



İSKENDERUN DEMİR VE ÇELİK A.Ş.

Interim Operating Report issued by the Board for the period
January 1 - June 30, 2018

Deloitte

LIMITED AUDIT REPORT ON COMPLIANCE OF INTERIM OPERATING REPORT

To the Board of Directors of Iskenderun Demir ve Celik A.S.

We have been assigned to conduct an audit on the compliance of the financial information included in the accompanying interim operating report of Iskenderun Demir ve Celik A.S. ("the Company") as of June 30,2016, with the interim condensed financial statements, which have been reviewed. Interim operating report is the responsibility of the Company's management. Our responsibility as the auditors is to express a conclusion regarding if the financial information included in the accompanying interim operating report is consistent with the interim condensed financial statements and explanatory notes, which have been reviewed as the subject of the review report dated August 9, 2018.

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of Interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review of the Interim Financial Information does not provide assurance that the audit firm will be aware of all significant matters that might be identified in an audit. Therefore, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the financial information included in the accompanying interim operating report is not consistent, in all material respects, with the Information disclosed in the Interim condensed financial statements and explanatory notes, which have been reviewed.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of DELOITTE TOUCHE TOHMATSU LIMITED

Osman Arslan, SMMM

Responsible Auditor

Istanbul, August 9, 2018

INTERIM OPERATING REPORT

A – GENERAL INFORMATION**1. Report Period**

01.01.2018 – 30.06.2018

2. Information on the Company

- Trade Title: İSKENDERUN DEMİR VE ÇELİK A.Ş.
- Trade Registry Number: 1599
- Address of the Head Office: Karayılan Mahallesi, 31319 İskenderun/HATAY
- İnternet website: www.isdemir.com.tr

3. Shareholding Structure and Capital Distribution

Shareholders	Share Value (bin TL)	%
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	2.751.326	94,87
Free Float	148.674	5,13
General Total	2.900.000	100,00

After sale of the shares of the company traded at the Pre-market Trading Platform, with the total par value of 5.652.082 TL and the total market value of 42.390.615 TL at 7.5 TL of sale price on April 13, 2018, by the majority shareholder Ereğli Demir ve Çelik Fabrikaları T.A.Ş., the majority shares of the Company reduced from 95.07% to 94.87%. Accordingly, the free float exceeded 5%, and the shares of the Company with the code name "ISDMR" are started to be traded at Star Market as of 19 April 2018 since the requirements for trading in this market stipulated in the BIAS Listing Guidelines are fulfilled.

4. Information on Board of Directors, key managers and number of personnel

The Board members are elected by the General Assembly in accordance with the Turkish Commercial Code and the applicable regulations as well as the provisions of the Articles of Association of the Company. For positions that are open if there is vacancy in the Board of Directors membership during the term, elections shall be held within the framework of the provisions of the Turkish Commercial Code and the Company's Articles of Association; and persons assigned are presented to the approval of the General Assembly. Amendments made during the period are made by the Board of Directors Resolution to be approved at the next Ordinary General Assembly. The Ordinary General Meeting of the Company for the year 2017 was held on 29 March 2018.

In accordance with Articles 9 and 10 of the Company's Articles of Association, the number of members of the Board of Directors has been determined as 6 directors at the Ordinary General Assembly Meeting held on March 29, 2018, within the framework of the provisions of the Turkish Commercial Code and the Capital Markets Law, and 6 Board Members are elected to hold office 1 year.

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Board of Directors as of 30.06.2018:

Board of Directors	Position	Date of Commencement
ATAER Holding A.Ş. (represented by: Savaş ERDEM)	Chairman of the Board- Executive Member	15/11/2013 (*)
Erdemir Madencilik Sanayi ve Ticaret A.Ş. (represented by: Toker ÖZCAN)	Deputy Chairman of the Board	08/03/2010 (*)
T.R. Prime Ministry Privatization Administration Presidency (represented by: Bekir Emre HAYKIR)	Board Member	05/09/2016 (*)
Oyak Pazarlama Hizmet ve Turizm A.Ş. (represented by: Ertuğrul AYDIN)	Board Member	18/03/2008 (*)
Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. (represented by: Güliz KAYA)	Board Member	25/05/2016 (*)
Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. (represented by: Ahmet Türker ANAYURT)	Board Member	30/03/2016 (*)

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

Duties and Powers of the Board of Directors

Chairman of the Board and the Board Members have the duties and powers in the Articles of Association of the Company and the applicable articles of the Turkish Commercial Code.

Top management

Top management	Position	Starting Date	Education	Professional Experience
Toker ÖZCAN	General Manager	16/01/2017	Middle East Technical University -Faculty of Mechanical Engineering	27 Years
Mesut KEYFLİ	Acting Deputy General Manager (Businesses)	19/04/2018	İstanbul Teknik University - Faculty of Metallurgy Engineering	29 Years
Mehmet PEHLİVAN	Deputy General Manager (Financial Affairs)	20/04/2017	Dokuz Eylül University - Economics	22 Years
Vacant	Deputy General Manager (Human Resources)	-	-	-
Ferat GÖÇ	Deputy General Manager (Purchase)	23/02/2017	Erciyes University - BA	21 Years

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Mr. Mehmet Pehlivan was assigned as the Deputy General Manager, Financial Affairs, on 11.04.2018.

Mr. Hasan Durgun, Acting Deputy General Manager, Human Resources, resigned from his office on 31.07.2018.

5. The activities of members of the board directly or on behalf of other parties, with the company and activities within the scope of competition prohibition

The Board Members are granted with the permission to conduct the transactions with the company for year 2018 as per the applicable articles of the Turkish Commercial Code (TCC) in the ordinary general Assembly held on 29 March 2018 held for the operations of the Company in 2017. No transaction was made within the scope of this article.

6. Personnel and Labor Movements and Collective Bargaining Practices and Rights and Benefits Provided to Personnel and Workers

26th Collective Bargaining Agreement (CBA) was signed between our company İskenderun Demir ve Çelik A.Ş. and Celik-Is Trade Union on December 29, 2017; and shall be valid from 01.01.2018 to 31.12.2020

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 health insurance, 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 (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 and other leaves for natural disaster.

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

The number of personnel of the Company is as follows, for December 30, 2018 and December 31, 2017, respectively:

	30 June 2018	31 December 2017
	Person(s)	Person(s)
Blue Collar	3.012	3.107
White Collar	1.774	1.756
	4.786	4.863

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7. Changes in the Articles of Association

None.

B - Financial Benefits provided to Board Member and Top Managers**1. Total value of the financial benefits provided such as attendance fee, wages, premiums, bonuses, profit shares**

At the Ordinary General Assembly of our Company held on 29 march 2018 it is resolved that;

- No salary is to be paid to any of the Board Members elected as the Group B Shares
- Net monthly salary of 3.350.-TL is to be paid to each of the Board Members elected for Group A Shareholders (in advance at the beginning of each month),
- It is resolved to apply the new salary from 01.04.2018.

Individual Accident and Death insurance was taken out for each of the Board of Directors and the Chairman of the Board, and no other benefit was provided.

No bonus payment was made to any of the Board Members as a reward for performance recognition.

No debt was given to any of the Board Members and the managers within the period, or no guarantee or collateral was given for any of them to allow them to obtain any loan.

The salaries of the senior managers of our company are determined by the Board of Directors. Life Insurance and Health Insurance were taken out for the General Manager. Performance based additional payments are made to the personnel out of scope, including the senior managers of the company.

2. Information on the total amount of allowances, travel, accommodation and representation expenses, and cash and non-cash payments, insurance and similar guarantees

Total annual expenses of 1.764 thousand TL were recorded related to the company managers including salary, premium and similar other benefits for the reporting period.

C – Research and Development Studies

The R & D Center, which serves in the OYAK Mining Metallurgy Group, has been working within Erdemir R & D Center as approved by TR Ministry of Industry and Technology in 2014. Research and development activities are classified under 4 main groups: raw materials and iron production, steel production and casting technologies, hot product and process and cold product and process.

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Within the scope of R & D activities, 9 projects have been completed in this period, and 44 projects are in progress.

4 projects have been completed successfully within the scope of TÜBİTAK / TEYDEB Projects 1501 Program.

OYAK Mining Metallurgical Group R & D Center employees have contributed to the intellectual capital accumulation of the Company by participating with 52 articles / papers / posters in the national / international activities related to iron and steel sector.

R & D Center has successfully completed the audit conducted by T.R. The Ministry of Industry and Technology. The 2017 annual report was sent to the Ministry of Industry and Technology for the third year of activity evaluation.

The R & D Center has moved to its new campsite outside the factory site. Simulator investments and equipment installations for laboratory infrastructure are in progress.

D – Operations and Significant Changes related to the Operations

1. Investment Operations

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

In this context, in İsdemir facilities, 24 of the 25 projects in the Environment Investments Program have been commissioned and field activities are ongoing in the remaining project. Field work is underway in the Electric Station Dust Collection and Water Cooling System Modernization Project. Main and Detailed Engineering works of Slab Casting Mold Level Control System Modernization Project were completed and equipment manufacturing was started.

Purchasing process and evaluation studies are underway at the Vacuum Gas Removal Facility, 3rd Coke Battery Renewal, New Coke Gasometer and South Harbor 1st Stage Construction Works - Backfilling Projects.

Total investment expenditures of the Company as of 30 June 2018 is 17.841 Thousand USD (30 June 2017: 22,812 thousand USD).

2. Internal control system and internal audit activities

Our company does not have an Internal Audit Department. However, in Oyak Mining-Metallurgy Group our company is included; the Internal Audit Directorate is available reporting to the Chairman of the Board and CEO to evaluate and improve effectiveness of Risk Management, Control and Governance processes.

The Internal Audit Department reports directly to the Vice Chairman of the Board of Directors and the Executive Director, with the aim of evaluating and improving the effectiveness of the risk management, control and governance processes of the Group Companies. The Audit Committee, which consists of independent members of the Board of Directors, is regularly informed about the audit activities and the effectiveness of the internal control system.

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3. Direct and Indirect Affiliates

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:

Company name	Country of Operation	Business Area	Share ratio in 2018 %	Share ratio in 2017 %
Teknopark Hatay A.Ş.	Turkey	R&D Center	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sales	50	50

İsdemir Linde Gaz Ortaklığı A.Ş. which was established with Linde Group from Germany with 50%-50% partnership, in order to support production of the Company, to meet the additional industrial gas need, and to reduce the costs with effective and efficient method, is recognized in the financial statements by using equity method.

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

Company under joint management	Voting Right (%)	30 June 2018	Business Area
İsdemir Linde Gaz Ortaklığı A.Ş.	50	123,285	Industrial Gas Production and Sales

With commencement of operations of İsdemir Linde Gaz Ortaklığı A.Ş. in 2017 and due to the act that it has significant effects on financial statements of the company, such operations are reported in the 2017 Financial Statements.

The share of the investments valued by using equity method in the net assets are as follows:

(Thousand TL)	30 June 2018	31 December 2017
Total assets	310.658	278.444
Total liabilities	64.088	246.568
Net assets	246.570	31.876
Value of the Company in Net assets	123.285	15.938

In the Ordinary General Assembly of İsdemir Linde Gaz Ortaklığı A.Ş. held on 8 March 2018, it was resolved to increase the share capital of İsdemir Linde Gaz Ortaklığı A.Ş. from 27.000.000 TL to 201.666.600 TL by the capital increase of 174.666.600 TL. It was decided to remove. All of the share capital increased was paid by the shareholders as of March 9, 2018.

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	30 Haziran 2018	31 Aralık 2017
Ödenmiş Sermaye	201.667	27.000

The share of investments of the company valued with equity method:

(Thousand TL)	1 January – 30 June 2018	1 January – 30 June 2017
Revenues	34.117	-
Net Profit/ (Loss) for the Period	4.644	(163)
Share of the Company in the Net Profit	2.322	(82)

The joint venture of the Company, İsdemir Linde Gaz Ortaklığı A.Ş. has the right to reduce the investment reduction from any earnings which may occur in the subsequent years based on the Resolution About Government Aids in Investments No 2012/3305 with the Decision of the Cabinet of Ministers published in the Official gazette dd. 22.02.2017. Since İsdemir Linde Gaz Ortaklığı A.Ş. is a new company, and no reasonable estimation is made by the management of İsdemir Linde Gaz Ortaklığı A.Ş. as to recoverability of the usage period of the investment reduction right partially or fully under the existing conditions for the future periods, the deferred tax asset amounting to TL 67,230 thousand (with the effect of 33,615 thousand TL on İsdemir's statement of profit or loss) has not been recognized in the financial statements as of 30 June 2018.

E - Financial Situation

1. Summary of Financial Statements

Interim financial statements dd. 30.06.2018 were prepared as per the Serial II, 14.1 of the CMB and subjected to limited audit.

Summary Balance Sheet

	(Limited Audited)	(Audited)
	Current period	Previous period
(Thousand TL)	30 June 2018	31 December 2017
Current assets	7.473.714	6.208.412
Fixed assets	9.167.898	7.634.003
Total assets	16.641.612	13.842.415
Short term liabilities	2.812.619	2.371.825
Long term liabilities	1.947.972	1.501.805
Equity	11.881.021	9.968.785
Total Liabilities% Equity	16.641.612	13.842.415

Summary Income Statement

	(Limited Audited)	(Limited Audited)
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	Current period	Previous period
(Thousand TL)	1 January 30 June 2018	1 January 30 June 2017
Sales	6.762.630	4.943.126
Gross Profit	2.343.934	1.281.639
Operating profit	2.275.784	1.213.814
Profit Before Tax	2.746.370	1.236.742
Profit for the period	1.920.980	1.046.048
EBITDA	2.447.123	1.389.589

The Company prepares its budget every year in line with its strategic targets, and the budget prepared is approved by the Board of Directors.

The existing situation of the Company is reviewed at the Board meetings held regularly. The operations of the Company are compared with the previous period and the budget targets.

2. Important Ratios

(%)	1 January 30 June 2018	1 January 30 June 2017
Gross Profit Margin	35%	26%
Operating profit Margin	34%	25%
EBITDA Margin	36%	28%
Profit Margin for the Period	28%	21%

3. The Development of Financing Sources and the Policies Implemented by the Company

The Company has full access to all national and international sources of financing with the market maker power created by the high transaction volume. New financing alternatives that are constantly in line with market conditions are investigated and suggestions are evaluated. The Company develops its borrowing policy on the basis of its high cash-generating capability and strong equity structure. The protection methods and rates to be used against the financial risks that may be exposed are developed within the framework of a systematic model. Within the risk tolerance, forward, futures, swap and option transactions in accordance with the market conditions are followed and can be used where necessary.

4. Dividends

Dividend Payment Policy of the Company:

“In principle, the Company has adopted a policy of distributing the entire cash distributable profit for the full amount of the distributable profit for the period allowed by the prospective free cash creation expectation, including market lease and financial leverage ratios and investment / financing requirements, within the framework of applicable legislation and the Company's Articles of Association. The profit distribution policy is reviewed every year by the Board of Directors according to national and global economic conditions, the projects on the agenda and the status of 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.

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The General Assembly is authorized to distribute Advance Dividend within the framework of the relevant legislative provisions.

The decision to pay out cash dividends with the value of 2,030,000 thousand TL from the profit obtained in 2017 at the Ordinary General Assembly Meeting held at March 29, 2018 (Gross Dividend Payment per share:0.70 TL) was approved, and such payments were transferred to the applicable accounts as of May 29, 2018.

5. Information on the Industry of the Firm

In the applicable month, world crude steel production was realized as 151.4 Million Tons in June 2018, with monthly fall of 2.2% and yearly rise of 5.8%. In the applicable month, the average capacity utilization of steel mills worldwide was recorded as 78.5% with an increase of 1% compared to the previous month and by 3.8% compared to the previous year. In January-June period, world crude steel production increased by 4.6 percent on yearly basis to 881.5 million tons.

In June, crude steel production in Asia was 107.37 million tons, an increase of 6.9% compared to the same month of the previous year. In the given month, China's crude steel output amounted to 80.19 million tons, up 7.5 percent on yearly basis, while Japan's crude steel production increased by 4.2 percent on yearly basis to 8.76 million tons, India's crude steel production and South Korea's crude steel production increased by 3.2 percent on yearly basis to 6.12 million tons.

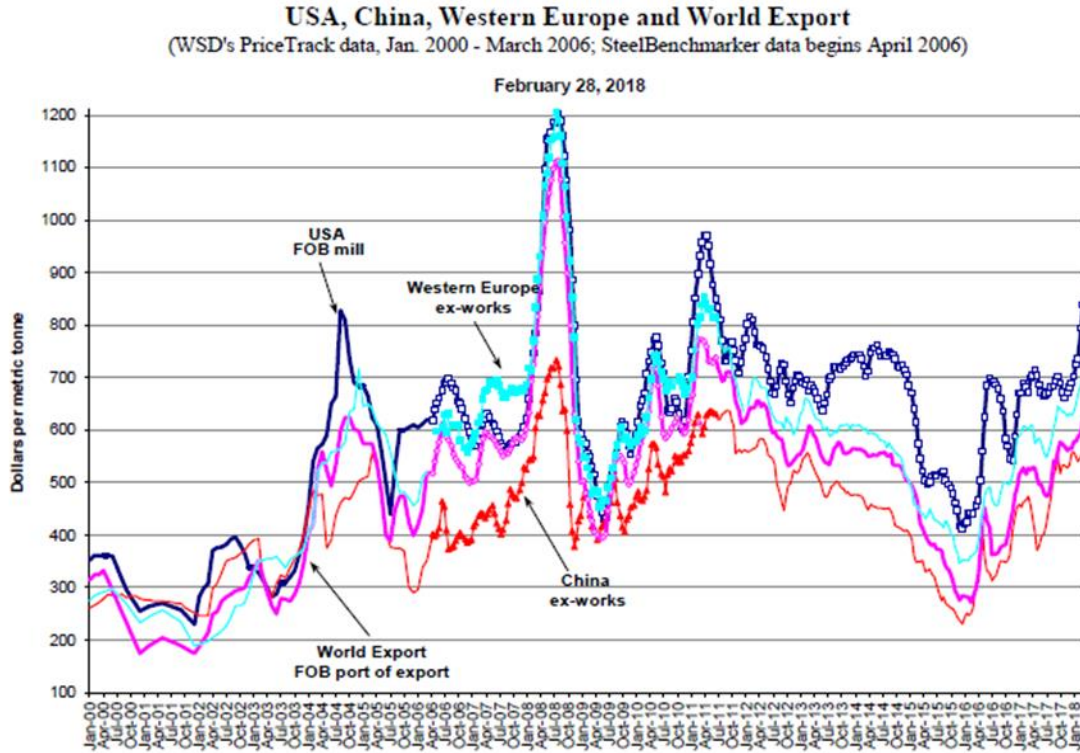
On the other hand, EU-28 countries, in June, produced 14,39 million tons of crude steel, up 1.3 percent on yearly basis. In June, Germany's crude steel output amounted to 3.77 million tons, up 4.6 percent on yearly basis, while Italy's crude steel production amounted to 2.13 million tons, up 1.5 percent on yearly basis, and France's crude steel output was recorded as 1.26 million tons down 4.4 percent on yearly basis.

In June 2018, Iran produced 2.08 million tons of crude steel, up 16.5 percent on yearly basis. In the same month, CIS countries' crude steel production amounted to 8.53 million tons, up 7.8 percent on yearly basis, while Russia produced 6.12 million tons of crude steel, up 8.9 percent on yearly basis. Ukraine's crude steel production increased by 7.5 percent per annum to 1.71 million tons.

In June, North American countries produced 9.57 million tons of crude steel, down 0.9 percent on yearly basis. In the same month, the US produced 6.85 million tons of crude steel, up 0.8 percent on yearly basis, while Mexico produced 1.68 million tons of crude steel, down 0.8 percent on yearly basis. In the given month, crude steel production of South American countries decreased by 0.4 percent on yearly basis to 3.39 million tons, while Brazil produced 2.59 million tons of crude steel, down 2.2 percent on yearly basis.

The change in price of hot products are given in the below graph:

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Turkey's crude steel production in the month of June was realized as 3 million tons, down 8.5% compared to May and rose by 0.7% compare to the same month of 2017. In June, production of electric arc furnace plants increased by 1.5% compared to the same month of the previous year, while production of integrated plants decreased by 1% for the same period.

However, in the first six months of this year, Turkey's crude steel production was realized as 18.9 million tons with annual increase of 3.7%, electric arc furnace crude steel production surged by yearly increase of 5.3% to 13.1 million tons, and at the integrated facilities, the production was realized as 5.8 million tons with annual increase of 0.3%.

6. Place in the Sector

The Company produced 2,851 tons of raw steel in the first six months of 2018.

7. Development of Business

Iskenderun Demir ve Çelik A.Ş., as the Turkey's only integrated long and flat steel producer continued maintenance and modernization work successfully in all facilities, continued to optimize costs and to conduct activities as per the quality manufacturing principles in line with activities with maximum efficiency in 2018, and managed to produce 15% of Turkey's crude steel production.

Business Units and Productivity of the Company

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Capacity utilization rates are provided below:

Capacity Utilization ratios (%)	1 January - 30 June 2018	1 January - 30 June 2017
Liquid Steel	100%	99%
Slab	94%	88%
Ingot	40%	50%

8. Products

The main products produced are Billet, Coil, Slab, and Hot Roll.

Production (quantity)

Finished Product (000 Ton)	1 January - 30 June 2018	1 January - 30 June 2017
Flat products	2.279	2.157
Long products	452	627
Total	2.731	2.784

(*) Flat products also include slab production.

9. Developments in the Sales

Iron-steel industry is the driving force for the economy of a country. Turkey is one of the leading countries in this sector in the world in terms of both production and consumption. 36 million tons of steel were used in our country which is the 8th largest steel consumer in the world, in 2017. In 2018, steel consumption increased by 11.5% compared to the previous year; and flat steel consumption increased by 18.3% to 9.6 million tons.

Total flat product sales of the Company excluding slab in the first half of 2018 reached to 1.65 million tons. Domestic flat product sales increased by 10% to 1.3 million tons compared to the previous year. Long product sales decreased by 34% to 422 thousand tons. Domestic long product sales realized as 399 thousand tons with 24% decrease compare to previous year.

The Company exported 397 thousand tons of finished products including 375 thousand tons of the flat products and 23 thousand tons of long product, being 397 tons of finished products in total. This quantity consists of 19% of the total sales.

10. Sales(quantity)

Finished Product (000 Ton)	1 January - 30 June 2018	1 January - 30 June 2017
Flat products	2.193	2.091
Long products	422	643
Total	2.614	2.734

(*) All of the sales of 546 thousand tons of slab in the flat products is the trading to the affiliates during the period January 1 –June 30, 2018.

F – Risks and Evaluation by the Board of Directors

INTERIM OPERATING REPORT

1. Risk management Policy

Risks are monitored and managed in accordance with the regulations on the development of hedging methods in order to measure the risks that the Company is exposed to and to keep them within the foreseen risk tolerances and the market risk and the management of receivables risks.

Nearly all of our risks are covered with the Direct Debit System and Credit Direct Collection System:

Risk positions of our customers are continuously monitored; and margin calls are given when the limits are exceeded.

In order to manage the interest rate risks that the Company is exposed to, the duration is calculated based on the credit portfolio and cash flow projections; and the amount of gain / loss to be realized in the event of prospective interest rate changes is measured by sensitivity analysis. In addition, the ratio of floating rate loans within the total loan portfolio of the group is monitored, and practices are made to keep this within a certain limit. Derivative instruments are evaluated according to the conditions of the company and the market; and detailed analyzes are performed and the transactions that are considered appropriate are performed within the limits.

G – Other Matters

1. Off-Center Organizations

None.

2. Information to Stakeholders

None.