



**İSKENDERUN DEMİR VE ÇELİK A.Ş.**

**Interim Activity Report**  
for the period of 1<sup>st</sup> January– 31<sup>st</sup> March 2018

## Interim Activity Report

### A – GENERAL INFORMATION

#### 1. Period of the Report

01.01.2018 – 31.03.2018

#### 2. Information about the partnership

- Trade title: İSKENDERUN DEMİR VE ÇELİK A.Ş.
- Trade Register Number: 1599
- Head office communication information: Karayılan Mahallesi, 31319 İskenderun/HATAY
- Website: www.isdemir.com.tr

#### 3. Shareholding Structure and Capital Distribution

Shareholders	Share amount (thousand TRY)	%
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	2.756.978	95,07
Publicly held part	143.022	4,93
Grand total	2.900.000	100,00

Ereğli Demir ve Çelik Fabrikaları T.A.Ş realized sales transaction of total TRY 42.390.615 from TRY 7,5 of transaction price of 5.652.082 nominal shares of İskenderun Demir ve Çelik A.Ş. "İsdemir" whose capital share is 95,07 in the company and which is traded in pre-market trading platform on 13/04/2018. Its share in the company capital owned after sales transaction is realized as 94,87%. Since the conditions in BİAŞ quotation regulation is met upon share change; İsdemir shares "ISDMR" began to be traded in in star market as of 19/04/2018.

#### 4. Information about board of directors, executive management and number of personnel

According to the Turkish Commercial Code and related regulations, election of the Board of Directors is executed by the General Assembly pursuant to Articles of Association of the company. Should there be an vacancy 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 Articles of Association of the company and the results are submitted to the general assembly to for approval. Changes realized within the period are made by decision of board of directors in order to be approved in the next general assembly meeting. Ordinary General Assembly of the company for year 2017 has been executed on 29th March 2018.

Number of members of board of directors is determined as 6 in accordance with 9<sup>th</sup> and 10<sup>th</sup> articles of Articles of Association of the Company in ordinary general assembly meeting made on 29<sup>th</sup> March 2018 pursuant to Turkish Commercial Code and Capital Market Law and 6 members of board of directors are elected for 1 year by general assembly.

## İSKENDERUN DEMİR VE ÇELİK A.Ş.

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Members of board of directors who are in Office as of 31/03/2018

Board of directors	Duty	Date of taking office
ATAER Holding A.Ş. (representative: Süleyman Savaş ERDEM)	Chairman of board of directors	15/11/2013 (*)
Erdemir Madencilik Sanayi ve Ticaret A.Ş. (representative: Sedat ORHAN)	Vice chairman of board of directors and managing director	08/03/2010 (*)
Republic of Turkey Prime Ministry Privatization Administration (representative: Bekir Emre HAYKIR)	Member of board of directors	05/09/2016 (*)
Oyak Pazarlama Hizmet ve Turizm A.Ş. (representative: Ertuğrul AYDIN)	Member of board of directors	18/03/2008 (*)
Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. (representative: Güliz KAYA)	Member of board of directors	25/05/2016 (*)
Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. (representative: Ahmet Türker ANAYURT)	Member of board of directors	30/03/2016 (*)

(\*) Date taking office by legal entity member of board of directors is taken as basis.

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

The Chairman and the members of the Board of Directors possess duties and powers set out in the relevant clauses of Turkish Commercial Code and in the Articles of Association of the company.

### Executive Management

Executive Management	Duty	Date of taking office	Education	Professional experience
Toker ÖZCAN	General Director	16/01/2017	Middle East Technical University - Mechanical Engineering	27 years
Mesut KEYFLİ	Deputy Vice General Director (Enterprises)	19/04/2018	İstanbul Technical University Metallurgy Engineering	29 years
Mehmet PEHLİVAN	Vice General Director (Financial affairs)	20/04/2017	Dokuz Eylül University - Economics	22 years
Hasan DURGUN	Deputy Vice General Director (Human Resources)	20/04/2017	University – Public Administration	13 years
Ferat GÖÇ	Deputy Vice General Director (Purchase)	23/02/2017	Erciyes University - Business Administration	21 years

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Financial affairs Vice General Director Mehmet PEHLİVAN has been appointed assigned two this duty as principal by 11.04.2018.

**5. The Transactions of Board Members made on its behalf or on behalf of others and their activities in the scope of prohibition of competition**

At the Ordinary General Assembly meeting of the held on 29<sup>th</sup> March 2018 regarding the activities of the company for year 2017, it is consented to give the authority for transactions for 2018 pursuant to articles 395 and 396 of Turkish Commercial Code to the members of board of directors. No transaction had been realized in this context.

**6. Personnel and Labor Movements and Collective Labor Agreement Applications and personnel and employee rights and benefits**

26<sup>th</sup> Period Collective Labor Agreement at İskenderun Demir ve Çelik A.Ş. is signed between Steel Workers Union and our company on 29<sup>th</sup> December 2017 and shall be valid between 01.01.2018-31.12.2020.

In the scope of collective labor agreement applications, the rights and benefits of the employees are classified under bonuses, social benefits, and vacations. Bonuses and social benefits are; bonuses, supplementary health insurance, feast allowance, fuel allowance, paid annual leave allowance, marriage allowance, birth allowance, death benefit (worker's death, worker's spouse's, children's, mother's, father's or sibling's death, in the case of a death as a result of a work accident it is given to worker's heir at law) military service allowance, children allowance, educational allowance (primary school, middle school, high school and higher education), meal allowance and transportation allowance. Vacations are paid annual leaves, accompaniment leaves for medical purposes, excused absences, unpaid leaves, and other paid leaves consisting marriage leaves, death leaves, working limit (pregnancy) leaves, maternity leaves, part time working leaves, transport leaves, nursing leaves, adoption leaves and natural catastrophe leaves.

Death allowance (in the case of death of worker), transportation and meal allowance among the social benefits are given to all employees; the rest is given only to hourly-paid workers. Paid annual leaves, leaves of absence with excuse, marriage leaves, death leaves, maternity leaves, working limit (pregnancy) leaves, accompaniment leaves for medical purposes, adoption leaves, part time working leaves, transport leaves, unpaid leaves and nursing leaves are given to all employees; the rest is benefited only by hourly-paid workers. Number of the personnel on 31 March 2018 and 31 December 2017 are as follows:

	31 March 2018 Person	31 December 2017 person
Blue collar	3.064	3.107
White collar	1.745	1.756
	4.809	4.863

**7. Amendments in the articles of association**

None.

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**B – Financial Rights given to members of board of directors and executive management**

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

In general assembly meeting dated 29<sup>th</sup> March 2018 of the company; it is decided

- not to pay wage to members of board of directors who are elected as representative of B group shares;
- to determine the wage to be paid to members of board of directors who are elected as representative of A group shares as net TRY 3.350 per month (in advance at the beginning of the relevant month)
- to enter the new wages into force as of 01.04.2018.

Personal accident and life insurances were arranged for the chairman and members of board of directors and no other benefits were given.

No performance-based payment in nature of rewarding was made to members of board of directors.

Within the period; no debt was given to any member of board of directors, no credit was utilized under personal credit directly or through a third party or guarantees such as sureties are not in favor of them.

Wages of the Executive Management of the company is determined by the board of directors of the company. Personal accident and life insurances were arranged for the chairman board of directors. Performance based additional payment is given to out-of-scope personnel including Executive Management of the company.

**2. Information about total amount of allowances given, travel, accommodation and representation expenses and real and cash means, insurance and similar guarantees**

Total TRY 1.345 thousand occurred/recorded as expense related to members of board of directors and Executive Management of the company within the report period.

**C – Research and Development Studies**

R&D Center rendering service in OYAK Mine Metallurgy Group to where the company is affiliated carries out its activities within "Erdemir R&D Center" which is approved by Republic of Turkey Ministry of Science, Industry and Technology in 2014. Research and development activities mainly consist of four groups as raw materials and iron making process, steel making and casting technologies, hot rolled products and process, cold rolled products and process.

As part of the R&D activities; 5 projects have been completed and 48 projects have been continued.

Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, 4 projects have been completed successfully until today. The studies and reporting activities have been continued for supported 5 projects.

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Our R&D Center employees have contributed to the intellectual capital of the company by participating to the national / international organizations related to the iron and steel sector activities with 51 articles/ papers / poster presentations until today.

Our R&D Center completed audit of Republic of Turkey Ministry of Science, Industry and Technology where 2<sup>nd</sup> annual activity period is assessed.

Construction works in the scope of moving of R&D Center to the outside of the factory area is substantially completed. Studies related to laboratories to be newly established still continue and moving procedures shall be completed within the year and new laboratory shall be taken into operation.

### **D – Activities and important developments regarding the activities**

#### **1. Investment Activities**

OYAK Mining Metallurgy Group produces products competing globally with its modern production facilities and production technology and continues its investments through its continuous development strategy.

24 of 25 projects in Environmental Investments Program have been taken into operation in İsdemir facilities in this scope and field activities continue in one project. Field works continue in Electrical Station dust holding & water cooling systems modernization project. Contract is signed in slab casting mold level control system modernization project.

Purchasing process and assessment studies continue in vacuum degassing facility, renovation 3<sup>rd</sup> coke oven battery, new coke gas gasometer and South Harbor 1<sup>st</sup> Stage Construction Works Back Filling Projects. As of 31<sup>st</sup> March 2018, total investment expenditures amount of the company is USD 8.437 thousand (31<sup>st</sup> March 2017: USD 11.711 thousand).

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

Although the company does not have its own Internal Audit Department; there is Internal Audit Directorate in OYAK Mining Metallurgy Group directly bound to Chairman of board of directors and managing director in order to assess and improve the effectiveness of risk management, control and governance processes.

Internal Audit Unit operating for the purpose of operating and improving of effectiveness of risk management, control and governance processes directly reports to Chairman of board of directors and managing director. The Audit Committee comprising of independent members of board of directors is informed regularly about the audit activities and effectiveness of the internal control system.

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## 3. Direct and Indirect Affiliates

## The Information about subsidiaries subject to consolidation

Main field of activity of companies which included to consolidation and their share of participation to company capital are as follows:

Name of the Company	Country of Operation	field of activity	2018 Participation rate %	2017 Participation rate %
Teknopark Hatay A.Ş.	Turkey	R&D Center	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Production and sale of industrial gas	50	50

İsdemir Linde Gaz Ortaklığı A.Ş. which was founded 50%-50% partnership with the German Linde Group in order to support production of the company, to provide additional industrial gas need and to reduce the costs with an effective and efficient management is entered to accounting records according to equity sharing method in financial statements.

In ordinary general assembly meeting of İsdemir Linde Gaz Ortaklığı A.Ş. for the year 2017 that was held on 8<sup>th</sup> March 2018; it is decided to increase capital of İsdemir Linde Gaz Ortaklığı A.Ş. that is TRY 27.000.000 up to TRY 201.666.600 by increasing at amount of TRY 174.666.600. Entire of the increased capital is paid by the shareholders as of 9<sup>th</sup> March 2018.

Share of investments of the company valuated by equity method in net assets is as follows.

(thousand TRY)	31 <sup>st</sup> March 2018	31 <sup>st</sup> March 2017
Total assets	283.345	278.444
Total liabilities	71.495	246.568
Net assets	211.850	31.876
Share of the company in net assets	105.925	15.938

Share of investments of the company valuated by equity method in net period profits is as follows.

(thousand TRY)	31 <sup>st</sup> March 2018	31 <sup>st</sup> March 2017
Revenue	15.260	-
Net period profit (loss)	2.743	(390)
Share of the company in net period profit	1.371	(195)

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**E - Financial Position****1. Summary of Financial Statements**

Financial statements are prepared in accordance with the Communiqué Serial: II, 14.1 of Capital Market Board and interim financial statements dated 31/03/2018 have not been audited.

Special financial situation table

	(Unaudited)	(Audited)
(thousand TRY)	31 <sup>st</sup> March 2018 Current period	31 <sup>st</sup> March 2017 Previous period
Current assets	7.541.523	6.208.412
Fixed assets	8.001.144	7.634.003
Total assets	15.542.667	13.842.415
Short term liabilities	4.706.563	2.371.825
Long term liabilities	1.591.412	1.501.805
Owner's equity	9.244.692	9.968.785
Total of liabilities	15.542.667	13.842.415

Summary profit or loss statement

	(Unaudited)	(Audited)
(thousand TRY)	Current period	Previous period
	1 January - 31 <sup>st</sup> March 2018	1 January - 31 <sup>st</sup> March 2017
revenue	2.970.691	2.273.876
Gross profit	1.020.302	636.380
Activity profit	991.091	608.140
Profit before tax	1.072.261	629.862
Period profit	787.035	488.055
EBITDA	1.072.484	693.097

The company prepares its budgets pursuant to its strategic targets and the prepared budget is approved by the Board of Directors.

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

**2. Important Ratios**

	1 January - 31 <sup>st</sup> March 2018	1 January - 31 <sup>st</sup> March 2017
Gross profit margin	34%	28%
Operating profit margin	33%	27%
EBIDTA ratio	36%	30%
Period profit margin	26%	21%



### **3. Improvement of financing sources and the policies that the enterprise applies in this improvement framework**

The company has full access to all national and international financing sources with its market making power based on high trading volume. New financing alternatives according to changing market conditions are continuously researched and offers are evaluated. The company develops its debt policy of the company based on the capability of high cash generation capability and the strong equity structure. Hedging methods to be used against financial risks that may be incurred and their ratios are developed based on a frame of systematic models. Within the risk tolerances, forward, futures, swap and options transactions in appropriate with market conditions are followed and they may be used under necessary conditions.

### **4. Dividend Distribution**

Dividend Distribution Policy of the company is defined as follows:

“Principally the company adopted the policy to distribute entire distributable period profit in cash as long as it is allowed by prospective free cash creating expectation including financial leverage ratios and investment/financing needs and market predictions pursuant to legislation in force and provisions of Articles of Association of the company. Profit distribution policy is reviewed every year by the board of directors according to national and global economic conditions, projects of the company in the agenda and situation of the funds.

Dividend is paid until 15<sup>th</sup> December of the relevant calendar year as equal or in different amounted installments pursuant to provisions of the legislation by authorizing the board of directors at the general assembly meeting where profit distribution is decided.

General Assembly is authorized to distribute dividend advance pursuant to provisions of the relevant legislation.”

Cash dividend distribution (gross dividend per share: TRY 0,70) amounting to TRY 2.030.000 thousand from year 2017 net profit was approved during Annual General Assembly Meeting dated 29<sup>th</sup> March 2018. The dividend distribution will begin on 29<sup>th</sup> May 2018.

### **5. Information about the sector where the company has business activity**

It is reported that global raw steel production in March this year became 148,3 million ton with a monthly increase of 12,5% and annual increase of 4%. In the given month, average capacity utilization of steel plants across the world was recorded as 74,5% with an increase of 2,2 percentage point compared with the March of the last year and an monthly increase of 0,9 percentage point. In the January-March period, it is announced that global raw steel production became 426,6 million ton with an annual increase of 4,1%.

Raw steel production realized in Asia in March is recorded as 102.2 million ton with an increase of 4,% compared with same month of the previous year. In the subject period; raw steel production of China became 74 million ton with an annual increase of 4,5%, of Japan became 9,1 million ton with an annual increase of 2,2%, of India became 9,2 million ton with an annual increase of 5,3% and of South Korea became 6,1 million ton with an annual increase of 4,7%.

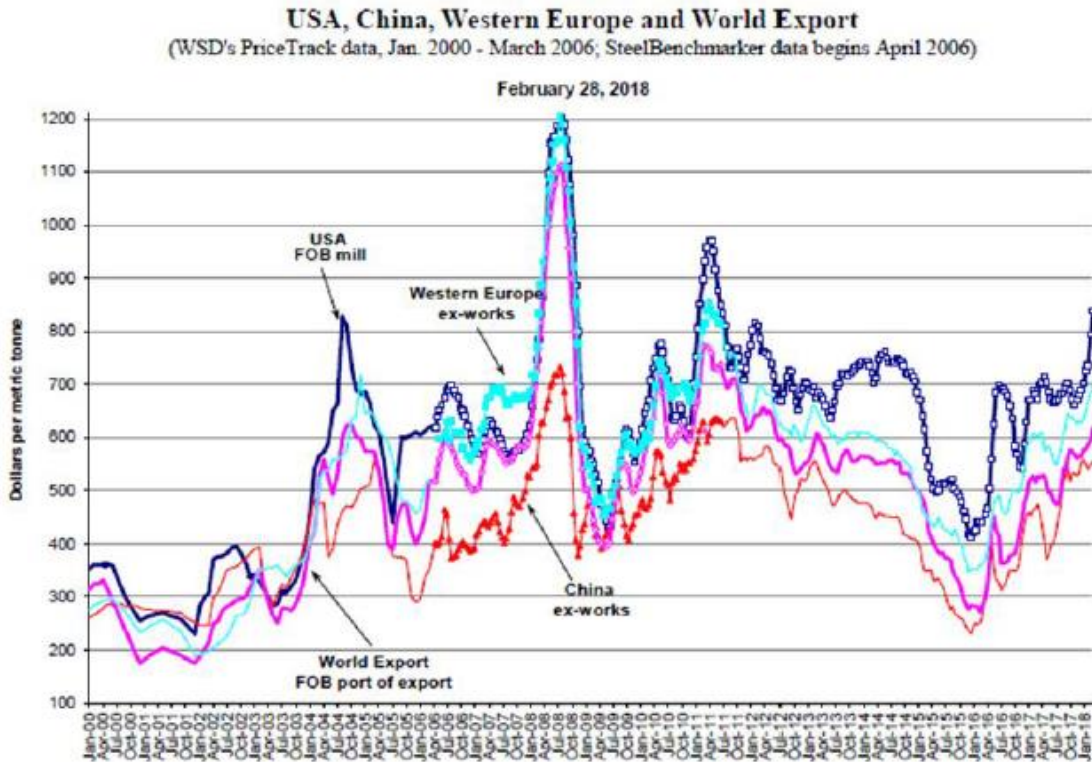
On the other hand, EU-28 countries produced 15,1 million ton of raw steel in March with an annual increase of 0,5%. In March, raw steel production of Germany became 3,9 million ton with an annual increase of 0,6%, of Italy became 2,3 million ton with an annual increase of 1%, of France became 1,4 million ton with an annual increase of 1,5%.

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Iran produced 2,4 million ton of raw steel in March 2018 with an increase of 43,7%. In the same month, while raw steel production of CIS countries became 8,1 million ton with an annual decrease of 6%; Russia realized raw steel production of 5,7 million ton with an annual decrease of 10% in the subject period. Raw steel production of Ukraine rose to 1,7 million ton with an annual increase of 4,7%.

In March, North America countries realized raw steel production of 10,3 million ton with an annual increase of 4,9%. In the subject period; while USA produced 7,3 million ton of raw steel with an annual increase of 5,3%; Mexico produced 1,8 million ton of raw steel with an annual increase of 2,9%. In the subject period; while raw steel production of North American countries became 4 million ton with an increase of 8,7% compared with March 2017; Brazil produced 3,1 million ton of raw steel with an annual increase of 7,6%,

World hot product price change is given in the graph herein below.



In March, raw steel production of Turkey became 3,4 million ton with a monthly increase of 12,4% and with an annual increase of 7,6%. In the same month, Turkey's raw steel production by electric arc furnaces rose 10% annually, and production in integrated plants increased 2.5% annually.

However, in the first quarter of this year; raw steel production of Turkey became 8,8 million ton with an annual increase of 7,9%; raw steel production by electric arc furnaces rose became 6,6 million ton with an annual increase of 10,8% and production in integrated plants became 2,9 million ton with an annual increase of 2%.

## 6. Position in the sector

The company realized 1.425 thousand ton of raw steel production in the first quarter of 2018.

## 7. Operational Developments

İsdemir, the only integrated flat and long steel producer of Turkey, continuing its production, operation, maintenance and modernization works in all facilities continues its activities in line with optimum cost and maximum productivity and quality production principle realized 16% of raw steel production of Turkey in first quarter of 2018.

## Plants of the enterprises and Productivity

Capacity utilization rates of the company is mentioned herein below:

Capacity utilization rates (%)	1 January - 31 <sup>st</sup> March 2018	1 January - 31 <sup>st</sup> March 2017
Liquid steel	100%	100%
Slab	92%	90%
Billet	44%	49%

## 8. Products

There are billet, coil, slab and hot roll in main products which are produced by the company.

### Production (quantity)

Final Products (000 Ton)	1 January - 31 <sup>st</sup> March 2018	1 January - 31 <sup>st</sup> March 2017
Flat Products production	1.093	1.052
Long Products production	251	298
total	1.344	1.350

(\*) Slab production is included in flat products production.

## 9. Improvement in Sales

Iron and steel industry functions as locomotive for national economies. Turkey is one of the leading countries in terms of both production and consumption in this sector. 36 million ton steel produced in 2017 in our country which is the 8<sup>th</sup> biggest steel consumer of the world. While steel consumption increased 8,4% compared with the previous year in first two months of 2018; flat steel consumption became 3 million ton as realized at a level that is similar with the previous year.

Total flat product sales of the company reached to the level of 0.8 million ton in the first quarter of 2018. Domestic flat product sales became 0,6 million ton and increased 21% compared with sales of the previous year. Long products sales decreased 17% and went to 249 thousand ton, domestic long product sales became 239 thousand ton with an increase of %6 compared to the previous year.

The company exported total 174 thousand ton finished product as 164 thousand ton flat product and 10 thousand ton long product. This amount composes 14% of total sales.

**10. Sales (quantity)**

Final Products (000 Ton)	1 January - 31 <sup>st</sup> March 2018	1 January - 31 <sup>st</sup> March 2017
Flat Products production	1.024	960
Long Products production	249	300
total	1.273	1.260

(\*) Entire of 207 thousand ton slab sales in flat product sales is the transactions made to the related parties.

**F - Risks and Evaluation of the Board****1. Risk Management Policy**

Risks are monitored and managed in compliance with the regulation for developing hedging methods and the directives related with management of the market and receivable risks for measuring the risks the company is exposed and to keep these risks within the foreseen risk tolerances.

Almost all of our receivable risks are guaranteed with the Direct Debit System, the Credited Direct Collection System and the Credit Receivable Insurance.

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 the company is exposed and amount of gain / loss which may arise in case of 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 evaluated and analyzed in detail according to company and market convenience, appropriate transactions are realized within the limits.

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

None.

**2. Information to stakeholders**

None.