



İSKENDERUN DEMİR VE ÇELİK A.Ş.

For the Period 1 January – 30 September 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 – 30.09.2020

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

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
Total	2.900.000	100,00

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 30.09.2020:

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
Vacant	Independent Board Member	-
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

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

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	

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 September 2020 and 31 December 2019 are as follows:

	30 September 2020	31 December 2019
	Personnel	Personnel
Paid Hourly Personnel	2.928	2.886
Paid Monthly Personnel	1.726	1.725
	4.654	4.611

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 September 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 4.171 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 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, 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.

During nine months, 6 new long product grades were developed. In addition to the 219 flat steel grades, the number of long steel products have been reached to 311.

As being in the scope of R&D activities 15 projects have been completed and 59 projects have been still going further during that period.

Within the scope of TÜBİTAK / TEYDEB Projects 1501 program, 7 projects have been completed successfully so far. Periodical report for 1 supported project has been completed. One project applied for at the end of June 2019 has been approved.

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 69 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 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 works continue in the 1. New Blast Furnace, Vacuum Degassing Plant and Modernization of the 3. Coke Oven Battery Projects. Procurement activities continue in the 1. Blast Furnace Top Recovery Turbine (TRT) Project and 3. Steam Boiler Retubing (Partial Pipe Replacement) and Burner Modification Project.

As of September 30, 2020, Isdemir's total investment expense amount is USD 101.705 thousand (September 30, 2019: USD 45.133 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:

Name of the Company	Country of Operation	Operation	2020 Share %	2019 Share %
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 not been reviewed as of 30 September 2020.

Summary of Balance Sheet

(Thousand TRY)	(Unaudited)		(Audited)	
	Current Period		Previous Period	
	30 September 2020		31 December 2019	
Current Assets	13.717.756		9.778.890	
Non-current Assets	15.934.337		11.843.311	
Total Assets	29.652.093		21.622.201	
Current Liabilities	3.956.942		2.943.097	
Non-current Liabilities	3.799.967		2.487.377	
Shareholders' Equity	21.895.184		16.191.727	
Total Liabilities	29.652.093		21.622.201	

Summary of Income Statement

(Thousand TRY)	(Unaudited)		(Unaudited)	
	Current Period		Previous Period	
	1 January - 30 September 2020		1 January - 30 September 2019	
Sales Revenue	11.551.629		12.590.867	
Gross Profit	1.887.038		2.473.736	
Operating Profit	1.851.529		2.279.061	
Profit Before Tax	2.128.133		2.612.823	
Profit for the Period	1.069.390		1.895.866	
EBITDA	2.241.132		2.752.501	

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 September 2020	1 January - 30 September 2019
Gross Profit Margin	16%	20%
Operating Profit Margin	16%	18%
EBITDA Margin	19%	22%
Profit Margin	9%	15%

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 August increased by 2,3% month on month, while it rose by 0,6% year on year to 156,2 million tons. In the January-August period of this year, global crude steel production totaled 1,2 billion, down 4,2% year on year.

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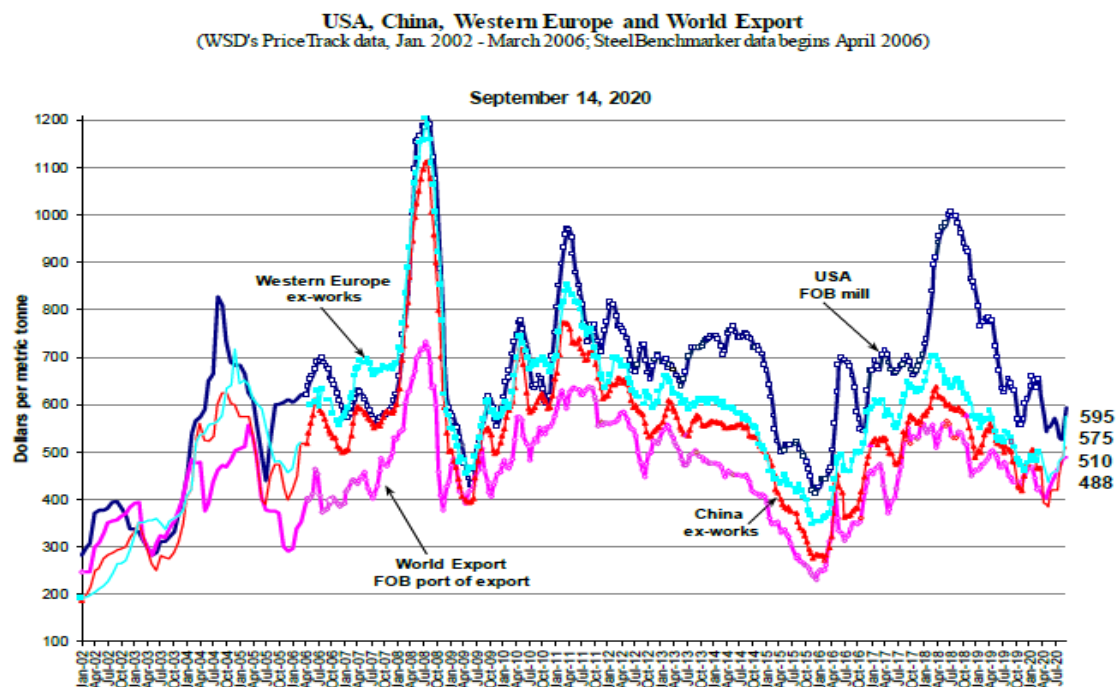
In August this year, Asia produced 120,2 million tonne of crude steel, up 4,8% year on year. China produced 94,8 million tonne of crude steel in August, an increase of 8,4%; India produced 8,4 million tonne, down 4,4%; Japan produced 6,4 million tonne, down 20,6%; and South Korea produced 5,8 million tonne, down by 1,8%, all year on year.

The EU-28 countries produced 9,3 million tonne of crude steel in August, down 16,6% year on year. Germany produced 2,8 million tonne of crude steel, down 13,4%; Italy produced 939 thousand tonne, up 9,7%; and France produced 722 thousand tonne of crude steel, down 31,2%, all year on year.

The CIS produced 7,9 million tonne, down 6,2% from August 2019, with Russia producing 5,5 million tonne, down 4,6% and Ukraine producing 1,8 million tonne, down 5,7% year on year.

In North America in August, crude steel output totaled 7,7 million tonne, down 23,7% from August 2019, with the US producing 5,5 million tonne, down 24,4% and Mexico producing 1,2 million tonne, down 17,3% year on year. Crude steel output in South America in August totaled 3,3 million tonne, down 1,7% year on year, with Brazil's output totaling 2,7 million tonne, up 6,5% from August 2019.

Price changes of hot rolled products follows:



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Turkey's crude steel production in August this year came to 3,2 million tonne, up by 22,9% from August 2019. In the January-August period, Turkish crude steel output increased by 0,6% to 22,7 million tonne. Turkey's crude steel output by electric arc furnaces increased by 0,3% and the production by integrated plants increased by 1,1% both year on year.

In the January-August period, Turkish crude steel output fell to 22,7 million tonne, down 0,6% year on year. In the same period, Turkey's crude steel output by electric arc furnaces increased by 0,3% to 15,3 million tonne, while production by integrated plants increased by 1,1% to 7,4 million tonne, both year on year.

6. The Position of Isdemir within the Sector

In the first nine months of 2020 Isdemir's crude steel production has realized as 3.748 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 nine 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 September 2020	1 January - 30 September 2019
Liquid Steel	88%	98%
Crude Steel	86%	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 September 2020	1 January - 30 September 2019
Flat Products	2.863	3.430
Long Products	773	757
Total	3.636	4.187

(*) 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 %13 and went to 19,0 million tonne in the first eight months of 2020 compare to the previous year.

Total steel product sales of İsdemir decreased %13,5 and reached to the level of 3.607 thousand tonne in the first nine months of 2020. The flat products sales decreased %16,5 and went to 2.833 thousand tonne, while long products sales decreased %1 and reached to 774 thousand tonne.

İsdemir also exported 574 thousand tonne of flat products and 48 thousand tonne of long products. Total export sales is 622 thousand tonne in the first nine months of 2020, which is %31 lower than the previous year and 17% of total sales.

10. Sales (quantity)

Final Products (000 Tonne)	1 January - 30 September 2020	1 January - 30 September 2019
Flat Products	2.833	3.393
Long Products	774	780
Total	3.607	4.173

(*) As of 30 September 2020, 422 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

None.