for the period 1 January - 31 December 2014

Independent Audit Report on Annual Report issued by the Board of Directors**To the Board of Directors of İskenderun Demir ve Çelik A.Ş.;**

We have audited the annual report of İskenderun Demir ve Çelik A.Ş. ("the Company"), for the period ended at 31 December 2014 pursuant to the Independent Audit Standards on Audit.

The responsibility of the Board of Directors on the Annual Report

In accordance with Article 514 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Company is responsible for the preparation and fair presentation of the annual report consistent with the financial statements and for the internal controls considered for the preparation of a report of such quality.

Responsibility of the Independent Auditor

Our responsibility is to express an opinion, based on the independent audit we have performed on the Company's annual report in accordance with article 397 of the TCC and the Communiqué, on whether the financial information provided in this annual report is presented fairly and consistent with the Company's financial statements there on which auditor's report dated March 2, 2015 has been issued.

Our independent audit has been performed in accordance with the Independence Auditing Standards as endorsed by CMB and Independent Auditing Standards which are a part of Turkish Auditing Standards promulgated by the Public Oversight, Accounting and Auditing Standards Authority. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report is free from material misstatement and consistent with the financial statements. This independent audit involves the application of auditing procedures in order to obtain audit evidence on the historical financial information. The selection of these procedures is based in the professional judgment of the independent auditor. We believe that the audit evidence we have obtained during our independent audit is sufficient and appropriate to provide a basis for our opinion.

Opinion

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

Independent auditor's responsibilities arising from other regulatory requirements

In accordance with paragraph third of Article 402 of the Turkish Commercial Code ("TCC") 6102, within the framework of the Independent Auditing Standards 570 "Going Concern" no material uncertainty has come to our attention which causes us to believe that the Company will not be able to continue as a going concern in the foreseeable future.

Guney Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik Anonim Sirketi**A member firm of Ernst & Young Global Limited****Metin Canoğullari SMMM****Responsible Auditor****March 2, 2015 Istanbul, Turkey**

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A- General Information

1. Report Period

01/01/2014-31/12/2014

2. Trade Title: İskenderun Demir ve Çelik Anonim Şirketi

Trade Registry Number: 1599

Head Office: Karayılan Beldesi, 31319 İskenderun/HATAY

Web address: www.isdemir.com.tr

3. Shareholding Structure and Capital Distribution, Organization

Paid in Capital : 2.900.000.000,00 TL

Shareholders	Share Value (TL)	%
Ereğli Demir ve Çelik Fabrikaları TAŞ.	2.756.977.715,16	95,0681971
Natural Persons to whom shares are distributed by İskenderun Demir ve Çelik A.Ş. Çalışanları Yardımlaşma Sandığı Vakfı (Employees Assistance Fund Foundation)	143.022.284,84	4,9318029
General Total	2.900.000.000,00	%100

No change has been made in the partnership and capital structure for the period.

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Organization Scheme

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4. Explanations related to privileged shares and voting rights of the shares

On the A Group shares, a usufruct has been established on behalf of the Privatization Administration to be valid until otherwise decided by the Higher Council for Privatization.

Our company does not have any privileged share.

5. Information on the Board of Directors, Key Managers and number of personnel

The Board Members as of 31/12/2014:

Board of Directors	Position	Date of Commencement
Ali Aydın PANDIR	Chairman of the Board-Executive Member	15.11.2013
Dinç KIZILDEMİR	Deputy Chairman of the Board-Executive Member	27.02.2006
Mustafa YURDABAK	Board Member	18.03.2014
Nihat KARADAĞ	Board Member-Executive Member	30.09.2009
Ertuğrul AYDIN	Board Member	18.03.2008
Fatma CANLI	Board Member	08.03.2010
Nazmi DEMİR	Independent Board Member	28.06.2012
Atilla Tamer ALPTEKİN	Independent Board Member	28.06.2012
Emin Hakan EMİNSOY	Independent Board Member	18.03.2014

Changes in the Board of Directors within the period:

At the Ordinary General Assembly held on March 18, 2014;

Mr. Mustafa YURDABAK was elected as representative of the President of the Privatization Administration for 1 year instead of Mr. Veliyüddin Bahadır ÖZKAN the former Representative of Privatization Administration.

Members of Supervisory Board of the Company as of 31/12/2014:

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Ernst & Young Global Limited)

Changes in the Supervisory Board of the Company within the year:

In the Ordinary General Meeting of our Company held on 18.03.2014, Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Ernst & Young Global Limited) has been elected as the independent auditor of the company for the accounting year 2014 in accordance with the Turkish Commercial Code and related legislation and it was resolved to conclude a 1 (one) year contract with such firm.

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Key Managers

Key Managers	Position	Starting Date
Recep ÖZHAN	General Manager	21.11.2012
Kemal Emre GÜLDEN	Deputy General Manager (Financial Affairs)	30.04.2013
Şafak ÇAPAR	Deputy General Manager (Operations)	02.07.2012
Yener Bürtay KORALTAN	Deputy General Manager (Human resources)	02.04.2012
Erkan ESER	Deputy General Manager (Technical Services)	19.06.2012
Coşkun OKUTAN	Deputy General Manager (Procurement)	02.04.2012

Changes in the Senior Management within the period

In 2014, no change was occurred in the top management of the company. Only Mr. Coskun OKUTAN, Deputy general Manager, Purchase, retired due to maximum age limit on 5 January 2015.

The number of personnel of our company is 5,613 people in aggregate consisting of 3,795 personnel within the scope and 1,818 personnel outside the scope.

6. The activities of members of the board directly or on behalf of other parties, with the company and activities within the scope of competition prohibition:

The Board members are granted with the permission to conduct the transactions with the company for year 2014 as per the applicable articles of the Turkish Commercial Code (TCC) in the ordinary general Assembly held on 18.03.2014 held for the operations of the Company in 2013.

No transaction was made within the scope of this article.

B- Financial Interests provided to Board Members and Key Managers

At the ordinary general Assembly held on March 18, 2014 related to the Board Members it was resolved to;

- not to pay any salary to any of the Board members elected to represent the Group B Shares of the Company
- pay net salary of 2,360 TL per month to any of the Board members elected to represent the Group A Shares of the Company and net salary of 4,000 TL per month to any of the Independent Board members, being effective from 01.04.2014.

No bonus payment was made to any of the Board members as a reward for performance recognition.

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No debt was given to any of the board members and the managers within the period, or no guarantee or collateral was given for any of them to allow them to obtain any loan.

The salaries of the senior managers of our company are determined by the Board of Directors. Performance based additional payments are made to the personnel out of scope, including the senior managers of the company.

Total annual expenses of 4.208.211 TL were recorded related to the company managers. (The cited amount is calculated in the functional currency).

C- Research and Development Studies

No R&D activity was occurred in the applicable period of the Company.

D- Activities and Significant Developments related to the Activities

1. Investment Activities

Following the completion of the Modernization and Transformation Investments (MTI), in 2014, while continuing to work on the most effective and efficient use of facility capacities from one side, investment studies for product development, quality improvement, improvement of environmental conditions and energy saving are continuing. Environmental investments have gained priority, in particular due to developments in compliance with environmental legislation.

Within the scope of "Environmental Investments" initiated in previous years and consisting of 10 projects; Establishment of Dust Retention Systems at the 1st Sinter Fluid and Improvement of the 1st Sinter Electro filters The second part of the work were completed in 2014 and all facilities were commissioned. Efforts are continuing to ensure that these two facilities, which have been commissioned, reach the full capacity. The "Environment Package" projects, which started in 2014 and consist of 25 projects, are being continued.

The works within the scope of the "Beam Replacement Project", which was carried out to increase the operational efficiency of the steelworks facility and to ensure safe production, were completed in March and April, 2014, as the interruption period of the facility.

The Hot Slitting Line Project, which is one of the targeted investments in order to increase the product variety and reach the last customer more efficiently, was commissioned in June 2014.

Engineering and application studies are continuing on the projects "2nd High Furnace Re-line and Modernization" and "3rd High Furnace Hopper Refractor Replacement" initiated for safe and efficient production with "3rd and 4th Furnace TRT Facilities" for efficient use of energy. .

2. Internal control system and internal audit activities

None.

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3. Direct and Indirect Liabilities

The areas of operation and share ratio in the subsidiary company are as follows;

Name of the Company	Country of Operation	Area of Operation	2014 Participatio n Share %	2013 Participati on Share
Teknopark Hatay A.Ş.	Turkey	Ar-Ge Merkezi	5	-

4. Information on the shares of company purchased back by the Company

None.

5. Explanations related to independent audit and public audit

It is resolved to contract with the independent audit company "Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Ernst & Young Global Limited) for the independent audit services in 2014.

The accounts for the year 2008 were audited by the Tax Audit Board completed within 2014, and no incompliance was determined requiring any critic.

6. Legal Issues

a) Lawsuits

Taking into account the opinions of legal counsel and non-profit specialist attorneys, the Company Management determines the allowance amounts related to the ongoing lawsuits through possible cash outflows based on management's best estimate of the probability of loss and the liabilities to be incurred in case of loss. As of 31 December 2014, there is a provision amounting to TL 17.007.099 in the statement of financial position.

b) Administrative- Judicial Sanctions.

None.

7. General Assembly

The ordinary general assembly meetings of our company are held in March every year in accordance with the applicable provisions of the Turkish Commercial Code and the Articles of Association of the Company, and any decision made in such meetings are performed within due times.

8. Grants and Social Responsibility Projects

The total amount of grants made by the Company to the public entitles and institutions for training, food and maintenance-repair is 8.662.576 TL.

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9. Affiliated Companies

a) Transactions

Our Company was not involved in any transaction with or as directed by or by the instructions of Ordu Yardımlaşma Kurumu (OYAK) and/ or OYAK's affiliates as the controlling shareholder of our company in 2014, and there was no legal transaction committed or avoided by our company for the interests of OYAK or any of its affiliates. It was resolved that all commercial operations of our controlling party and its affiliates with our company are in accordance with arm's length principle in 2014, that this report is prepared in accordance with the proper and honest accountability principles, in the resolution no 334 dd. 13.02.2015 .

b) Explanation related to the transactions

As it is found the commercial operation in continues nature between our main shareholder Ereğli Demir Çelik Fabrikaları T.A.Ş. and our Company exceeds 10% of the total cost of sales in 2014, it is considered reasonable that the same transactions in 2015 will continue in accordance with the specified principles and that the transactions in question are compared with market conditions compatible with previous years.

E- Financial Situation

1. Summary of Financial Statements

Financial statements were prepared in accordance with the financial reporting standards published in the Capital Market Board.

Summary Balance Sheet

(Bin TL)	(Audited) Current Period 31 December 2014	(Unaudited) Previous Period 31 December 2013
Current Assets	2.921.542	2.146.726
Fixed Assets	5.010.466	4.745.247
Total Assets	7.932.008	6.891.973
Short term liabilities	1.153.782	1.546.001
Long term liabilities	1.239.354	1.199.869
Equity	5.538.872	4.146.103
Total Assets	7.932.008	6.891.973

Summary Income Statement

{Bin TL)	(Audited) Current Period 31 December 2014	(Unaudited) Previous Period 31 December 2013
Revenues	6.269.340	5.204.273
Gross Profit	1 349 969	959 332
Operating Profit	1.207.640	847.930
Profit Before Tax	1.122.525	512.357
Net Profit for the Period	997.011	388.145
EBITDA	1.429.538	1.040.785

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The company is making the budget within the framework of its annual strategic targets and the prepared budget is approved by the Board of Directors.

The current status of the Company is reviewed in regular meetings of the Board of Directors, and Company activities are compared with previous periods and budget targets.

2. Important Ratios

	1 January -31 December 2014	1 January - 31 December 2013
Gross Profit Margin	21,5%	18,4%
Operating Profit Margin	19,3%	16,3%
EBITDA Margin	22,8%	20,0%
Net profit Margin for the Period	15,9%	7,5%

3. Financial Power

It is not foreseen that the capital of the company may be lost considering the calculations made based on the ratios defined in the article 376 of TCC.

4. Financial Structure

It is foreseen that the Company will pay its loans with the cash generated internally.

5. Dividend Payment

In principle, the Company has adopted a policy of distributing the entire cash distributable profit for the full amount of the distributable profit for the period allowed by the prospective free cash creation expectation, including market lease and financial leverage ratios and investment / financing requirements, within the framework of applicable legislation and the Company's Articles of Association. The profit distribution policy is reviewed every year by the Board of Directors according to national and global economic conditions, the projects on the agenda and the status of funds. Dividends shall be paid in full and in cash, within the framework of the provisions of the legislation, by the Board of Directors at the General Assembly meeting decided to be distributed until 15 December of the relevant calendar year in one time.

The General Assembly is authorized to distribute Advance Dividend within the framework of the relevant legislative provisions.

6. Information on the Industry of the Firm

World crude steel production in 2014 increased by 1.1 percent year on year to 1.6 billion tons. In 2014, China's crude steel production amounted to 822.7 million tons with 0.9 percent increase, Japan's 110.1 million tons with an increase of 0.1 percent, and South Korea with an increase of 7.5 percent to 71 million tons the actual production of crude steel amounted to 1.11 billion tons with an increase of 1.4 percent year in Asia. Germany, which is one of the major steel producing countries of the EU, increased its production by 0.7% to 42.9 million tons, Italy by 1.4% to 23.7 million tons and France by 2.9% to 16.1% million tons of crude steel production in the EU-28 region, indicating an increase of 1.8 percent year on year, 169.2 million tons of crude steel production took place.

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CIS countries recorded 105 million tons of crude steel production in 2014, by 2.8 percent deduction on yearly basis, with annual production of 121.2 million tons of crude steel in North America, with 2 percent annual increase.

In South America, crude steel production, which was recorded in 2014, declined by 1.4 percent year on year to 45.2 million tons. In 2014, the average capacity utilization rate of steel mills around the world was recorded as 76.7%. World hot product price change is given in the chart below;

Turkey's crude steel production in 2014 was recorded as 34 million tons, with the decrease of 1.8% compared to last year. The crude steel production of electric arc furnace plants decreased by 3.9% to 23.8 million tons in 2014 while crude steel production of integrated plants increased by 3.5% to 10.3 million tons.

7. Units and Productivity of the Firm

Capacity utilization rates of Isdemir are provided below:

Capacity Utilization ratios (%)	1 January-31 December 2014	1 January-31 December 2013
Liquid Steel	92%	87%
Slab	73%	62%
Ingot	45%	56%

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8. Products

Below is a list of the main products produced in Isdemir:

Isdemir
Billet
Coil
Slab
Hot Roll

9. Production (quantity)

Finished Product (000 Ton)	1 January - 31 December 2014	1 January - 31 December 2013
Slab	693	488
Long product	1.153	1.356
Flat products	2.840	2.518

10. Improvements in Sales

Despite the contraction in the domestic market, ISDEMİR's total flat product sales in 2014 increased by 17% to 2.9 million tons. Long product sales fell by 14% to 1.2 million tons due to capacity losses from our installations.

Isdemir exported 519 thousand tons of final products, composed of 292 thousand tons of flat products and 227 thousand tons of long products. This amount accounts for 13% of total final product sales. Isdemir, which exports 24 flat products and 8 long products, continued to increase its effectiveness in foreign markets in 2014.

Isdemir, which is diversifying its export markets with a large geographical area that makes up over 30 countries including Thailand and Peru, aims to increase its exports in 2015 as well.

Despite the geopolitical problems in our geography, Isdemir continues to deliver shipments to the end user sectors in line with its targets, thanks to the recovery signals of the global economy.

We continued to organize customer events, customer visits, national and international congresses, fair attendances, sector associations and official organizations, meetings with customers, to develop our relations with the customers who became the focus point by rebuilding the marketing and sales organization. With our new quality and product development studies aimed at end users, we continued to develop our product range dynamically managed in line with customer expectations and the improvements made have helped ISDEMİR increase the power of the market.

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11. Sales (quantity)

Final product (000 Ton)	1 January -31 December 2014	1 January -31 December 2013
Slab	697	458
Long product	1.163	1.346
Flat product	2.908	2,496

(*) Slab sales are composed of intragroup sales.

F- Risks and Evaluation by the Board of Directors

1. Risk management policy

Risk is monitored and managed in accordance with the regulation on the development of hedging methods and the rules on managing market risks and receivables risks so that the risks faced by Isdemir may be measured and kept within the prescribed risk tolerances. In order to manage the interest risks exposed to Isdemir, the durations are calculated on the basis of the loan portfolio and cash flow projections and the gain / loss amounts to be experienced in possible interest changes are measured by sensitivity analysis.

In addition, applications are being made to ensure that the rate of the variable rate loans in the company's total loan portfolio is monitored and kept within a certain limit. According to the needs of the company and the market, derivative instrument options are evaluated and detailed analyzes are carried out and appropriate actions are taken within limits. Similarly, for liquidity risk management, the use of credit and repayments and cash flow projections are followed, and necessary action plans are prepared.

The feasibility report, which includes the financial and technical evaluations of all investments planned to be made in the middle / long term strategic road map of Isdemir, is prepared by the System Development Directors within the scope of Technical Services Deputy General Director and presented to the Assistant General Manager of Financial Affairs. The Vice Chief Financial Officer reviews the financial feasibility of the feasibility report and presents the financial valuation report to the Group Financial Coordinator, which reviews and evaluates the profitability, net present value, internal rate of return, return on investment and return on investment ratios.

Investment proposals that are not approved by the Group's Financial Affairs Coordinator are not submitted to the Board of Directors.

2. Early Detection of Risk Committee

None.

3. Prospective Risks

Market risks: The price risks that started in commodity markets after 2008 are still continuing as of 2014. In particular, over capacity from Europe is exerting pressure on steel prices. However, fluctuations in iron ore prices formed according to China's iron ore needs, also cause fluctuations in raw material prices as iron ore is subject to contracts in quarterly terms.

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The fluctuations in the prices of iron ore and coking coal, which are the production inputs of our company, the fluctuations in the price of steel products as production output, and the periods between supply and delivery times are longer in the iron and steel sector than in other sectors and therefore fluctuations in profit margins are the most important market risks.

Macroeconomic risks: Due to the fact that the raw material prices and sales prices are based on US Dollars and the sales collections are started to be made in US Dollars as of September 1, 2013, the functional currency of Isdemir has been changed to US Dollars, and accordingly the depreciation risks of Turkish Lira have been avoided. However, the most important macroeconomic risks faced at the beginning of our company is the recent rapid decline in emerging markets and the liquidity contraction occurring as a result of the reduction in commodity prices, FED's asset purchases occurring due to contraction in demand causing to the possibility of Turkey steel.

G- Other Matters

1. Subsequent Events

Pursuant to the resolution no 333 dd. 12.01.2015 of the Board of Directors:

In accordance with the decision of the Board of Directors of the Company dated 24.03.2014 and numbered 314, 7.120 persons were decided to register in the shareholding book and the number of stakeholders was 500 and thus the Company has acquired publicly-held partnership status; an application was made to the Capital Markets Board ("CMB Board") for approval of this matter and the approval of the Board on the application was announced to the public by the Board Bulletin dated 27.06.2014. The 16th article of the Capital Markets Law (CMB) in order to process the shares of Isdemir in the Borsa Istanbul AS Free Trade Platform within the framework of the provisions of the Communiqué No: 11-16.1 of the CMB and the Principles Regarding the Obligation of the Shares to be Traded on the Exchange, and it has been decided that the General Directorate should be authorized to apply to the CMB and to fulfill the requirements in this context.