



## **İSKENDERUN DEMİR VE ÇELİK A.Ş.**

For the Period 1 January – 30 June 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 – 30.06.2020

**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. The Company's 2019 Regular General Assembly has been executed on July 14, 2020.

The membership number of Board of Directors has determined as 9 and 6 Board Members have been elected for three years and 3 independent board members have been elected for one year by the General Assembly executed on 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. Accordingly 3 independent board members have been elected for one year by the General Assembly executed on 14 July 2020 instead of the 3 independent board members whose duty has ended.

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The active members of the Board of Directors as of 30.06.2020:

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.

### Changes in the Executive Board within the Period

After the reporting period;

- By the General Assembly executed on 14 July 2020; Yunus ARINCI, Ali FİDAN and Kurtuluş Bedri VAROĞLU have been elected as independent board members for one year.
- Our Company's Independent Board Member Yunus ARINCI resigned from this duty as of 17 July 2020. The necessary procedure to elect a new Independent Board Member instead of Yunus ARINCI have been initiated in accordance with the Corporate Governance Communiqué of the Capital Markets Board.

### 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.

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**Executive Management**

<b>Executive Management</b>	<b>Title</b>	<b>Effective from</b>	<b>Education</b>	<b>Experience</b>
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	

**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 14 July 2020, 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, companion leave (child), 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, working limit pregnancy leave, companion leave (child) adoption permit, part time work 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. Transfer permits are available for the benefits of our employees working on monthly basis.

The number of the personnel on 30 June 2020 and 31 December 2019 are as follows:

	<b>30 June 2020</b>	<b>31 December 2019</b>
	<b>Personnel</b>	<b>Personnel</b>
Paid Hourly Personnel	2.843	2.886
Paid Monthly Personnel	1.733	1.725
	<b>4.576</b>	<b>4.611</b>

## **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 – 30 June 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 14 July 2020 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 4.450 (monthly, in cash),
- the monthly net wage that will be paid to Independent Board Members will be TRY 9.800 (monthly, in cash),
- the new wages will be valid from the date of 1 August 2020.

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.

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

**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 owned by 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.

At the first part of 2020, 3 new long product grades were developed. In addition to the 218 flat steel grades, the number of long steel products have been reached to 308.

As being in the scope of R&D activities 11 projects have been completed and 56 projects have been still going further during that period.

Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, 6 projects have been completed successfully so far. Periodical reports for 3 supported projects and also final reports for 2 supported projects have been completed. Even though for one project application has been done at the end of June 2019, approval of TUBITAK still has been waited.

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 cumulatively with 68 papers / oral or poster presentations, 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.

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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 Overhead Crane Projects. Engineering, purchasing processes, equipment supply, manufacturing and site studies continue in the 1. New Blast Furnace, Vacuum Degassing Plant and Modernization of the 3. Coke Oven Battery Projects. Purchasing activities continue in the 1. Blast Furnace Top Recovery Turbine (TRT) Project. Isdemir 3. Steam Boiler Retubing (Partial Pipe Replacement) and Burner Modification Project started with the Board Approval.

As of June 30, 2020, Isdemir's total investment expense amount is USD 61.337 thousand (June 30, 2019: USD 30.052 thousand).

## **2. Internal Control System and Internal Auditing Activities**

Isdemir'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:

<b>Name of the Company</b>	<b>Country of Operation</b>	<b>Operation</b>	<b>2020 Share %</b>	<b>2019 Share %</b>
Teknopark Hatay A.Ş.	Turkey	R&D Center	5	5
Isdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production & Sales	50	50

At the Ordinary General Assembly Meeting of Isdemir Linde Gaz Ortaklığı A.Ş., dated 27 February 2020, reducing capital by 26.667 thousand TRY and decisions regarding the distribution of cash dividend of TRY 17.302 thousand from the net profit of 2019 have been unanimously approved. The payment for the capital reduction and 25% of the dividend has been completed on 4 June 2020.

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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 reviewed as of 30 June 2020.

#### Summary of Balance Sheet

	(Reviewed)	(Audited)
	Current Period	Previous Period
(Thousand TRY)	30 June 2020	31 December 2019
Current Assets	12.332.239	9.778.890
Non-current Assets	13.914.026	11.843.311
<b>Total Assets</b>	<b>26.246.265</b>	<b>21.622.201</b>
Current Liabilities	3.703.138	2.943.097
Non-current Liabilities	3.212.602	2.487.377
Shareholders' Equity	19.330.525	16.191.727
<b>Total Liabilities</b>	<b>26.246.265</b>	<b>21.622.201</b>

#### Summary of Income Statement

	(Reviewed)	( Reviewed )
	Current Period	Previous Period
(Thousand TRY)	1 January - 30 June 2020	1 January - 30 June 2019
Sales Revenue	7.226.745	8.558.226
Gross Profit	1.162.368	1.765.161
Operating Profit	1.185.834	1.654.403
Profit Before Tax	1.239.069	2.113.948
Profit for the Period	673.421	1.470.821
EBITDA	1.381.549	1.975.670

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.



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## 2. Key Ratios

(%)	1 January - 30 June 2020	1 January - 30 June 2019
Gross Profit Margin	16%	21%
Operating Profit Margin	16%	19%
EBITDA Margin	19%	23%
Profit Margin	9%	17%

## 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.

## 4. Dividend Distribution Policy

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.”

At the Ordinary General Assembly Meeting held on 14 July 2020, the decision regarding the distribution of a cash dividend amounting to TRY 522.000 thousand (profit share per gross share: 0,18 TRY) from the profit of 2019 was approved. Dividend distribution started on 16 July 2020.

## 5. Information about the sector

Global crude steel production in June 2020 decreased by 0.3 percent month-on-month and dropped by 7.0 percent year-on-year to 148.3 million metric tons. In the January-June period of this year, global crude steel production decreased to 873.1 million mt, down 6.0 percent year-on-year.

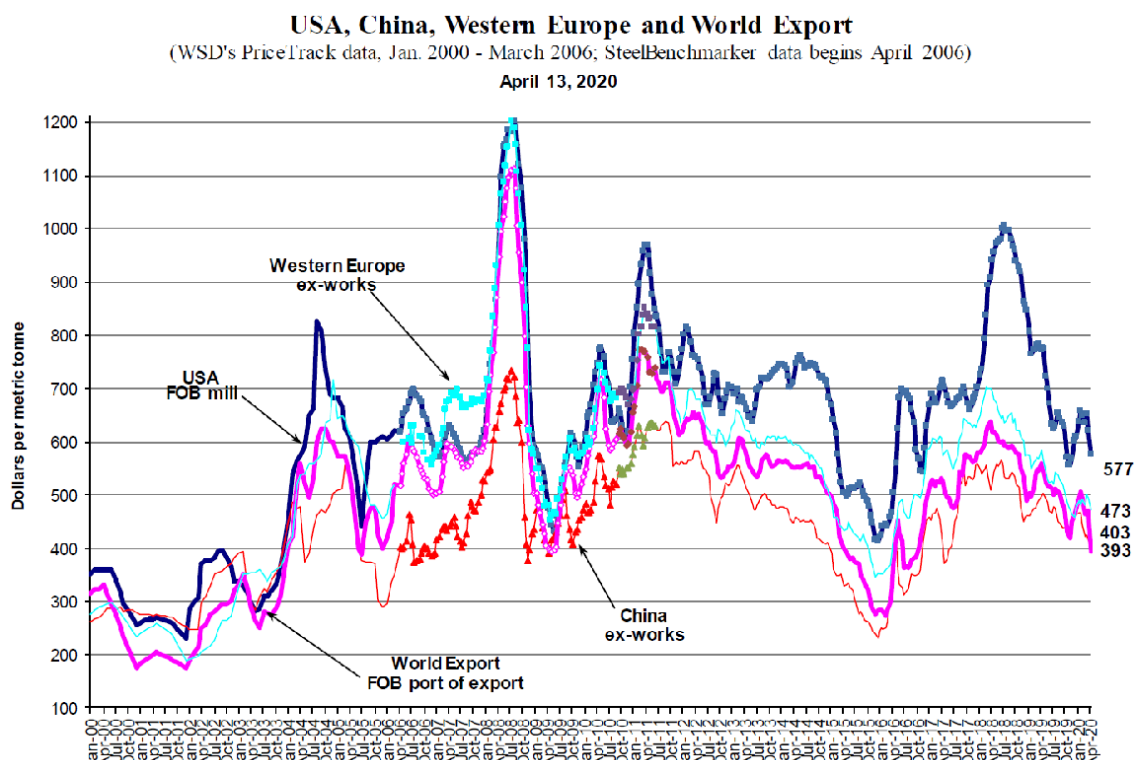
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In June, Asia produced 113.3 million mt of crude steel, down 2.3 percent year-on-year. China produced 91.6 million mt of crude steel in June 2020, an increase of 4.5 percent compared to June 2019; India produced 6.9 million mt, down 26.3 percent; Japan produced 5.6 million mt, down 36.3 percent; and South Korea produced 5.1 million mt, down by 14.3 percent.

The EU-28 countries produced 10.2 million mt of crude steel in June, down 24.6 percent year-on-year. Germany produced 2.5 million mt of crude steel, down 27.3 percent; Italy produced 1.8 million mt, down 13.0 percent; and France and Spain each produced 0.8 million mt of crude steel, down 34.9 percent and 31.5 percent, respectively.

The CIS produced 7.9 million mt, down 5.0 percent on June 2019, with Russia producing 5.6 million mt, down 7.6 percent, and Ukraine producing 1.8 million mt, up 9.0 percent. In North America in June, crude steel output totaled 6.7 million mt, down 32.2 percent from June 2019, with the US producing 4.7 million mt, down 34.5 percent, and Mexico producing 1.1 million mt, down 21.4 percent year-on-year. Crude steel output in South America in June totaled 2.6 million mt, down 30.4 percent year-on-year, with Brazil's output totaling 2.1 million mt, down 27.1 percent from June 2019.

Price changes of hot rolled products follows:



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Turkish crude steel output in June this year increased by 23.2 percent month on month and was up by 4 percent year on year to 2.8 million mt. In the given month, Turkey's crude steel output by electric arc furnaces increased by 1 percent, and the production by integrated plants increased by 11,1 percent, both year on year.

In the January-June period, Turkish crude steel output fell to 16.3 million mt, down 4.1 percent year on year. In the same period, Turkey's crude steel output by electric arc furnaces declined by 4.3 percent to 10.9 million mt, while production by integrated plants decreased by 3.6 percent to 5.4 million mt, both year on year.

## 6. The Position of Isdemir within the Sector

In the first six months of 2020 Isdemir's crude steel production has realized as 2.330 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 14% 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 six months of 2020.

### Production Plants and Productivity

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

Capacity used (%)	1 January - 30 June 2020	1 January - 30 June 2019
Liquid Steel	82%	99%
Crude Steel	80%	97%

## 8. Products

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

### Production (quantity)

Final Products (000 Tonne)	1 January - 30 June 2020	1 January - 30 June 2019
Flat Products	1.814	2.275
Long Products	450	522
<b>Total</b>	<b>2.264</b>	<b>2.797</b>

(\*) Slab production included to flat production.

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## 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 %9 and went to 13,4 million tonne in the first six months of 2020 compare to the previous year.

Total steel product sales of İsdemir decreased %19 and reached to the level of 2.275 thousand tonne in the first half of 2020. The flat products sales decreased %20 and went to 1.822 thousand tonne, while long products sales decreased %16 and reached to 453 thousand tonne.

İsdemir also exported 359 thousand tonne of flat products and 34 thousand tonne of long products. Total export sales is 393 thousand tonne in the first half of 2020, which is %42 lower than the previous year and 17% of total sales.

## 10. Sales (quantity)

Final Products (000 Tonne)	1 January - 30 June 2020	1 January - 30 June 2019
Flat Products	1.822	2.280
Long Products	453	540
<b>Total</b>	<b>2.275</b>	<b>2.820</b>

(\*) As of 30 June 2020, 290 thousand tons of flat product sales were made to related parties.

## F - Risks and Evaluation of the Board

### 1. Enterprise Risk Management

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.

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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**

The Company held the Ordinary General Assembly Meeting for 2019 on 14 July 2020. Based on the provision of temporary Article 13 of Turkish Commercial Code "In capital companies only twenty-five percent of the net profit for the year 2019 can be distributed in cash, prior years' profits and provisions cannot be subject to distribution from the enactment of the temporary article 13 of the Law until the date of 30 September 2020." it was decided to distribute TRY 522.000.000 cash shareholder profit share and to start profit distribution as of 16 July 2020.

The lawsuit filed by the Company, against the Privatization Administration in accordance with the share transfer agreement with the request of recourse for the payment of the employment termination benefit, the difference of collective agreements made to subcontractors, overtime fees and annual leave fees, concluded with the collection of TRY 52.857.450 and advance interest under the decision of the Court dated 30 June 2016 and numbered 2016/340K. The lawsuit was recorded in the file numbered 2015/125E of 19th Civil Court of First Instance. Appeals and decision correction applications made by the Privatization Administration against the court decision were rejected by the 11th Civil Chamber of the Supreme Court of Appeals and the court decision was finalized in favor of İsdemir. In this context, from total of TRY 84.147.491 for which the provision was made in the prior periods' financial statements, a portion of TRY 111.849.623 including the principal and interest amounting to TRY 52.857.450 was collected on 21 July 2020.