

2016 First Quarter Developments and Activities

3.1. Sector Analysis

General Information about Tire Sector and Brisa's Position and Importance in the Sector

World's tire market grew by 1% in 2015 and total tire sale was recorded as 1.7 billion units. In 2015, the growth trend in European tire market continued and exceeded 226 million units with growth rate of 3,4% as compared to previous year. The first three months of 2016 saw an increase of 2,5% compared with the same period last year despite the soft winter conditions and stagnant winter tire market. International marketing and sales activities of Lassa have picked up as from the second half of 2015. Due to this momentum, Lassa achieved a growth above the passenger tire market in Europe within the first three months of 2016 as well. Lassa has achieved a growth in Spain well beyond its market performance. Lassa succeeded to increase its market share in the shrinking international markets by keeping its export performance at the same level compared to the same period of last year. The problems in Egypt, Libya, CIS countries were offset by the opportunities in Iranian, Moroccan and Asia Pacific markets and Lassa achieved an aggressive growth in the quantity of passenger type sales internationally thanks to such development.

In 2015, total tire sale quantity in Turkey was 22 million units with an increase of 9,4% compared to last year. In the first quarter on 2016, Turkish market continued to grow with the momentum of the previous year. The growth was mainly from heavy commercial vehicle tire segments. While domestic renewal channel had an increase in passenger and heavy commercial vehicle tire segments in the market, the light commercial tire segment has somewhat slowed down.

Brisa has achieved some growth in particularly commercial vehicle tire segment in the first three months of the year and re-shaped the value chain it offered to its customers. It reinforced alternative channels while it mainly worked on the retail channel which helped to stay closer to its customers and the diversification activities it delivered to them.

In 2016 January-March period, there had been a positive activity in the automotive markets in North American and Asia-Pacific countries in the world. The automotive markets in EU and EFTA (European Free Trade Association) increased by 8,5% and achieved the levels of 4,5 million units. In the same period, Turkey ranked 6th with a decrease of 6% in European automotive sales. Vehicle production increased by 4% in total in the first quarter period of 2016. In 2015, total market in Turkish automotive sector reached 1,11 million units with an increase of 25% compared to previous year and achieved 1,35 million units in production and 992 thousand units in export.

Although such developments in the market have brought along some positive momentum, especially heavy commercial vehicles and midibus segments sustained some production losses, which affected Brisa's original equipment sales.

3.2. Manufacturing and Products

In first quarter of 2016, Brisa operated at a high capacity utilization ratio, reaching a production level of 10.6 million units of tires.

As Europe's seventh largest tyre manufacturer, Brisa conducts its manufacturing operations in Izmit at a production plant built on a closed area of 361,000 square meters. That plant, a major base in the global manufacturing infrastructure of the Bridgestone Corporation, has important competitive

superiorities within the sector thanks to its manufacturing planning flexibility, production capacity that meet the needs of the market and customers, and its capability to manufacture previously imported products at the local level.

Unit	1 January- 31 March 2016	1 January- 31 March 2015	Change %
Production Quantity	2.546.392	2.705.222	-6

Our aim is to provide a well-balanced product portfolio to vehicle owners by offering them the criteria of Bridgestone brand performance, environment and safety. We offer a concept of Balanced Performance that prioritizes economy, comfort and sturdiness with our Lassa brand products.

3.3. Communication and Marketing Activities

Brisa saved energy density by 34% between 2012 and 2014 and won the first-place award in rubber, and plastic products in the category of “Energy Efficient Industrial Plant” in the project competition “Energy Efficiency in Industry” organized by the Ministry of Energy and Natural Resources.

The company was granted the “Marketing Power Award” thanks to its marketing activities in 2015.

Brisa was awarded by the Municipality of Izmit and Provincial Directorate of Kocaeli Employment Agency “owing to its awareness in women employment”.

Brisa commenced the production of Bridgestone Potenza S001 Run-Flat tires in its Izmit plant that guarantees driving 80 km per hour for 80 km even it goes flat, which it has previously imported from the Bridgestone plants overseas.

Prestigious automobiles such as BMW i3 and Volvo40 CC preferred Bridgestone as original equipment.

Lastik.com.tr offering services since 2011 has renewed itself for those that prefer online shopping opportunities primarily, by leading the way in the tire sector that has a margin of 1,7% in total online shopping margin in Turkey. This attempt facilitated the sale and payment of Bridgestone and Lassa tire online and transfer of the tires to the nearest dealer via the net.

A sector assessment press meeting led by Yiğit Gürçay, the Chairman of Tire Industrialists and Importers Association (LASİD), was organised on 23 March, sharing the contributions of the sector to the country and the society.

Brisa conducted 2015 assessment press meeting regarding the products and services in commercial products by welcoming the sectoral press. In the meeting, the customers included in the Aspects+ system were informed that the number of registered tires reached one million.

New commercial film has begun to show for Lassa which is the “Global Official Partner” to FC Barcelona, one of the most known and successful sports club in the world, simultaneously around the world and in Turkey on 18 February. Lassa, the fellow traveller of those walking with firm steps in pursuit of success, has carried its claim of sustainability beyond the limits of Turkey, as a world’s leading brand. Lassa is not only a fellow traveller in the campaign in 2016 but also a teammate which helped the success of Barcelona with its sustainability. The brand has organised social media, site

activities and consumer interactions nationally and internationally concurrently with the commercial film.

We continue to get to the end user on one hand and make our business partners and opinion leaders get FC Barcelona experience on the other. In this context, we welcomed 21 domestic business partners, 21 commercial fleet customers, 109 international business partners, 11 Turkish consumers and 17 Turkish press members in football matches and 390 international business partners in indoor sports.

Lassa has presented the film «#senbizimardamızsın» (you are our arda) to Arda Turan, the brand ambassador, when it took the field with FC Barcelona for the first time.

Bridgestone has started a new commercial depicting the safe driving features of our brand.

Brisa has organised various sales campaigns to get the car owners to experience its brand and products and promote the purchases again.

Brisa has conducted the promotion of Kinesis solid forklift tires and Bridgestone pneumatic tires at WIN Eurasia Automation Fair organised at Istanbul Tüyap Exhibition Centre between 17-20 March, which is one of the most important fairs of the manufacturing industry.

Brisa has promoted the heavy construction equipment, forklift, off-road truck tires and treading products at 22. International Natural Gemstone and Technologies Fair organized in Izmir with over 1000 participating companies between 23-26 March.

The company held the business partners meeting between 18-20 March, featuring the “Brisa World Brand: Our Objective is the Same, as is Our Future”. In the meeting, it shared the company’s vision, its new products and projects in various segments.

The first module of the Customer Experience Expert Certification Programme” what Brisa, aiming to bring the sales and service experience to perfection in accordance with the vision “We innovate your journey”, calls it “The Heroes of Customer” has begun within the Brisa Academy with the participation of 16 women employed at the shops of business partners

“Bridgestone İpek Şenoğlu Cup - Tennis Tournament” of the Bridgestone brand, trying to increase the awareness of a healthy life and to develop and popularize the tennis sports in our country and to endear the sport as a life style was conducted between 23 March – 3 April.

The organization of Automotive Distributors’ Organisation (ODD) which brings 48 brands of Turkish automotive sector together under its roof was conducted with the support of Bridgestone at Sales and Communication Awards Gladiators Night, welcoming 800 guests.

Brisa managers gathered together with over 500 guests in annual vision sharing meeting and shared 2015 realizations, 2016 priorities, targets and future vision of the company.

Brisa employees made bags to contribute to the project “Turnalar Hep Uçsun (Let the Cranes Fly Forever” on the occasion of International Women’s Day at the platform “The Women Designing the Future” of Brisa.

A first in its sector, “Brisa Museum” attracted the attention of the schools within the Kocaeli region as well as the business partners. Brisa Museum welcomed many pre-school, primary school, college and university students, with the assistance of guides.

Brisaspor Cycling Team, formed with an approach of social sustainability and support to sports, achieved numerous successes at the national and international races they participated and these achievements were shared with the public through the press bulletins.

3.4. Investment, Research and Development Activities

In the first quarter of 2016, a total of USD 20,40 million was extended in investments for the renovation, modernization and capacity increase of the Izmit production plant. USD 18,14 million of this investment was addressed within the scope of the Incentive Certificate. In line with our general philosophy of ensuring constant improvement and sustained competitiveness at the Izmit plant, our investments are ongoing for the improvement of occupational safety, quality, efficiency, and information systems. A total of USD 21,19 million was spent in investments with respect to the second production plant to be established in Aksaray Province Organized Industrial Zone. During the same period, the total of our non-Izmit and Aksaray plants investments amounted to USD 2,14 million.

Our company, which holds important competitive superiority in Research and Development, runs a product-testing center recognized by the Turkish Standards Institute. Brisa Izmit Production Plant, which works in coordination with Bridgestone Corporation technical centers in Rome and Tokyo, is one of its major facilities.

3.4. Financial Outcomes and Rates

Although positive economic and financial developments developed in global economy in the first quarter of the fiscal year 2016, low growth and weak trading tendency continued which had adverse effect on the growth performances.

The rubber prices in tendency to decline for a long time changed this direction in the first quarter of 2016. Nonetheless, due to the purchase orders given in the previous months, direct material cost continued to decrease and the USD currency, having a course similar to the raw material prices in the first quarter, had a positive impact on the costs.

Brisa, combining the declining trend in direct material costs with the strategies such as effective pricing and increasing the weight of the products with high added value in sales, has increased its profitability.

Along with all such developments, it was seen that the total sales performance of Brisa in the first quarter was completed with a turnover increase of 3,3% in compare to the same period of the last year. A gross profit increase of 21% was achieved in compare to the last year while the gross profitability rate became 31,7% which is 4,7 point over the last year figure. The positive development at the gross profitability level also continued at EBITDA level, and reached to a growth of TL 61 million with an increase of 10%.

Sales Quantity	1 January- 31 March 2016	1 January- 31 March 2015	Change %
Domestic	1.385.674	1.417.572	-2
Export	1.016.336	1.045.374	-3
Total	2.402.010	2.462.946	-2

Sales Quantity (Channel Based)	1 January- 31 March 2016	1 January- 31 March 2015	Change %
Replacement	1.007.542	971.081	4
OE	378.132	446.491	-15
Domestic Total	1.385.674	1.417.572	-2
Lassa Export	839.502	834.977	1
Bridgestone Export	176.834	210.397	-16
Export Total	1.016.336	1.045.374	-3
General Total	2.402.010	2.462.946	-2

Net Sales (Million TL)	1 January- 31 March 2016	1 January- 31 March 2015	Change %
Domestic Sales	293,3	280,4	5
Export Sales	108,7	108,5	0
Total Net Sales	402,0	389,0	3

Million US Dolar	1 January- 31 March 2016	1 January- 31 March 2015	Change %
Export Sales	37,0	44,1	-16

(Million TL)

Summarized Income Statement (Million TL)	1 January- 31 March 2016	1 January- 31 March 2015	Change %
Net Sales	402,0	389,0	3
Gross Profit	127,4	105,1	21
Operating Profit	45,8	45,1	1
Net Profit	22,5	28,1	-20

EBITDA	61,3	55,9	10
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*EBITDA: Earnings Before Interest and Depreciation and Tax except other operating income and expenses.

Operation and Profitability Ratios	31 March 2016	31 March 2015
Gross Profit Margin (Gross Profit/Net Sales)	31,70%	27,02%
EBITDA Margin (EBITDA/Net Sales)	15,26%	14,38%
Net Profit Margin (Net Profit/Net Sales)	5,61%	7,22%
Return on Asset (Net Profit/Assets)	9,14%	10,78%
Return on Equity (Net Profit/Equity)	33,26%	30,49%

Liquidity Ratios	31 March 2016	31 December 2015
Current Ratio (Current Assets/Current Liabilities)	1,11	1,35
Acid-Test Ratio (Current Assets-Stocks / Current Liabilities)	0,77	0,98

Financial Growth Ratios	31 March 2016	31 December 2015
Total Liabilities/Equity	3,67	2,28
Total Liabilities/Total Assets	0,79	0,70
Equity/Total Assets	0,21	0,30

* As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 146.660.000 for 2016 and amounting to TL 160.016.000 for 2015 are offsetted and disclosed under financial liabilities.