



## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

For the Period 1 January – 31 March 2020  
Board of Directors' Activity Report

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE  
WITH THE COMMUNIQUÉ SERIAL:II, NO:14.1****A – GENERAL INFORMATION****1. Period of the Report**

01.01.2020 – 31.03.2020

**2. Information About The Association**

- Trade Title : İSKENDERUN DEMİR VE ÇELİK A.Ş.
- Trade Registry Number : 1599
- Address of the Head Office : Karayılan Mahallesi, 31319 İskenderun/HATAY
- Website : [www.isdemir.com.tr](http://www.isdemir.com.tr)

**3. Shareholding and Capital Structure**

Paid-in Capital : TRY 2.900.000 thousand

| Shareholders                             | Shares (Thousand TRY) | %             |
|--|-----------------------|---------------|
| Ereğli Demir ve Çelik Fabrikaları T.A.Ş. | 2.751.326             | 94,87         |
| Other                                    | 148.674               | 5,13          |
| <b>Total</b>                             | <b>2.900.000</b>      | <b>100,00</b> |

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

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

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors is executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next general assembly to be approved. According to the decision of Company's Board of Directors, dated 27 March 2020; within the framework of the recommendations for the measures to be taken to prevent the spread of the COVID-19 (Coronavirus) pandemic in our country; It has been decided to cancel the decision of the Board of Directors dated 5 March 2020 and numbered 569 regarding the 2019 Ordinary General Assembly Meeting of our Company will be held on 31 March 2020. Also it has been decided to hold the Ordinary General Assembly Meeting of our Company for 2019 at a later date.

The membership number of the Board of Directors has determined as 9 and 6 Board Members have been elected for three years and 3 Independent Board Members have been elected for one year by the General Assembly executed on 21 March 2019 according to the 9<sup>th</sup> and 10<sup>th</sup> articles of Articles of Association within the framework of Turkish Commercial Code and Capital Market Law.

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The active members of the Board of Directors as of 31.03.2020:

| Board of Directors  | Title   | Date of Commencement(*) |
|---|---|-------------------------|
| ATAER Holding A.Ş.<br>(represented by: Süleyman Savaş ERDEM)  | Chairman of the Board                             | 27/05/2013              |
| Erdemir Madencilik Sanayi ve Ticaret A.Ş. (represented by: Toker ÖZCAN)                                   | Deputy Chairman of the Board – Executive Director | 18/09/2012              |
| T.C. Hazine ve Maliye Bakanlığı<br>Özelleştirme İdaresi Başkanlığı<br>(represented by: Bekir Emre HAYKIR) | Board Member                                      | 20/09/2012              |
| OYAK Pazarlama Hizmet ve Turizm A.Ş. (represented by: Baran ÇELİK)  | Board Member                                      | 17/09/2012              |
| Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş.<br>(represented by: Güliz KAYA)               | Board Member                                      | 17/09/2012              |
| Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. (represented by: Aslıhan DÖĞER)                       | Board Member                                      | 13/09/2012              |
| Yunus ARINCI  | Independent Board Member                          | 21/03/2019              |
| Ali FİDAN   | Independent Board Member                          | 21/03/2019              |
| Kurtuluş Bedri VAROĞLU  | Independent Board Member                          | 21/03/2019              |

(\*) The dates are given for the legal person represented.

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

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

**Executive Management**

| Executive Management       | Title  | Effective from | Education   | Experience |
|----------------------------|--|----------------|---|------------|
| Mesut KEYFLİ               | General Manager                              | 12/10/2018     | İstanbul Teknik University - Electrical Engineering | 31 Years   |
| Sabri KILIÇ                | Acting Deputy General Manager (Businesses)   | 12/10/2018     | İstanbul Teknik University - Metallurgy Engineering | 21 Years   |
| Mehmet PEHLİVAN            | Deputy General Manager (Financial Affairs)   | 14/04/2018     | Dokuz Eylül University -Economics                   | 24 Years   |
| Mehmet PEHLİVAN (by proxy) | Acting Executive Vice President (Purchasing) | 09/08/2019     | Dokuz Eylül University -Economics                   |            |

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

At the Ordinary General Assembly held on 21 March 2019, it is consented to give the authority for transactions according to article 395 and 396 of Turkish Commercial Code (TCC) to the Members of the Board. No transaction had been realized in this context.

**6. Collective Labor Agreement Applications and the Benefits**

26th Period Collective Labor Agreement, which will be valid between January 1, 2018 and December 31, 2020 has been signed on 29 December, 2017 between Iron, Steel, Metal and Metallic Products Worker's Union and İskenderun Iron and Steel Works CO.

The rights and benefits provided to our employees within the scope of collective bargaining practices, are classified under the heading "bonuses, social benefits and permits". Bonuses and social benefits include bonuses, supplementary insurance (monthly paid personnel), holiday allowance, fuel allowance, annual leave allowance, marriage allowance, maternity benefit, death allowance (death of worker, death of spouse, child, mother, father, sibling, death by work accident, death to his legal heirs), active military service, child support, educational aid (pre school, primary, secondary, high school and higher education), food aid and vehicle assistance. Permits are annual paid leave, companion leave, compassionate leave, free leave and marriage leave, death leave, pregnancy permit, maternity leave, part time work permit, moving permit, breast-feeding leave, adoption leave, Public litigation leave and other leaves for natural disaster.

Social benefits such as death allowance (in the case of death of the worker), food aid and vehicle assistance are provided to all our employees; other welfare benefits are paid only to employees with hourly wages. Permits such as annual leave, excuse for leave, marriage leave, death leave, maternity leave, companion leave (In case he has a child with a disability or chronic illness at a rate of 70% and above), adoption permit, part time work permit, transfer permit, free leave and dairy leave are granted to all employees; other permits are available only for the benefits of our employees working on hourly basis.

The number of the personnel on 31 March 2020 and 31 December 2019 are as follows:

|                        | <b>31 March 2020</b> | <b>31 December 2019</b> |
|------------------------|----------------------|-------------------------|
|                        | <b>Personnel</b>     | <b>Personnel</b>        |
| Paid Hourly Personnel  | 2.854                | 2.886                   |
| Paid Monthly Personnel | 1.726                | 1.725                   |
|                        | <b>4.580</b>         | <b>4.611</b>            |

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**7. Compliance With The Corporate Governance Principles**

The "Corporate Governance Principles" published by the Capital Markets Board (CMB) which were declared in our Annual Activity Report for the year ending 2019 were met during the period 1 January 2020 – 31 March 2020.

**8. Amendments in The Articles of Association**

None.

**B – Financial Rights Given to Board Members and Executive Management**

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

The relevant section of the minutes of the General Assembly dated 21 March 2019 is as follows;

- No wages will be paid to the Board members representing Group B shares,
- the monthly net wage that will be paid to the members representing Group A shares will be TRY 4.000 (monthly, in cash),
- the monthly net wage that will be paid to Independent Board Members will be TRY 8.800 (monthly, in cash),
- the new wages will be valid from the date of 1 April 2019.

Personal accident and life insurances were arranged for Board of Directors and no other benefits were given.

No payment of performance was made to Board Members.

No payables were given, no loans were issued directly or through a third party and no indemnity was given (like sureties) to Board Members or Executive Management during the period.

Wages of the Executive Management is determined by the Board. Health insurance were arranged for General Manager. Performance based additional payment is given to paid monthly personnel including Executive Management.

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

A total of TRY 669 thousand is recorded as expense related to Company Board Members and Executive Management as of reporting period.

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**C – Research and Development Studies**

OYAK Mining Metallurgy Group carries out research and development activities at "Erdemir R&D Center" that has been approved by Turkish Ministry of Industry and Technology in 2014. Research and development activities are gathered in four main groups as raw materials and iron making, steel making and casting technologies, hot rolled products and process, cold rolled products and process.

R&D Center, which also serves in the OYAK Mine Metallurgy Group, has well-equipped laboratory facilities such as material characterization, thermomechanical simulation, metal forming, welding, corrosion, enameling, spectral analysis and X-Ray diffraction etc. and simulators for pilot scale trials such as agglomeration systems, melting, rolling and coating processes.

In the first quarter of 2020, 3 new long product grades were developed. In addition to the 216 flat steel grades, the number of long steel products are reached to 308.

As part of the R&D activities during that period 4 projects have been completed and 49 projects have been in progress.

Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, 6 projects have been completed successfully so far. The studies and reporting activities have been continued for 3 supported projects. Evaluation stage of one project, application dated at the end of June 2019, has still being in progress.

R&D Center employees contributed to the intellectual capital of our company by participating the national / international organizations related to the iron and steel sector activities with 68 papers / oral or poster presentations, cumulatively until today.

**D – Activities and Important Developments Regarding the Activities**

**1. Investment Activities**

With its modern production facilities and production technology, OYAK Metal Mining Group produces competitive products in the world and continues its investment activities in line with its continuous development strategy.

Slab Casting Mold Level Control System Modernization Project has been commissioned and almost completed with performance tests. Procurement, manufacturing and field activities continue within the scope of the New Coke Gas Gasometer and Steel Mill A-B Hall Extension and Crane Projects.

Engineering, purchasing processes, equipment supply, manufacturing and site studies continue in the New Blast Furnace No:1, Vacuum Degassing Plant and Modernization of the Coke Oven Battery No:3 Projects. Purchasing activities continue in the Blast Furnace No:1 TRT Project.

As of March 31, 2020, Isdemir's total investment expense amount is USD 20.279 thousand (March 31, 2019: USD 18.968 thousand).

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## 2. Internal Control System and Internal Auditing Activities

İsdemir's do not have own Internal Audit Department; Group Internal Audit Department is in charge of evaluating and improving the effectiveness of risk management, control and governance processes of Group companies and it reports directly to the Deputy Chairman and the Executive Director of the Board. The Audit Committee, which comprises of independent board members, is informed regularly about the internal audit activities and effectiveness of the internal control system.

## 3. Direct and Indirect Subsidiaries

### Information on Affiliates

The business areas of the companies in which the Company has shares are provided below with the share ratio in such companies:

| Name of the Company              | Country of Operation | Operation                         | 2020 Share % | 2019 Share % |
|----------------------------------|----------------------|-----------------------------------|--------------|--------------|
| Teknopark Hatay A.Ş.             | Turkey               | R&D Center                        | 5            | 5            |
| İsdemir Linde Gaz Ortaklığı A.Ş. | Turkey               | Industrial Gas Production & Sales | 50           | 50           |

## E - Financial Position

### 1. Summary of Financial Statements

Financial statements are prepared in accordance with the CMB's Communiqué Serial:II, 14.1 and have not been reviewed as of 31 March 2020.

#### Summary of Balance Sheet

| (Thousand TRY)           | (Unaudited)       | (Audited)         |
|--------------------------|-------------------|-------------------|
|                          | Current Period    | Previous Period   |
|                          | 31 March 2020     | 31 December 2019  |
| Current Assets           | 11.057.413        | 9.778.890         |
| Non-current Assets       | 12.957.898        | 11.843.311        |
| <b>Total Assets</b>      | <b>24.015.311</b> | <b>21.622.201</b> |
| Current Liabilities      | 3.295.990         | 2.943.097         |
| Non-current Liabilities  | 2.732.540         | 2.487.377         |
| Shareholders' Equity     | 17.986.781        | 16.191.727        |
| <b>Total Liabilities</b> | <b>24.015.311</b> | <b>21.622.201</b> |

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**Summary of Income Statement**

|   | (Unaudited)                  | (Unaudited)                  |
|---|------------------------------|------------------------------|
|   | Current Period               | Previous Period              |
| (Thousand TRY)                                    | 1 January -<br>31 March 2020 | 1 January -<br>31 March 2019 |
| Sales Revenue                                     | 3.697.229                    | 4.059.974                    |
| Gross Profit                                      | 610.702                      | 819.698                      |
| Operating Profit Before Finance Income (Expenses) | 545.503                      | 756.034                      |
| Profit Before Tax                                 | 512.871                      | 859.381                      |
| Profit for the Period                             | 210.882                      | 523.029                      |
| EBITDA  | 707.146                      | 907.165                      |

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

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

**2. Key Ratios**

| (%)  | 1 January -<br>31 March 2020 | 1 January -<br>31 March 2019 |
|--|------------------------------|------------------------------|
| Gross Profit Margin                                      | 17%                          | 20%                          |
| Operating Profit Before Finance Income (Expenses) Margin | 15%                          | 19%                          |
| EBITDA Margin  | 19%                          | 22%                          |
| Profit Margin  | 6%                           | 13%                          |

**3. The Availability of Financial Sources and The Policies The Group Applies in This Framework**

Isdemir 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 Company 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.



**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE  
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Isdemir's Dividend Distribution Policy is as follows:

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

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 in accordance with the provisions of the applicable legislations."

**5. Information about the sector**

Global crude steel production in February this year decreased by 7.8 percent month on month and rose by 2.1 percent year on year to 142.4 million metric tons.

In February this year, crude steel output in Asia amounted to 101.68 million mt, rising by 4.5 percent, with 74.77 million mt produced by China, up 5 percent, 7.92 million mt produced by Japan, increasing by 2.2 percent, 9.56 million mt produced by India, rising by 1.5 percent, and 5.38 million mt produced by South Korea, up by 2.1 percent - with all comparisons on year-on-year basis.

EU-28 countries produced 12.28 million mt of crude steel in February, down by 9 percent year on year. In the given period, Germany's output was 2.92 million mt, falling by 12 percent year on year, Italy's crude steel output was 2.05 million mt, increasing by 0.1 percent year on year, and France's crude steel output amounted to 1.23 million mt, down by 1.3 percent year on year.

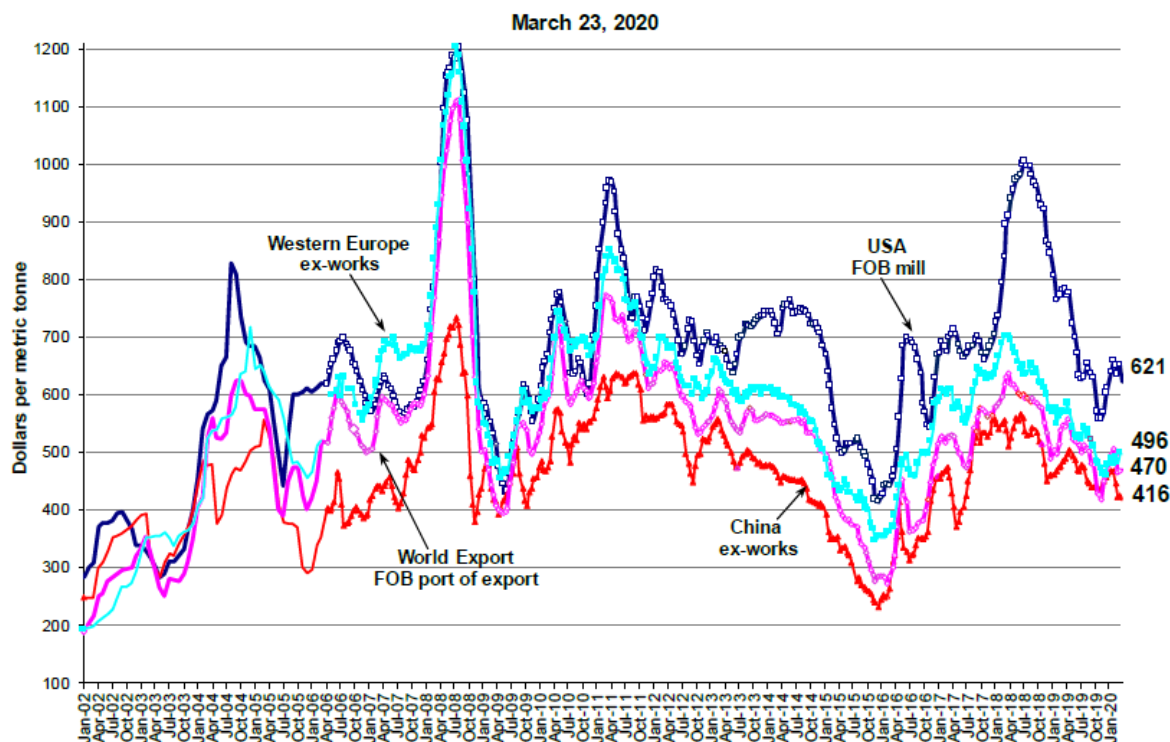
Iran's crude steel production in February amounted to 2.71 million mt, up by 34.3 percent year on year. The CIS registered a crude steel output of 7.94 million mt, rising by 0.1 on year-on-year basis, with Russia producing 5.61 million mt, down 2.3 percent, and Ukraine producing 1.71 million mt, up by 1.2 percent, both on year-on-year basis.

In North America in February, crude steel output totaled 8.68 million mt, decreasing by 10.6 percent, with the US producing 7.17 million mt, rising by three percent, and Mexico producing 1.34 million mt, down by 19.3 percent, all on year-on-year basis. Crude steel output in South America in February amounted to 3.38 million mt, falling by 0.9 percent from February 2019, with Brazil's output totaling 2.7 million mt, declining by 1.3 percent year on year.

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Price changes of hot rolled products follows:

**USA, China, Western Europe and World Export**  
(WSD's PriceTrack data, Jan. 2002 - March 2006; SteelBenchmarker data begins April 2006)



Turkish crude steel output in February this year decreased by 5.4 percent month on month and was up by 8.2 percent year on year to 2.85 million mt. In the given month, Turkey's crude steel output by electric arc furnaces rising by 11.1 percent, while production by integrated plants increased by 2.6 percent, both year on year.

In the January-February period, Turkish crude steel output rising by 12.7 percent to 5.9 million mt, compared to 5.2 million mt in 2019. In the same period, Turkey's crude steel output by electric arc furnaces increased by 18 percent to 3.9 million mt, while production by integrated plants increased by 3.4 percent to 1.9 million mt, both year on year.

**6. The Position of Isdemir within the Sector**

In the first three months of 2020 Isdemir's crude steel production has realized as 1.318 thousand tonne.

**7. Operational Developments**

Turkey's single integrated long steel producer, Isdemir, who carries out production, operation, maintenance and modernization activities within its all facilities. Manufacturing 15% of all crude steel production in Turkey, Isdemir again continued its operations in line with the principle of optimal costs, maximum productivity and quality of production in the first two months of 2020.

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**Production Plants and Productivity**

The information about the capacities of main product groups by Isdemir is stated below:

| Capacity used (%) | 1 January -<br>31 March 2020 | 1 January -<br>31 March 2019 |
|-------------------|------------------------------|------------------------------|
| Liquid Steel      | 93%                          | 98%                          |
| Crude Steel       | 91%                          | 96%                          |

**8. Products**

The main products of Isdemir is Billet, Wire Rod, Slab and Hot Rolled

**Production (quantity)**

| Final Products<br>(000 Tonne) | 1 January -<br>31 March 2020 | 1 January -<br>31 March 2019 |
|-------------------------------|------------------------------|------------------------------|
| Flat Products                 | 976                          | 1.040                        |
| Long Products                 | 264                          | 315                          |
| <b>Total</b>                  | <b>1.240</b>                 | <b>1.355</b>                 |

(\*) Slab production included to flat production.

**9. Development in Sales**

The iron and steel industry is a delivering force in national economies and Turkey is one of the leading countries in terms of both production and consumption of steel, ranking as the World's 8th largest steel consumer with 26 million tonne consumption in 2019. Steel consumption of Turkey upward %46 and went to 5,1 million tonne in the first two months of 2020 compare to the previous year.

Total steel product sales of Isdemir decreased %12 and reached to the level of 1.246 thousand tonne in the first quarter of 2020. The flat products sales decreased %9 and went to 979 thousand tonne, while long products sales decreased %20 and reached to 267 thousand tonne.

Isdemir also exported 94 thousand tonne of flat products and 18 thousand tonne of long products. Total export sales is 112 thousand tonne in the first quarter of 2020, which is %70 lower than the previous year and 9% of total sales.

**10. Sales (quantity)**

| Final Products<br>(000 Tonne) | 1 January -<br>31 March 2020 | 1 January -<br>31 March 2019 |
|-------------------------------|------------------------------|------------------------------|
| Flat Products                 | 979                          | 1.076                        |
| Long Products                 | 267                          | 336                          |
| <b>Total</b>                  | <b>1.246</b>                 | <b>1.412</b>                 |

(\*) As of 31 March 2020, 210 thousand tons of flat product sales were made to related parties.

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE  
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Enterprise Risk Management Procedure has been published with the purpose of ensuring systematic and comprehensive identification, evaluation, control and monitoring of risks and opportunities that may affect Company's assets, reputation, profitability. The procedure includes guidance on support and positioning, risk identification, prioritization, improvement, reporting, monitoring/surveillance, and communication principles related to risks in order to manage Company and group-wide risks to the highest standard.

In order to measure the risks incurred by the company and ensure conformity to the risk tolerance limits; risks are monitored and managed in accordance with regulations and guidelines developed for critical risks.

**2. Early Detection of Risk Committee**

The Early Detection of Risk Committee Regulation is included in the Policies and Regulations tab of the Investor Relations section on the company's website. The purpose of the Committee is to identify the risks that may threaten the existence, progress and continuation of the Company operations within the scope of this regulation and legal legislation, to implement the necessary measures related to the risks identified and to manage those risks.

The Meetings of the Committee are held bimonthly and in accordance with the regular meetings of the Board of Directors. After each meeting, a written report on the activities of the Committee is submitted to the Board of Directors with a summary of the minutes. Meeting minutes are stored in the secretariat.

**G - Other Information****1. Organizations Out of the Headquarters**

None.

**2. Information for Shareholders**

As of December 2019, Corona virus ("Covid-19") which is described as the pandemic by the World Health Organization ("WHO") has been detected in Wuhan, city of China. Starting from March 2020, various cases regarding the epidemic has been detected also in Turkey. In order to prevent the Covid-19 outbreak and the spread of the epidemic, the government has started to take various measures related to social and economic life. The potential effects of these measures and possible future decisions on the Group's activities remain uncertain as of the reporting date.