

YÜKSELEN ÇELİK A.Ş.

INFORMATIVE BULLETIN

- 24 April 2020 -

Introduction

Our company has been the symbol of “high quality product” and “sustainable growth” for 44 years within the steel servicing industry and has strongly emphasized its values of “honesty and transparency”. Following our IPO, dated 14 November 2019, our management focused on applying these principles also in Investor Relations and our affairs with the capital markets.

In order to have the most ‘transparent and honest’ relations with our investors, our management quickly launched the Investor Relations (IR) Department within two weeks after our IPO. Since then, our IR department has published regularly many bulletins and announcements sharing the company's current operations, financial status and targets with a “reliable, transparent and equal approach”. In addition to the Public Disclosure Platform, all disclosures published to date can be kindly accessed through our Investor Relations website under the address “invest.yukselen.com”.

In line with the legislation, our Investor Relations Department is committed to share any information regarding the company that may impact investors' investment decisions with the investor community in a timely, accurate and straight manner. By this means, investors are provided with simultaneous access to information about the company's operations and future expectations. In this informative bulletin prepared as per the informative principles of our company; it is discussed how the company is affected by the COVID-19 outbreak and the measures taken against it as well as how it keeps up its operations and other issues that concern the Company.

Investor Relations Department
invest.yukselen.com
invest@yukselen.com

Industrial and Regional Illusions Experienced Before the COVID-19 Outbreak in Our Country & Its Impacts on Exports

- Unfortunately, many industries, including the Steel Industry, could not foresee that the COVID-19 outbreak, which started in China and spread around the world, would be that much effective in our country. Before the outbreak reached Turkey and Europe, many companies from different industries have misbelieved that “China’s share in international trade would decrease and that Turkish companies would fulfill this absence with an increase in exports”.
- Following the spread of COVID-19 outbreak in more than 180 countries including Turkey and Europe; the measures, that will deeply have an impact on the economy, were taken including lockdowns, quarantines, curfew and others in our country and in the rest of the world, resulting the global international trade decreasing in sharp numbers. Now, we see that the perception of “Turkish companies may emerge advantageous in the short and medium term by filling the absence of their Chinese competitors” was a misbelief.
- In this context, it would not be a realistic prediction to expect that locally-based Metal companies increase their market share in the international markets in the short and medium term due to the COVID-19 outbreak. On the contrary, significant decrease in export revenues of domestic iron and steel companies are expected due to the fact that some borders have been closed completely, many international transportation companies have suspended their activities temporarily and global trade is in a very deep contraction.
- Since the share of exports in our Company’s total revenues is less than 2%, it is foreseen that our Company may not be nearly affected by this contraction. However, it is unrealistic for our company to start the export expansion plans and to reach export targets set for the 4th quarter of 2020. Following the end of the COVID-19 outbreak and the accompanying foreign trade slowdown, it is planned to take the necessary steps to start export operations within 90 days.

Measures Taken in our Company within the Scope of COVID-19 Outbreak

- Our Company, which has never shut down its operations, even in the biggest economic, social or political crisis in Turkey within the last 44 years, is proud to say that we always managed to fulfill the demands of customers and our obligations towards our suppliers. We are happy to announce that even in this health crisis caused by COVID-19 outbreak, our company managed to run its operations while protecting the health of its employees. We will continue our operations with severe health measures as long as the law and the authorities allow us to do so.

- In this context, some of our employees were switched into working from home and some were grouped within shifts making the working hours shorter. Thus, the social distance rule was preserved by reducing the number of simultaneously active employees in the offices and production unit.
- In our company, some additional measures are taken; such as periodical disinfections & outsourced cleaning , mask and glove distribution, implementation of the social distance rule, closing the meeting rooms for use and banning the entrance of visitors and couriers to the company buildings. In addition, truck drivers are prohibited to get out of their vehicles within our indoor facilities or anywhere near the production area. Besides these measures, our Company has foreseen the potential problems in mask supply and imported masks from China directly under our company name (firstly 1,500 masks on and more in the upcoming 2 other deliveries) proactively in order to protect the health of our employees.
- Our company will do its utmost to protect the health of its employees, as it has done so far. No COVID-19 case has been diagnosed yet among our staff or management.

Principle of Sustaining Operations

- In 44 years of its history, our company has never suspended its operations in any crisis or under any circumstances. Although the banks have restricted their working hours in Turkey and more importantly, some of our customers (many companies in the automotive, mold, machinery and manufacturing industries) have halted their operations partially or completely, our company continues its operations without any disruption.
- The CEO, Assistant General Manager and all department chiefs are physically in place and continue to work alternately at the company addresses.
- Within the scope of curfews, the official authority granted exemption only to companies that have steel melting shops or hot burning furnaces within the steel industry. Therefore, our company has lost 2.5 work days due to curfews so far and 3 half days (Saturdays) and also 24 April (full-day).
- Our company will continue its operations as long as the authorities allow us to do so (by taking the necessary measures to preserve the health of our employees). The continuing of operations is of great importance to the management due to our history and traditions.

COVID-19 Exposure in the Sector and Domestic Industry

- Many sectors, including mold, machinery, manufacturing, automotive, durable goods and defense industries have partially or completely ceased their operations due to COVID19 outbreak in Turkey. The companies started announcing the full stop or partial stop of operations starting on March 14th, 2020. Each company depending on its geographic and economic position announced some sort of production cuts. The partial or full cease of operations, especially in automotive engineering, parts and mold together the cease of operations in machinery production impacted all sales in significant numbers for the last 2 weeks of March and first 3 weeks of April. The demand for the special steels decreased significantly in these periods.
- Prior to the COVID-19 outbreak, as of 28 February 2020, our Company's revenues increased by 14% compared to the same period of the previous year. After the spread of COVID-19 in Europe and neighboring countries to Turkey and then finally in our country, the sales decreased and resulted in a demand fall for the last 2 weeks of March. As of 31 March 2020, our Company's revenues were almost the same as 31 March 2019 where in fact we were expecting a 14 to 15 % growth. When we compare the results of 28 Feb 2020 and 31 Mar 2020, we clearly understand that the sales were hurt only because of COVID-19 outbreak. If there were no outbreaks, we would easily manage to reach an increase of min. 14% in our sales revenue in the first quarter of 2020 compared to the previous year.
- Despite the unavailability of concrete sectoral data yet, as a result of the analyzes we have conducted within our Company; we anticipate that the contraction in iron and steel demand in our country (on company basis) may vary between 30% to 80% for the second quarter of 2020. We especially expect the companies producing for the construction related metal products such as rebars, wires, rods and also flat steels of basic carbon grades (low value added products) will be the most affected parties of this outbreak.
- In addition, we estimate that revenue loss to be registered by the steel companies, which has greater focus on export markets, will be higher than other companies due to the border closures with some neighboring countries, the suspension of many international transportation activities and the significant shrinkage in global trade.
- Within this framework, we anticipate that our company will be impacted by the contraction in the sector at a minimum level and it will differentiate positively in the Metal sector, since our company has no operations in the flat steel sector or construction related products. It also has no significant focus on export markets since its exports take less than 2% of its total revenue.
- In line with the legal calendar, it is aimed to announce our financial results for the 1st Quarter of 2020 in Public Disclosure Platform on June 1, 2020 at the latest in accordance with the legal calendar.

Suspension of New Collaborations

- The 'TUBE WIRE' Fair, one of the largest steel industry fairs in the world, held once every two years in Dusseldorf, Germany, with approximately 2,000 exhibitors, was not held on the planned date and was postponed to December 2020. Within this scope, new collaborations planned to be established during the relevant fair have been put on hold temporarily.
- Through the decline in the impacts of COVID-19 and its accompanying global measures, our company aims to disclose new and noteworthy collaborations within 90 days after the fair. The necessary infrastructure works and pre-deal negotiations for these potential collaborations were already completed between new potential suppliers and our company. These plans are based on a “New consignment purchase” and a “New raw material supply” agreement which will allow us to enter new fields within the special steel industry, that are not included in our current scope of business. These potential new business fields are among the highest value-added special steel products which are likely to increase our total revenue together with income per ton figures. Although there is no definite situation on this subject yet, the negotiations will continue after the normalization in global trade and decrease in COVID-19 outbreak numbers.

Successful “Supply Chain Management”

- By December 2019 where the COVID-19 outbreak started getting more serious especially in China, our management predicted future potential lack of raw materials in case of the outbreak’s expansion in China and the rest of the world. After careful risk analysis regarding the future potential shortage of raw materials, our Company acted very fast to form new relations with new raw material suppliers both internationally and domestically. We have taken samples from many potential suppliers from Turkey, Ukraine, Germany, Italy, Spain and other countries to make sure that we find competitive and good quality raw materials in case of Chinese suppliers’ absences. As a result, we managed to avoid raw material shortages by making deals with the producers who succeeded on the sample material tests. We are confident that we avoided potential disruptions in the "Supply Chain" especially by making several deals with three major steelmelting shops in Turkey from which one is MKEK (Mechanical and Chemical Industry Corporation) (operated by Turkish government).
- At first, we shifted our raw material purchases to European countries. Then after the outbreak in Europe, we shifted our purchases to Turkey and Ukraine. Now, we focused most of our raw material purchases to several suppliers from Turkey and we also started back the supply of raw materials from China by April 2020. Chinese suppliers, with the decrease in the impact of COVID-19 outbreak in China, are again a good and reliable supplier for our raw materials.

- Our company acted with a very proactive and agile manner in its "Supply Chain" management and did not experience any raw material shortage even one day thanks to the early measures taken. We predict that the most significant problem, which will prevail in the Iron and Steel sector and other related sectors as of the second quarter of 2020, will be the 'raw material supply' issue. Our company is not expected to face such a problem in the supply chain management.

Measures Taken regarding Payment Collection and Financial Risk Management

- Some of our credit sales, which have a major share in our company's operations, are made with instruments such as checks or promissory notes. Due to suspension of many companies' operations in Turkey, 8 days of curfews declared so far and the domestic travel ban between 30 metropolitans caused a significant decrease in the physical deliveries of these relevant checks for the credit sales.
- In relation to the slowdown in the physical circulation of checks and promissory notes, due to potential delay in the maturity of some companies' credit account payments and the possibility of emergence in suspicious receivables, our Company decided to take precautions in advance. Within this framework, as of 14 March 2020, our Company has decided to slow down check and credit sales apart from DDS (Direct Debiting System) or Credit Insurance (Euler Hermes Insurance guarantee) sales for the purpose of preserving its assets. Alternative payment models (bank guaranteed checks, notes and letters of guarantee or other similar models) are requested from the customers. Thanks to our successfully carried out payment collection management, no damage has been encountered in the collection of receivables for the last 3 years. In order to maintain this fine position, the relevant measures are applied with the utmost care.
- It is aimed to increase the share of our credit insurance and DDS sales in our total turnover and prevent possible losses. However, for this reason the company may see a decrease in the sales revenue in the second quarter of 2020. In this context, the revenue decrease is made consciously in order to "prevent potential suspicious receivables". Our company operates with a focus on profits rather than revenue. Instead of rising the revenue in a risky way during a crisis period, it is our primary target to protect the company's assets and profits.

Special Steel Demand

- As a result of the measures taken against the outbreak in our country, production and operations in the automotive, automotive parts industry, mold, machinery and consumer durables sectors, which are crucial for our Company, have almost halted completely. In addition, in the Defense Industry and Other manufacturing industries, the production and operations have been partially reduced by switching to the

interleave model. During this period, only some medical equipment manufacturers have increased their demands.

- This situation indicates a contraction in the demand during the second quarter of 2020 (in our company's product groups). However, if the COVID-19 outbreak ends or the related measures are partially reduced, the expected contraction for the second quarter may not take place. In order to provide a concrete remark on this, it is essential to monitor the sales registered in May and June as well as the impacts of the outbreak on the real sectors during the related periods.
- In the first and second quarter of 2020, our company is relatively in a better position in terms of growth, than the flat steel suppliers, galvanized steel producers, metal companies that manufacture for construction sector as well as the sector companies that have focused on exports, and it is expected to differentiate positively among Main Metal companies.
- In addition to all these, many of competitors in the 'special steel industry', have stopped their activities during this period partially or completely. Particularly, foreign companies operating in Turkey, have stopped their operations in our country due to the COVID-19 outbreak, as they have raw materials supply problems from their international group companies abroad.
- This “supply chain” problem in competitor companies is not an issue for our Company. For this reason, our company has started to supply steel products to several new customers, as competitors cannot supply them these goods. In this regard, our Company may add some new customers to its portfolio in the second and third quarters of 2020 and gain permanent new prospective customers.

Bank Loans, Financial Liabilities & Net Cash Position

- The net cash position of our company continues at the end of the first quarter of 2020. We anticipate that our Net Cash position (unless there is a very advantageous and massive raw material purchase decision in favor of the company) will continue at the end of 2020. In other terms, our Company is not expected to take any bank loans until the end of 2020 even though it has free (ready to use) lines of 280 Million TRY.
- In this context, it is expected that financial expenses will decrease significantly in 2020 1st Quarter and 2020 2nd Quarter compared to the same period of the last year and possibly net financial revenues will impact profitability positively by the second quarter.

Increase in Exchange Rates

- Our company does not have a significant FX short position and currently our FX short position is less than 5% of our revenues. However, increase in the exchange rates raise our raw material supply prices and may negatively impact our profitability, particularly for the products that we do not sell on a foreign exchange basis. The exchange rate increase, which was around 13% in the first quarter of 2020, remained below 5% in the same period of the previous year.
- Our company does not have any FX-based loans. Our short position (less than 5% of our revenues) is entirely based on raw material supply. Accordingly, the increase in the exchange rate does not create a financial burden, nor any increase in our liabilities and expenses.

Other Major Issues Concerning the Company

General Assembly Process

The General Meeting of Shareholders for the business year of 2019 has been postponed to a later date, due to the decision of the location supplier (hotel) to stop its operations in line with the decision of the Ministry of Internal Affairs. Although our management asked that the General Assembly could be held electronically at the headquarters of the company on the same date, it has been decided to postpone as per the lawyers' remarks that registration and announcement period should be minimum 21 days and the cancellation of the general assembly could be possible in case of a change of place.

It is desired that the General Meeting of Shareholders can be held as soon as possible in order for the company to remove the Provisional Article-1' (from the articles of association) and close the 2019 business year officially.

In this context, the management plans to organize the General Meeting of Shareholders within 90 days after the ease of COVID-19 outbreak measures by the government. Although there is no definite date at this moment, our Company aims to hold the General Meeting of Shareholders between 20 June 2020 and 31 September 2020. However, in order for the General Meeting of Shareholders to be held, the effects of the outbreak and health-related risks shall decrease in all circumstances.

Although there is no Board Decision taken on this matter, the necessary announcement will be made on the Public Disclosure Platform immediately if a decision is taken.

Bonus Issue (Free Capital Increase)

According to the regulations, public companies have the right to make free capital increases (bonus issues) only by a decision of Board of Directors under certain limits. However, in our case, the 'Provisional Article-1' of our Articles Association states the detailed numbers of

shares per person before the IPO took place and our Board cannot make such decisions as long as this 'Provisional Article-1' is in place.

As we have noted in our disclosure made on the Public Disclosure Platform on 20.02.2020, an amendment is required in our articles of association in order to increase the capital with the decision of the Board of Directors. Necessary approvals have been obtained from official institutions in this regard, and only the approval of the general assembly is expected.

The company management will meet within 90 days following the approval of the shareholders for the removal of the Provisional Article-1 at the first General Meeting of Shareholders to be made, and will put the "Bonus Issue" (Free Capital Increase) on the agenda.

Profit Distribution Policy in 2020 and beyond

As stated in our prospectus, our company disclosed that it will distribute at least 30% of the distributable profits in cash for the 2020, 2021 and 2022 financial periods. There is no change in this statement of our company. A minimum of 30% of the profits for the relevant business years will be distributed in cash, in accordance with the legal schedule.

The decision taken by the official authorities to limit the profit distribution in 2019 to a maximum of 25% does not apply to the business years of 2020, 2021 and 2022 of our Company.

Liquidity Providing

The liquidity provider contract, which was signed with Gedik Yatırım Menkul Değerler A.Ş. ("Gedik Investment") on 01.10.2019, has been continuing since the IPO.

Liquidity Providing Principles are regulated by the Borsa Istanbul Equity Market Procedure and disclosures regarding the transactions are made by Gedik Investment at the Public Disclosure Platform at necessary times.

The Company's main shareholders or the Company itself did not sell any shares after the IPO (except for liquidity providing transactions) under any circumstances.

Disclaimer: All data included in this informative bulletin dated 24.04.2020 consists of only the Company's estimates and forecasts and has no binding impact for our Company. It may vary depending on the dynamic market conditions.