

İSKENDERUN DEMİR VE ÇELİK A.Ş.

Annual Report for the period 1 January - 31 December 2017

INDEPENDENT AUDIT REPORT ON ANNUAL REPORT ISSUED BY THE
BOARD OF DIRECTORS

To the Board of Directors of İskenderun Demir ve Çelik
A.S.

1) Opinion

We have audited the annual report of İskenderun Demir ve Çelik A.Ş. ("the Company"), for the period ended at 31 December 2017 pursuant to the Independent Audit Standards on Audit

In our opinion, the financial information in the accompanying consolidated financial statements and the evaluations of the Board of Directors on situation of the company based on the information in the financial statements are in accordance with the information we obtained during the independent audit and present fairly, in all material respects, factual state.

2) Basis for Opinion

We conducted our audit in accordance with the regulation on "Independent Auditing of Banks" and Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities. We are independent of the Group in accordance with the Code of Ethics for Independent Auditors ("Code of Ethics") published by the POA, together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Our Opinion on Full Set Financial Statements

We declared positive opinion in our audit report dated 2 February 2018 on the full set financial statements for the accounting period January 1- December 31, 2017.

4) The responsibility of the Board of Directors on the Annual Report

In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC") and the provisions of the Communiqué II-14.1 on the Principles of Financial Reporting In Capital Markets ("the Communiqué") of the Capital Market Board ("CMB"), the management of the Company shall:

- a) prepare the annual report and submit it to the general assembly for approval within three months following the balance sheet date.

b) It prepares the annual report to reflect the operations and financial situation of the Company for the corresponding year correctly, fully, and fairly without material misstatement. In this report the financial situation is evaluated as per the financial statements. In the report, also the development of the company and risks which may be encountered are indicated clearly. The evaluation of the Board is also included in the report.

c) Annual report also includes the following matters:

- Events that take place in the company after the end of the year of the activity and have special importance,
- The company's research and development activities,
- Financial benefits such as wages, premiums and bonuses paid to board members and top level managers, appropriations, travel, accommodation and representation expenses, similar and cash facilities, insurance and similar guarantees.

The Board of Directors shall consider the secondary legislation regulations of the Ministry of Customs and Trade and the applicable institutions in preparation of the annual report.

5) Responsibility of the Independent Auditor on Audit of Annual Report

Our independent audit has been performed in accordance with the Independent Auditing Standards as endorsed by CMB and Independent Auditing Standards. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report is free from material misstatement and consistent with the financial statements. This independent audit involves the application of auditing procedures in order to obtain audit evidence on the historical financial information.

The responsible auditor who conducted and completed this independent audit is Mr. Volkan Becerir.

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

Member of DELOITTE TOUCHE TOHMATSU LIMITED

Volkan Becerir, SMMM
Responsible Auditor

Istanbul, 2 February 2018

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(Amounts in ("Thousand TL") unless otherwise stated.)

A - General Information

1. Report Period

01.01.2017 - 31.12.2017

2. Information on the Company

- Trade Title : İSKENDERUN DEMİR VE ÇELİK A.Ş.
- Trade Registry No : 1599
- Mersis No : 0879000967000028
- Head Office : Karayılan Mahallesi, 31319 İskenderun/HATAY
- İnternet website : www.isdemir.com.tr

3. Shareholding Structure and Capital Distribution

Paid-in Capital : 2.900.000 bin TL

Shareholders	Share Value (thousand TL)	%
Ereğli Demir ve Çelik Fabrikaları T.A.Ş.	2.756.978	95,07
Halka Açık Kısım	143.022	4,93
General Total	2.900.000	100,00

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(Amounts in ("Thousand TL") unless otherwise stated.)

4. Organization Chart

Material changes occurred in the organization structure of the Company within the period;

- Data Processing Directorate, Quality Metallurgy and Laboratories Directorate and Budget and Finance Directorate were closed.
- Consultancy reporting to the General manager and Industrial Relations and Training Directorate reporting to the Assistant General Manager of Human Resources have been established.

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(Amounts in ("Thousand TL") unless otherwise stated.)

5. Explanations related to privileged shares and voting rights of the shares

On the A Group shares, a usufruct has been established on behalf of the Privatization Administration to be valid until otherwise decided by the Higher Council for Privatization. Our company does not have any privileged share.

6. Information on the Board of Directors, Key Managers and number of personnel

Association in accordance with the Turkish Commercial Code and related regulations. 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 2016 was held on 30 March 2017.

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 30, 2017, 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.

Board of Directors for the reporting period:

Board of Directors	Position	Date of Commencement
ATAER Holding A.Ş. (Representative: Ömer Muzaffer BAKTIR)(**)	Chairman of the Board- Executive Member	15/11/2013 (*)
Erdemir Madencilik Sanayi ve Ticaret A.Ş. (Representative: Fatma CANLI)	Deputy Chairman of the Board	08/03/2010 (*)
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı (Representative: Bekir Emre HAYKIR)	Board Member	05/09/2016 (*)
OYAK Pazarlama Hizmet ve Turizm A.Ş. (Representative: Ertuğrul AYDIN)	Board Member	18/03/2008 (*)
Erdemir Mühendislik, Yönetim ve Danışmanlık Hizmetleri A.Ş. (Representative: Güliz KAYA)	Board Member	25/05/2016 (*)
Erdemir Çelik Servis Merkezi Sanayi ve Ticaret A.Ş. (Representative: Ahmet Türker ANAYURT)	Board Member	30/03/2016

(*) Legal person starting dates are considered.

The positions of the Board Managers in other firms/ institutions are provided in the Annex 1.

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(Amounts in ("Thousand TL") unless otherwise stated.)

Changes in the Board of Directors within the Year

According to the decision taken at the Ordinary General Assembly Meeting held on March 30, 2017, the number of board members is set as 6 (six) and the board members are elected to hold office for 1 (one) year. No change was occurred in the Board members within the period.

(**)Pursuant to the resolution no 166 dd. 05 January 2017 of the Board of ATAER Holding A.Ş. Chairman and CEO of our Company; Mr. Ali Aydın PANDIR's office was ended on 06 January 2017 as the legal person representative of ATAER Holding A.Ş., and Mr. Ömer Muzafer BAKTIR is assigned instead of him effective from January 16, 2017.

Duties and Powers of Board Members

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.

Information on Board Members and the Duties of the Managers outside the Company

The Information on Board Members and the Duties of the Managers outside the Company is included in the Annex 1.

Number of Board meetings within the Year and Attendance of the Board Members in the Meetings

The Board of Directors held 7 meetings within 2017. All of the Board Members attended such meetings regularly.

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	26 Years
Salih Cem ORAL	Acting Deputy General Manager (İşletmeler)	20/04/2017	İstanbul Teknik University - Faculty of Metallurgy Engineering	25 Years
Mehmet PEHLİVAN	Acting Deputy General Manager (Financial Affairs)	20/04/2017	Dokuz Eylül University - Economics	21 Years
Hasan DURGUN	Acting Deputy General Manager (Human Resources)	20/04/2017	Sakarya University -Public Administration	12 Years
Ferat GÖÇ	Acting Deputy General Manager (Purchase)	23/02/2017	Erciyes University -BA	20 Years

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(Amounts in ("Thousand TL") unless otherwise stated.)

Changes in the Top Management within the Year

General Manager of our Company Mr. Recep ÖZHAN died on 08 July 2016, and no person was assigned instead of him from such date till the end of the year. Mr. Toker OZCAN was assigned as the General Manager from January 16, 2017.

Yener Burtay KORALTAN our Company's Deputy General Manager responsible for Human Resources from 25 January 2017 resigned from his post. Mr. Hasan DURGUN has been assigned as our Company's Deputy General Manager responsible for Human Resources starting from 20 April 2017.

Ali BUĞDAY our Company's Deputy General Manager responsible for Procurement resigned from his post 15 February 2017. Mr. Ferat GÖÇ has been assigned as our Company's Acting Deputy General Manager responsible for Procurement starting from 23 February 2017.

Kemal Emre GÜLDEN our Company's Deputy General Manager responsible for Financial Affairs resigned from his post on 16 February 2017. Mr. Mehmet PEHLİVAN has been assigned as our Company's Acting Deputy General Manager responsible for Financial Affairs starting from 20 April 2017.

Şafak ÇAPAR our Company's Deputy General Manager responsible for Businesses resigned from his post on 03 April 2017. Mr. Salih Cem ORAL has been assigned as our Company's Acting Deputy General Manager responsible for Businesses resigned starting from 20 April 2017.

7. 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 2017 as per the applicable articles of the Turkish Commercial Code (TCC) in the ordinary general Assembly held on 30 March 2017 held for the operations of the Company in 2016.

No transaction was made within the scope of this article.

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

Number of personnel of İskenderun Demir ve Çelik A.Ş. as of 31 December 2017 and 31 December 2016:

	31 December 2017 # of persons	31 December 2016 # of persons
Blue collar	3.107	3.286
White collar	1.756	1.742
	4.863	5.028

As of December 31, 2017, the provision for employment termination benefits was calculated by an independent actuary and provision amounting to TRY 212.842 Thousand was allocated (31 December 2016: 188.399 Bin TL)

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(Amounts in ("Thousand TL") unless otherwise stated.)

9. Changes in the Articles of Association

No changes were made to the Articles of Association during the period.

B - Board Member and Financial Rights provided to Top Managers

1. Total amount of financial benefits such as attendance fee, wages, premiums, bonuses, profit shares provided

At the Ordinary General Assembly of our Company held on 30 March 2017 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 3.000.-TL is to be paid to each of the Board Members elected for Group A Shareholders (in advance at the beginning of each month),
- New salary is to be applied as effective from 01.04.2017.

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.

Dönem içinde hiçbir Board Member' ne ve yöneticilere borç verilmemiş, doğrudan veya üçüncü bir kişi aracılığıyla şahsi kredi adı altında kredi kullanılmamış veya lehine kefalet gibi teminatlar verilmemiştir.

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 VIP 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 5.241 thousand TL were recorded related to the company managers including salary, premium and similar other benefits for the year ended on 31 December 2017 (31 December 2016: 4.192 Bin TL).

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(Amounts in ("Thousand TL") unless otherwise stated.)

C - Research and Development Works

R&D Center which provides services to OYAK Mining Metallurgy Group as the group of our company was opened on 26 August 2014 with the approval of the Minister of Science, Industry and Technology; and the second operation year was completed in 2017 successfully as audited by the Ministry.

Construction, building modification and simulator procurement processes continued in 2017 in order to position the R&D Center in a separate settlement independent of the facilities in the Black Sea Ereğli and to establish a laboratory-scale technology park. It is planned to move the Center and to start operation of some of the simulators, in the first half of 2018, and to operate the entire technology park in 2019.

Raw material projects for waste disposal and cost reduction; iron production, steel production projects, hot product & process development projects for process improvement are ongoing.

Within the scope of iron production processes (Coke, Sinter, Blast Furnace), the efforts of cost reduction and process efficiency projects continued in 2017. Successful pilot tests were conducted for usability of Non-coking or semi-coking coal in the coke production process without compromising quality parameters. In addition, pilot scale experiments were carried out in order to use recyclable carbonaceous waste produced during coke production, and the results were positive. A feasibility study was carried out to determine the needs at the industrial scale. Sinter bearing permeability was automatically measured and design work was completed to allow increase in production; In 2018, the necessary equipment will be produced and trial production will be started.

The application to increase the size of the metallurgical coke used in the blast furnace was completed by exchanging two blast furnace screens and was successfully adopted in the system. An oven to simulate the interaction of blast furnace coke and ferrous materials was designed as a first in Turkey, and this TEYDEB supported project was continued during the year.

Within the scope of improvement and development activities of steel production processes, industrial scale cost reduction works are being carried out in order to provide liquid steel and slag quality on both recycling and metallurgical optimum conditions. Thermodynamic and mathematical models have been developed for steel grades containing low silicon content. In addition, works are in progress on the conversion and exchange model of sulfur and phosphorus in all intermediary processes in the factory from raw material to finished product.

Within the scope of flat product development studies, the R&D Center and DP 600, P310NB tube steel quality improvement studies were continued; joint work is being continued to improve the surface properties during the opening of the hot rolled coils. In the long product, improvement studies are conducted for 38Si7, which is used as tensile trencher in railway connections, 1082 PC wire / rope / spring qualities, and SG3 quality coil for welding steel production.

In 2017, 14 new long products and 9 new flat products were developed; with such new products the total number of long products has been increased to 282 products as the number of flat products increased to 174 products.

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(Amounts in ("Thousand TL") unless otherwise stated.)

D - Activities and Significant Developments related to the Activities

1. Investment Activities

Test and commissioning works for the 8th Air Separation Plant Project started with Isdemir-Linde partnership were completed around the end of the year and the facility was activated in January 2018. 24 out of 25 projects in the Environmental Investments Program have been commissioned and field operations are continuing on a project. South Port 1st Stage Project (breakwater construction) has been completed. Hot Slab Marking Machine Establishment Project has been commissioned. Field studies are continuing at the Electrical Stations Dust Retention and Water Cooling System Modernization Project.

Purchasing process and evaluation studies are underway at the Vacuum Gas Removal Facility, 3rd Coke Battery Renewal and Slab Casting Mold Level Control System Modernization Projects. It was decided to start New Coke Gas Gasometer and South Harbor 1st Stage Construction Works - Backfilling Projects, and procurement process therefore is pending.

Total investment expenditures of İskenderun Demir ve Çelik A.Ş. as of 31 December 2017 is 50.626 Bin USD (31 December 2016: 76.359 Bin 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

3. Direct and Indirect Affiliates

We have no subsidiary consolidated in our financial statements for the period. The scope and proportion of the company in which the Company participates in its capital is as follows:

Company name	Country of Operation	Area of Operation	2017 Participati on Ratio	2016 Participati on Ratio
Teknopark Hatay A.Ş.	Turkey	R & D Center	5	5
İsdemir Linde Gaz Ortaklığı A.Ş.	Turkey	Industrial Gas Production and Sales	50	50

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(Amounts in ("Thousand TL") unless otherwise stated.)

4. Information on the shares of company purchased back by the Company

None.

5. Explanations related to independent audit and public audit

It is resolved in the ordinary general Assembly held on 30 March 2017 to contract with the independent audit company "DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.'nin (A Member of Deloitte Touche Tohmatsu Limited) for the independent audit services in 2017.

Ministry of Finance Tax Inspection Board in Istanbul initiated an audit on Camouflaged Capital, Transfer Pricing for Corporate Tax and VAT records for the year 2015; and Foreign Earnings Group Presidency started a limited audit on 05 October 2017.

6. Legal Issues

a) Lawsuits

Taking into account the opinions of legal counsel and non-profit specialist attorneys, the Company Management determines the allowance amounts related to the ongoing lawsuits through possible cash outflows based on management's best estimate of the probability of loss and the liabilities to be incurred in case of loss. As of 31 December 2017, there is a provision amounting to TL 21,441 thousand in the statement of financial position

Ankara 19th Civil Court of First Instance accepted partially the claim no 2015/125E filed by our company for the amount of 65.449 Bin TL for collection from TR Prime Ministry Privatization Administration, deciding collection of 52.857 thousand TL; the verdict is currently under review of the Supreme Court.

Our company filed a lawsuit against Akxa Elektrik ve Satış A.Ş. for return and revoking of letter of guarantee 29.150 thousand TL before İstanbul Anadolu 4th Civil Court of First Instance with the file no 2017/788E.

Our company filed a lawsuit against TR Hatay Governorship Investment Monitoring and Coordination Department for nationalization of the real estates located at Hatay Province İskenderun District Azganlık Quarter, at the parcels 426,667,668 and 950, with the total area of 18,827 m2 for cancellation of nationalization, before the 1st Administration Court of Hatay with the file no 2017/1871E.

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(Amounts in ("Thousand TL") unless otherwise stated.)

b) Administrative-Legal Sanctions

None.

7. General Assemblies

The ordinary general assembly meetings of our company are held within three months following the end of operation every year in accordance with the applicable provisions of the Capital Market Law, Turkish Commercial Code and the Articles of Association of the Company, and any decision made in such meetings are performed within due times. The ordinary general assembly of İskenderun Demir ve Çelik A.Ş. was held on 30 March 2017.

Also extraordinary general assembly was held on 05 December 2017; and it was resolved to pay out 783.000 Thousand TL as dividend and retain the second reserves of 78.300 Bin TL, from 861.300 Bin TL composed of previous years' profits and extraordinary reserves, and such decision was put into application.

8. Grants and Social Responsibility Projects

The total amount of grants made by the Company to the public entitles and institutions for training, food and maintenance-repair is given in the below table:

(thousand TL)	1 January- 31 December 2017	1 January- 31 December 2016
Cooperation Developed with Public Institutions and Organizations	446	1.653
Education and Training Activities	734	538
Cooperation Activities for Voluntary Work and Charity Works	170	131
Foundation, Association, Chamber and Ens. Cooperation Activities with	-	-
Sports Activities	10	-
Cultural and Artistic Activities	11	37
Support Activities in Health and Financial Issues	1	4
Grand total	1.372	2.363

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9. Affiliated Companies (Related Party transactions)

a) Transactions

Our Company's Board of Directors has prepared a report explaining our relations with our Controlling Shareholders and Subsidiaries under article 199 of the Turkish Commercial Code; and this was approved by our Board of Directors dated 02 February 2018. In the conclusion part of this report; "There is no legal action/ transaction made by our company with OYAK or its subsidiary company, OYAK, or OYAK's affiliated companies or subsidiary companies of OYAK or for the benefits of OYAK or any company affiliated with OYAK in the year 2017. In the year of 2017, all of the commercial activities between our controlling partner and the subsidiaries of our controlling partner and our Company were carried out in accordance with Arm's Length principle. "

b) Explanation on transactions

None.

E - Financial Situation

1. Summary of Financial Statements

Financial statements are prepared in accordance with financial reporting standards issued by the Capital Market Board. The financial statements for 31.12.2017 and 31.12.2016 were audited.

Summary Balance Sheet

	(Audited) Current Period	(Audited) Current Period
(thousand TL)	31 December 2017	31 December 2016
Current Assets	6.208.412	4.631.997
Fixed Assets	7.634.003	7.319.905
Total Assets	13.842.415	11.951.902
Short term liabilities	2.371.825	1.961.482
Long term liabilities	1.501.805	1.505.009
Equity	9.968.785	8.485.411
Total Assets	13.842.415	11.951.902

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Summary Income Statement

	(Denetimden Geçmiş) Cari Dönem	(Denetimden Geçmiş) Geçmiş Dönem
(thousand TL)	1 January 31 December 2017	1 January 31 December 2016
Revenues	10.612.473	6.470.668
Gross Profit	3.010.280	1.450.719
Operating Profit	2.860.873	1.271.824
Profit Before Tax	3.015.811	1.386.861
Net Profit for the Period	2.382.311	942.849
EBITDA	3.248.938	1.619.246

The company is making the budget within the framework of its annual strategic targets and the prepared budget is approved by the Board of Directors.

The current status of the Company is reviewed in regular meetings of the Board of Directors, and Company activities are compared with previous periods and budget targets.

2. Important Business Indicators and Financial Ratios

	1 January 31 December 2017	1 January 31 December 2016
Gross Profit Margin	%28,4	%22,4
Operating profit Margin	%27,0	%19,7
EBITDA Margin	%30,6	%25,0
Net Profit Margin	%22,4	%14,6

3. Financial Strength

It is not foreseen that the capital of the company may be lost considering the calculations made based on the ratios defined in the article 376 of TCC.

4. Development of Financing Sources and Policies Applied by the Operator in the Field of Development

It is foreseen that the company will repay the existing loan debts by cash generated from the activities.

5. Nature and Amount of the Capital Market Instruments issued

No capital market instrument is issued for the period.

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(Amounts in ("Thousand TL") unless otherwise stated.)

6. Dividend Payment

In accordance with Article 32 of the Articles of Incorporation, the Company is authorized to make decisions on distribution of profits or partial or complete distribution of profits, without prejudice to the provisions of the Capital Market Legislation and in accordance with dividend payment policies.

The applications regarding general legal reserves and dividend calculations are carried out within the framework of the provisions of TCC, CMB and related legislation.

No profit may be transferred to the upcoming year and no dividend may be paid to shareholders and preferred stock holders unless legal reserves are allocated and the dividend specified for the shareholders would have been paid as stipulated in the applicable legislations.

The General Assembly is authorized to distribute Advance Dividend within the framework of the provisions of TCC, CMB and related legislation.

As per the decision adopted at the Ordinary general Assembly held on 30 March 2015, the dividend payment policy of the company is as follows: "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.

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

It is resolved to pay out dividend 812,000 Thousand TL in cash from the profit for the year 2016 at the Ordinary General Assembly Meeting of İskenderun Demir ve Çelik A.Ş. held on 05 April 2017 (dividend payment per gross share: 0.28 TL). The dividend payment is started on 05 April 2017.

It is resolved to pay out dividend 783.000 Thousand TL in cash from the profit at the Extraordinary General Assembly Meeting of İskenderun Demir ve Çelik A.Ş. held on 05 December 2017 (dividend payment per gross share: 0.27 TL). The dividend payment is started on 07 December 2017.

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7. Information on the Industry of the Firm

World crude steel production reached 1.69 Billion Tons in 2017, up 5.3%. In 2017, China's crude steel production amounted to 831.7 million tons, up 5.7%, Japan's 0,1% down 104.7 million tons and South Korea's to 71.1 million tons with 3.7%, so that crude steel production in Asia amounted to 1.16 Billion Tons, up 5.4 percent year per annum.

Germany, recorded 43.6 million tons of crude steel production up 3.5% from last year, Italy as 24 million tons up 2.9% and Spain 14.5 million tons, up 6.2%; and 168.7 million tons of crude steel production in the EU-28 region, up 4.1 percent year in the year.

Iran, recorded 21.73 million tons of crude steel production up 21.4% from last year. Production of the Commonwealth of Independent States countries did not change and was realized as 101.96 million tons, as Russia produced 71.3 million ton crude oil up 1.3% on yearly basis. Crude steel production of Ukraine slipped 6.4% to 22.75 million tons.

North American countries produced 116 million tons of crude steel in 2017, up 4.8 percent year on year. In the said period, USA produced 81.6 million tons of crude steel with the yearly increase of 4%, while Mexico produced 20 million tons of crude steel with an annual decrease of 6.33%. In the same period, South American countries produced 43.7 million tons of crude steel, up 8.7 percent as compared to previous year, while Brazil produced 34.4 million tons of crude steel, up 9.9 percent on yearly basis. In 2017, the average capacity utilization rate of steel mills around the world was 69.5%.

World hot product price change is given in the chart below:

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Turkey's crude steel production in 2017 was recorded as 37.5 million tons, with an increase of 13.1% compared to last year. The crude steel production of electric arc furnace plants decreased by 18.8% to 25.9 million tons while crude steel production of integrated plants increased by 2.2% to 11.5 million tons.

8. Place of the Company in the Company

In 2016, İskenderun Demir ve Çelik A.Ş. produced 5.584 million tons of crude steel. In 2017, crude steel production in our facilities increased by 1% to 5.638 thousand tons

9. Incentives

The rights of the Company to be used by all companies that meet the criteria required by the legislation without sectoral separation are as follows:

- Documents for inward processing,
- 5% reduction in the SSI employer's share (pursuant to Law No. 5510)
- An additional six-point incentive is applied on the basis of the basic earnings per capita in the provinces determined to be the priority provinces in development (For the purposes of Law no. 46486),
- The employer's share of the insurance premium calculated on the minimum wage of workers with disabilities shall be paid by the Treasury (as per the applicable article of the Law No 4857)

10. Development of the Company

İskenderun 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 2017, and managed to produce 15% of Turkey's crude steel production of 37.5 million tons.

Test and commissioning works for the 8th Air Separation Plant Project started with Isdemir-Linde partnership were completed around the end of the year and the facility was activated in January 2018. 24 out of 25 projects in the Environmental Investments Program have been commissioned and field operations are continuing on a project. South Port 1st Stage Project (breakwater construction) has been completed. Hot Slab Marking Machine Establishment Project has been commissioned.

11. Business Units and Productivity of the Firm

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(Amounts in ("Thousand TL") unless otherwise stated.)

Capacity utilization rates of İskenderun Demir ve Çelik A.Ş. are provided below:

	1 January-31 December 2017	1 January-31 December 2016
Capacity Utilization ratios (%)		
Liquid Steel	%99	%98
Slab	%86	%80
Ingot	%54	%63

12. Products

Below is a list of the main products produced in İskenderun Demir ve Çelik A.Ş.:

Billet
Coil
Slab
Hot Roll

13. Production (quantity)

Finished Product (000 Ton)	1 January - 31 December 2017	1 January - 31 December 2016
Slab	1.133	1.006
Flat products	3.126	2.874
Long products	1.328	1.572
Total	5.587	5.452

14. Developments in 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, steel consumption increased by 5.5% compared to the previous year; and flat steel consumption increased by 9% to 18 million tons.

İskenderun Demir ve Çelik A.Ş.'s total flat product sales in 2017 reached to 3.1 million tons. Domestic flat product sales increased by 7% to 2.6 million tons compared to the previous year. Long product sales decreased by 14% to 1.4 million tons. Domestic long product sales was realized as 1.2 million tons with 13% decrease compare to previous year.

İskenderun Demir ve Çelik A.Ş. exported 791 thousand tons of final products, composed of 509 thousand tons of flat products, 123 thousand tons of slab, and 159 thousand tons of long products. This amount accounts for 14% of total final product sales. It exported flat products to 21 countries and long products to 19 countries.

Despite the geopolitical problems in our geography, our company İskenderun Demir ve Çelik A.Ş. continues to deliver shipments in packaging, automotive, steel pipe, construction and manufacturing industries in line with its targets. İskenderun Demir ve Çelik A.Ş. and Ereğli Demir ve Çelik Fabrikaları T.A.Ş. managed to include 49 new customers in its customer portfolio composed of 16 customers for long products and 33 customers for flat products, in 2017.

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We continued to organize customer events, customer visits, national and international congresses, fair attendances, sector associations and official organizations, meetings with customers, to develop our relations with the customers who became the focus point by rebuilding the marketing and sales organization. With our new quality and product development studies aimed at end users, we continued to develop our product range dynamically managed in line with customer expectations and the improvements made have helped İskenderun Demir ve Çelik A.Ş. increase the power of the market.

15. Sales (quantity)

Finished Product (000 Ton)	1 January - 31 December 2017	1 January - 31 December 2016
Slab (*)	1.161	973
Flat Products sales	3.088	2.964
Long Products sales	1.365	1.587
Total	5.614	5.524

(*) Almost 99% of Slab sales are composed of intragroup sales in 2017.

F - Risks and Evaluation by the Board of Directors

1. Risk management policy

Risk is monitored and managed in accordance with the regulation on the development of hedging methods and the rules on managing market risks and receivables risks so that the risks faced by İskenderun Demir ve Çelik A.Ş. may be measured and kept within the prescribed risk tolerances. In order to manage the interest risks exposed to our company, the durations are calculated on the basis of the loan portfolio and cash flow projections and the gain / loss amounts to be experienced in possible interest changes are measured by sensitivity analysis.

In addition, applications are being made to ensure that the rate of the variable rate loans in İskenderun Demir ve Çelik A.Ş. 's total loan portfolio is monitored and kept within a certain limit. According to the needs of the company and the market, derivative instrument options are evaluated and detailed analyzes are carried out and appropriate actions are taken within limits. Similarly, for liquidity risk management, the use of credit and repayments and cash flow projections are followed, and necessary action plans are prepared.

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The feasibility report, which includes the financial and technical evaluations of all investments planned to be made in the middle / long term strategic road map of Iskenderun Demir ve Çelik A.Ş., is prepared by the System Development Directors within the scope of Technical Services Deputy General Director and presented to the Assistant General Manager of Financial Affairs. The Vice Chief Financial Officer reviews the financial feasibility of the feasibility report and upon such approval the reports are presented to OYAK Maden Metallurgy Group Investment Subcommittee and OYAK Maden Metallurgy Group Investment Committee. The investment requests for which profitability, net present value, internal rate of return, return on investment and return on investment ratios are conducted, are submitted to the Board in the event of approval thereof.

2. Early Detection of Risk Committee

Not Available.

3. Prospective Risks

1) Market risks: The price risks that started in commodity markets after 2008 are still continuing as of 2017. Despite the capacity-reduction decision of the Chinese government, over-capacity in the sector is putting pressure on surplus steel prices. However, fluctuations in iron ore prices formed according to China's iron ore needs, also cause fluctuations in raw material prices as iron ore is subject to contracts in quarterly terms. In addition, the Chinese government's decision to influence coal consumption and consumption, particularly to reduce environmental pollution in the country, causes coal prices to fluctuate.

The fluctuations in the prices of iron ore and coking coal, which are the production inputs of our company, the fluctuations in the price of steel products as production output, and the periods between supply and delivery times are longer in the iron and steel sector than in other sectors and therefore fluctuations in profit margins are the most important market risks.

2) Macroeconomic risks: Due to US Dollar denomination of raw material prices and sales prices of the products, fluctuations occur in the demand for steel products and costs related to steel. In addition, the possibility of reduction in steel demand in Turkey due to liquidity reduction in the markets due to decrease in the asset purchases by FED are among the most important risks that our Group may face.

Operational and financial risks that may arise in addition to these risks are continuously monitored by the Corporate Risk Management Department and are reported to the Board of Directors.

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G – Other Matters

1. Organizations outside the Head Office

Not Available.

2. Information on change in legislations that may affect the operations of the Company significantly

Not Available.

3. Conflicts of Interest between the Company and the Institutions Providing Services to the Company, on the subjects such as Investment Advisory and Rating, and Information on Measures taken by the Company to Prevent these Conflicts of Interest

Not Available.

4. Information on the Social Rights, Vocational Training of the Employees and Other Activities of the Company having Social and Environmental Consequences

Our employees within the scope are entitled to annual leave, total of 120 days bonus, holiday allowance, fuel allowance, annual paid leave allowance, marriage / birth / death allowance, active military benefit, child / education allowance, supplementary health insurance, with notice period and compensation in accordance with the collective bargaining agreement. Employees within and out of scope are entitled to social benefits such as food and vehicle supports, incentives to encourage senior labor, private health insurance for out-of-scope personnel, and individual retirement plan benefits for the managers and upper level personnel. İskenderun Demir ve Çelik A.Ş. considering providing secure and healthy business environment to its employees as a priority, provides preventive medicine, work entry examinations, periodic examinations, occupational accidents and occupational diseases preventive works, first aid and emergency treatment services.

Many training opportunities are made available such as in-Unit Training System (ITS), seminars and conferences both in Turkey and abroad. The training programs are planned to contribute to the realization of the strategic goals of İskenderun Demir ve Çelik A.Ş., and to realize the basic principles of the Quality, HSE, Environmental and Energy Management Systems Policy. Performance appraisal outputs are used to determine the training and development needs of employees.

OHS trainings are given in accordance with the Law No. 6331, informing employees about their legal rights and responsibilities, determining the hazards and risks they face, and measures to be taken. Furthermore, trainings are carried out within the scope of the regulation stipulating that employees who have not received required vocational training cannot be operated dangerously and very dangerously. Work at Height training –as one of these trainings organized for those who work in different high platforms- and the scaffolding trainings organized for the employees installing scaffolds were realized with theoretical-practical applications, and certificates were given to our successful employees.

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5. Related party transactions and Information required to be given on balances

The information on the transactions with related parties are given in the Note 29 of the notes to our financial statements dated 31.12.2017.

6. Information to Stakeholders

The capital of İsdemir Linde Gaz Ortaklığı A.Ş. in which İskenderun Demir ve Çelik A.Ş. is a shareholder as well, being 50 Thousand TL, was increased to 27.000 thousand TL by the increase of 26.950 thousand TL at the Ordinary General Assembly for the year 2016, and all of the capital increased was paid by the shareholders on 27 January 2017.

3-year Collective Bargaining was signed on 29.12.2017 to be valid from 01.01.2018 till 31.12.2020 as a result of the negotiations with Steel-Labor (Çelik-İs) Labor Union authorized to make collective bargaining. This contract brought 8% increase to the naked hourly salary of B personnel on 31.12.2017, to be valid from 01.01.2018. The subsequent salary increases shall start in the second 6 month of 2018 followed by the rise equal to inflation rates in each 6-month period, with 2-point increase to be added for the second 6-month period of 2020. For social allowance amounts, the increases were determined for each item separately.

Investor Relations Department or Company Officers to be contacted with:

Name-Surname : İdil Öney
Position : Erdemir Investor Relations Manager
Starting Date : 16/04/2014
Telephone : (0-216) 578 80 61
E-mail : ionay@erdemir.com.tr

Name Surname : Ahmet Görpeoğlu
Position : Erdemir Investor Relations Expert
Starting Date : 04/08/2014
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Annex-1 Other positions of the Board Members held by them outside the Company

Board of Directors	Position	Positions executed by the representative outside the Company
ATAER Holding A.Ş. Representative - Ömer Muzaffer BAKTIR	Chairman of the Board and CEO	<ul style="list-style-type: none">- Ereğli Demir ve Çelik Fabrikaları T.A.Ş. - Yönetim Kurulu Başkanı, Murahhas Üye (Representative)- Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş.- Chairman of the Board (Representative)- Erdemir Romania SRL. - Chairman of the Board- Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. - Chairman of the Board (Representative)- Erdemir Asia Pacific Pte. Ltd. -Chairman of the Board
Erdemir Madencilik San. ve Tic. A.Ş. Representative - Fatma CANLI	Deputy Charman of the Board	<ul style="list-style-type: none">- Ereğli Demir ve Çelik Fabrikaları A.Ş.- Board Member (Representative) -Erdemir Mühendislik Yönetim ve Danışmanlık Hizmetleri A.Ş. - Board Member (Representative)- Erdemir Asia Pacific Pte. Ltd. -Board Member- Micromedicine Inc. - Board Member- İskenderun Enerji Üretim ve Tic. A.Ş.-Board Member (Representative)- OYAK Renault Otomobil Fabrikaları A.Ş. - Board Member (Representative)- Orfin Finansman A.Ş. - Board Member- MAİS Motorlu Araçlar İmal ve Satış A.Ş. - Board Member (Representative)- ORF Kiralama Pazarlama ve Pazarlama Danışmanlığı A.Ş.- Board Member (Representative)
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı Representative - Bekir Emre HAYKIR	Board Member	Başbakanlık Özelleştirme İdaresi Vice President

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<p>OYAK Pazarlama Hizmet ve Turizm A.Ş. Representative -Ertuğrul AYDIN</p>	<p>Board Member</p>	<ul style="list-style-type: none"> - ATA ER Holding A.Ş. - Chairman of the Board (Representative) - Ereğli Demir ve Çelik Fabrikaları A.Ş. Deputy Charman of the Board (Representative) - Erdemir Asia Pacific Pte. Ltd. -Board Member - OSİAT Sigorta Acentelik Hizmetleri A.Ş. - Yönetim Kurulu Başkanı (Representative) - Akdeniz Kimya San. ve Tic. A.Ş.-Chairman of the Board (Representative) -OYAK Global Investments- Board Member -Chemson Polymer Additive AG (Avusturya) Member of Supervisory Board - İskenderun Enerji Üretim ve Tic. A.Ş.-Yönetim Kurulu 1. Başkan Yrd. (Representative) - AYAS Enerji Üretim ve Tic. A.Ş.-Yönetim Kurulu Başkan Vek. (representative) -OYAK Portföy Yönetimi- - Chairman of the Board - OYAK Sermaye Yatırımları A.Ş.-Board Member (representative)
<p>Erdemir Çelik Servis Merkezi San. Ve Tic. A.Ş. Representative -Ahmet Türker ANAYURT</p>	<p>Board Member</p>	<ul style="list-style-type: none"> - Erdemir Madencilik San. ve Tic. A.Ş.-Board Member (Representative) - Erdemir Romania SRL. - Board Member - Erdemir Çelik Servis Merkezi San. ve Tic. A.Ş. - Yönetim Kurulu Üyesi (Representative) - Akdeniz Kimya San. ve Tic. A.Ş.-Board Member (Representative) - MAİS Motorlu Araçlar İmal ve Satış A.Ş.- Board Member (representative) - OMSAN Lojistik A.Ş.- Board Member (Representative) - OMSAN Havacılık A.Ş.- Board Member (Representative) - OMSAN Denizcilik A.Ş.- Board Member (Representative) - Hektaş Tic. T.A.Ş.-Board Member (representative)