



İSKENDERUN DEMİR VE ÇELİK A.Ş.

For the Period 1 January – 30 September 2019
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**

01.01.2019 – 30.09.2019

2. Information About The Association

- **Title:** İSKENDERUN DEMİR VE ÇELİK A.Ş.
- **Trade Registry Number:** 1599
- **Address:** Karayılan Mahallesi, 31319 İskenderun/HATAY
- **Website:** www.isdemir.com.tr

3. Shareholding and Capital Structure

Shareholders	Shares (Thousand TRY)	%
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	2.751.326	94,87
Publicly Held	148.674	5,13
Total	2.900.000	100,00

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

According to the Turkish Commercial Code and related regulations, the election of the Board of Directors is executed by the General Assembly within the framework of the Articles of Association. Should there be an opening in the Board of Directors Membership within the respective period; an election for the available positions is made according to the provisions of Turkish Commercial Code and Company's Articles of Association and the results are submitted to the next general assembly to be approved. The Company's 2018 Regular General Assembly has been executed on 21 March 2019.

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 9th and 10th 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 30.09.2019:

Board of Directors	Title	Date of Commencement(*)
ATAER Holding A.Ş. (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 Özelleştirme İdaresi Başkanlığı (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. (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.

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

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

Executive Management

Executive Management	Title	Effective from	Education	Experience
Mesut KEYFLİ	General Manager	12/10/2018	İstanbul Teknik University - Electrical Engineering	30 Years
Sabri KILIÇ	Executive Vice President (Operations)	12/10/2018	İstanbul Teknik University - Metallurgy Engineering	20 Years
Mehmet PEHLİVAN	Executive Vice President (Financial Affairs)	14/04/2018	Dokuz Eylül University -Economics	23 Years
Vacant	Executive Vice President (Human Resources)	-	-	-
Mehmet PEHLİVAN (by proxy)	Acting Executive Vice President (Purchasing)	09/08/2019	Dokuz Eylül University -Economics	23 Years

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 regarding the Company's 2018 activities, it is consented to give the authority for transactions for 2019 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 December 29, 2017 between Iron, Steel, Metal and Metallic Products Worker's Union and Company.

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, 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.

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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. Health insurance is made for monthly paid personnel and Employer Contribution Individual Pension is made for Chief and above staff.

The number of the personnel on 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019	31 December 2018
	Personnel	Personnel
Paid Hourly Personnel	2.873	2.980
Paid Monthly Personnel	1.720	1.744
	4.593	4.724

7. Amendments in The Articles of Association

Amendments made about the related articles at the Company's Articles of Association, accordingly, the shares of the Company with the code name "ISDMR" are started to be traded at Star Market as of 19 April 2018; the decision held at the General Assembly on March 21, 2019.

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.

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

C – Research and Development Studies

OYAK Mine 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. R&D activities mainly consist of four groups as raw materials and iron making, steel making and casting technologies, hot rolled products and process, cold rolled products and process.

The R&D Center, which serves in the OYAK Mine Metallurgy Group, moved to a separate campus in Karadeniz Ereğli to expand the laboratory infrastructure from its old campus located at the factory in 2018. In this new campus, two comprehensive laboratories for Raw Material and Product Development R&D infrastructures were built. In the construction works significantly completed project, assembly studies of simulators and equipment to be used in R&D projects have started. In 2019, it is aimed to complete all simulation infrastructure.

As part of the R&D activities 59 projects have been continued. Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, until today 6 projects have been completed successfully. The studies and reporting activities have been continued for 3 supported projects. Also, evaluation stage of 3 projects' application dated as 2019, have been going on.

R&D Center employees contributed to the intellectual capital of our company by participating the national / international organisations related to the iron and steel sector activities with 66 papers / oral or poster presentations, cumulatively until today.

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D – Activities and Important Developments Regarding the Activities

1. Investment Activities

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

The Electric Station Dust Collection and Water Cooling System Modernization Project was commissioned and completed. Slab Casting Mold Level Control System Modernization Project was commissioned and continues with performance tests.

Contract of BOF A-B Hall Crane New 350 T Crane project was signed. New Coke Gas Gasometer continuous with engineering works. Site relocation works of New No.1 Blast Furnace, Vacuum Degassing Plant and Modernization of the Coke Oven Battery No.3 projects are started. New Sinter Plant Project continues with scope development works after Board of Directors Approval. No.1 Blast Furnace TRT Project started with Board of Directors Approval.

As of September 30, 2019, Company's total investment expense amount is USD 45 million (September 30, 2018: USD 25 million).

2. Internal Control System and Internal Auditing Activities

Company'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

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	2019 Share %	2018 Share %
Teknopark Hatay A.Ş.	Turkey	R&D Center	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sale	50	50

İsdemir Linde Gas Partnership A.Ş. has been established through 50%-50% partnership with the German Linde Group in order to supply the additional industrial gases required for our subsidiary Company's production and to reduce the costs with an effective and efficient management. İsdemir Linde Gaz Ortaklığı A.Ş is recognised by using the equity pick-up method.

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The details of the investments evaluated with equity method of the company shall be as follows:

	Right to Vote (%)	30 September 2019	Right to Vote (%)	31 December 2018	Business Area
<i>Joint Venture</i>					Industrial Gas Production and Sale
İsdemir Linde Gaz Ortaklığı A.Ş.	50	158.496	50	145.284	

The share of investments accounted for by the equity method in net assets is as follows:

(Thousand TRY)	30 September 2019	31 December 2018
Total Assets	384.007	380.489
Total Liabilities	67.015	89.921
Net assets	316.992	290.568
Company's share on net assets	158.496	145.284

The share of investments profits accounted for by the equity method in profit/loss is as follows:

(Thousand TRY)	1 January – 30 September 2019	1 January – 30 September 2018
Sales Revenue	73.504	57.025
Profit for the Period	11.196	7.518
Shareholder's share on Net Profit	5.598	3.759

İsdemir Linde Gaz Ortaklığı A.Ş., as an affiliate of the Group under joint management, has the right of to deduct the investment deduction where profit will occur in the upcoming years pursuant to the Resolution No 2012/3305 on Government Aids in Investments and the Cabinet Decision issued in the Official gazette on 22 February 2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. was established recently and it is not yet possible for İsdemir Linde Gaz Ortaklığı A.Ş. to make a reasonable forecast for full or partial recovery of the investment deduction amount for the upcoming periods under the current conditions, the deferred tax asset of TRY 73.173 thousand (its effect in the profit or loss statement of İsdemir is TRY 36.586 thousand) is not included in the financial statements prepared as of 30 September 2019.

In the Annual General Assembly dated 1 March 2019, it has been approved to distribute cash dividend from net profit of 2018 amounting to TRY 6.409 thousand. As of 29 March 2019 dividend payment has completed.

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E - Financial Position

1. Summary of Financial Statements

Financial statements are prepared in accordance with the CMB's Communiqué Serial:II, 14.1 and have been unaudited as of 30 September 2019.

Summary of Balance Sheet

(Thousand TRY)	(Unaudited)	(Audited)
	Current Period	Previous Period
	30 September 2019	31 December 2018
Current Assets	8.851.640	10.563.284
Non-current Assets	11.208.206	10.418.280
Total Assets	20.059.846	20.981.564
Current Liabilities	2.550.034	3.141.004
Non-current Liabilities	2.320.943	2.112.792
Shareholders' Equity	15.188.869	15.727.768
Total Liabilities	20.059.846	20.981.564

Summary of Income Statement

(Thousand TRY)	(Unaudited)	(Unaudited)
	Current Period	Previous Period
	1 January - 30 September 2019	1 January - 30 September 2018
Sales Revenue	12.590.867	11.503.776
Gross Profit	2.473.736	3.827.752
Operating Profit	2.279.061	3.791.261
Profit Before Tax	2.612.823	4.594.901
Profit for the Period	1.895.866	2.961.736
EBITDA	2.752.501	4.012.011

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

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

2. Key Ratios

(%)	1 January - 30 September 2019	1 January - 30 September 2018
Gross Profit Margin	20%	33%
Operating Profit Margin	18%	33%
EBITDA Margin	22%	35%
Profit Margin	15%	26%

**BOARD OF DIRECTORS' ACTIVITY REPORT PREPARED IN ACCORDANCE
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in This Framework**

Company 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.

4. Dividend Distribution Policy

Company'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.

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

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

At the Ordinary General Meeting held on March 21, 2019, it has been unanimously approved to distribute net profit of 2018 amounting to TRY 3.509.000 thousand (gross dividend per share: TRY 1,21) and the dividend payment has been realized between dates 8-10 May 2019.

5. Information about the sector

Global crude steel production in August this year decreased by 0.4 percent month on month and increased by 3.4 percent year on year to 156.1 million metric tons. In the January-August period of this year, global crude steel production increased to 1.24 billion mt, up 4.4 percent year on year.

In the January-August period, crude steel output in Asia amounted to 890.9 million tonnes, rising by seven percent, with 664.9 million ton produced by China, up 9.1 percent, 67.6 million ton produced by Japan, decreasing by 3.7 percent, 75.7 million ton produced by India, rising by 4.4 percent, and 48.43 million ton produced by South Korea, up by 0.2 percent - with all comparisons on year-on-year basis.

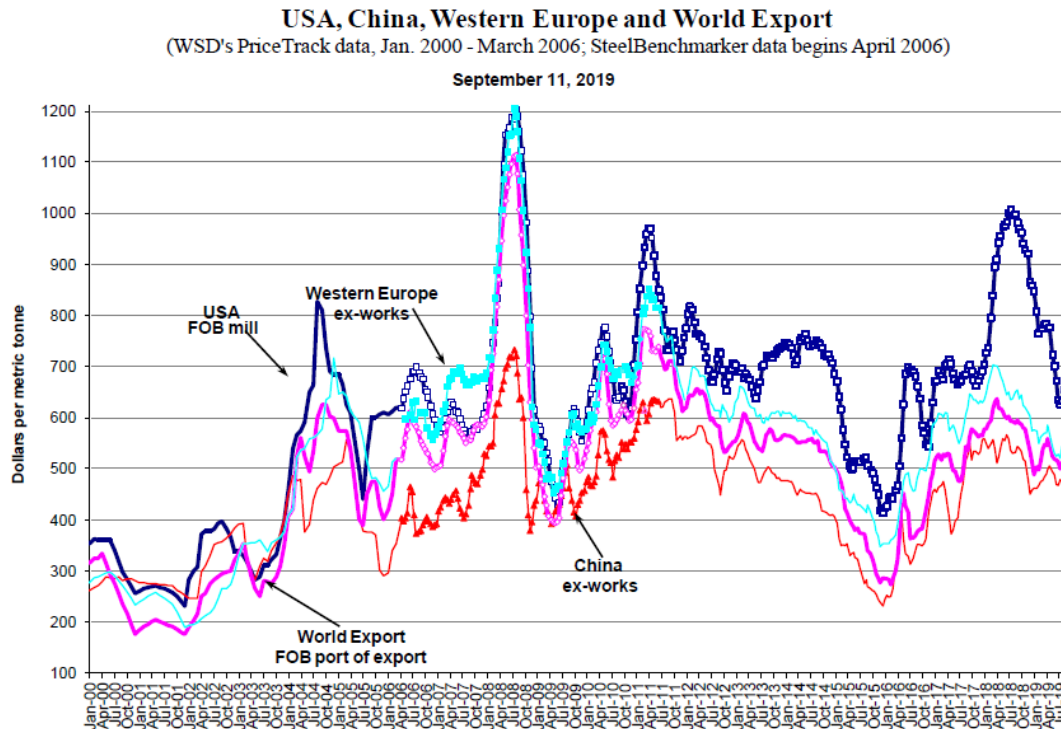
EU-28 countries produced 109.09 million ton of crude steel in the first eight months of this year, down by 2.9 percent year on year. In the given period, Germany's output was 27.2 million ton, falling by 4.4 percent year on year, Italy's crude steel output was 15.41 million ton, down by 4.5 percent year on year, and France's crude steel output amounted to 10.04 million ton, down by 2.2 percent year on year.

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Iran's crude steel production in the first eight months of this year amounted to 17.19 million ton, up by 6.4 percent year on year. The CIS registered a crude steel output of 68.09 million ton, rising by 0.3 percent on year-on-year basis, with Russia producing 48.26 million ton, decreasing by 0.4 percent, and Ukraine producing 14.66 million ton, up 4.7 percent, both on year-on-year basis.

In North America in the first eight months of this year, crude steel output totaled 80.93 million ton, increasing by 0.8 percent, with the US producing 59.23 million ton, rising by 4.1 percent, and Mexico producing 12.64 million ton, down by 8.7 percent, all on year-on-year basis. Crude steel output in South America in the January-August period of this year amounted to 28.11 million ton, falling by 5.8 percent from the same period of 2018, with Brazil's output totaling 22.22 million ton, declining by 5.4 percent year on year.

Price changes of hot rolled products follows:



Turkish crude steel output in August this year decreased by ten percent month on month and was down by 12.4 percent year on year to 2.6 million tonnes. In the given month, Turkey's crude steel output by electric arc furnaces fell by 16.3 percent, and production by integrated plants fell by 3.9 percent, both year on year.

In the January-August period, Turkish crude steel output fell to 22.6 million tonnes, down 10.5 percent year on year. In the same period, Turkey's crude steel output by electric arc furnaces declined by 12.5 percent to 15.2 million tonnes, while production by integrated plants decreased by 5.9 percent to 7.3 million tonnes, both year on year.

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6. The Position of Company within the Sector

In the first nine months of 2019 Company's crude steel production has realized as 4.208 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 17% 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 eight months of 2019.

Production Plants and Productivity

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

Capacity used (%)	1 January - 30 September 2019	1 January - 30 September 2018
Liquid Steel	98%	100%
Slab	92%	96%
Billet	40%	38%

8. Products

The main products of Company's is Billet, Wire Rod, Slab and Hot Rolled

Production (quantity)

Final Products (000 Tonne)	1 January - 30 September 2019	1 January - 30 September 2018
Flat Products	3.430	3.446
Long Products	757	684
Total	4.187	4.130

(*) 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 31 million tonne consumption in 2018. Steel consumption of Turkey decreased %28 and went to 17 million tonne in the first eight months of 2019 compare to the previous year.

Total steel product sales of Isdemir increased % 4 and reached to the level of 4.173 thousand tonne in the first nine months of 2019. The flat products sales decreased % 1 and went to 3.393 thousand tonne, long products sales increased %19 and reached to 780 thousand tonne.

Company also exported 724 thousand tonne of flat products and 181 thousand tonne of long products. Total export sales is 905 thousand tonne in the first nine months of 2019, which is %24 higher than the previous year and 22% of total sales.

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10. Sales (quantity)

Final Products (000 Tonne)	1 January - 30 September 2019	1 January - 30 September 2018
Flat Products(*)	3.393	3.344
Long Products	780	656
Total	4.173	4.000

(*) As of 30 September 2019, sales of 915 thousand tonnes of Slab in total flat product sales are transactions made to related parties.

F - Risks and Evaluation of the Board

1. Risk Management Policy

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

Almost all of our receivables are guaranteed with the Direct Debit System, Letter of Guarantee and the Credited Direct Collection System.

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

Duration is calculated based on the credit portfolio and cash flow projections in order to manage interest rate risks Company 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 company is monitored and actions are taken to keep this ratio within a defined limit. Derivative instruments are assessed and analyzed in detail. According to firm and market situation, convenient transactions are executed within certain limits.

2. Committee of Early Risk Detection

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

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

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

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G - Other Information

1. Organizations Out of the Headquarters

None.

2. Information about Shareholders

None.