

2017 First Half Developments and Activities

3.1. Sector Analysis

An Overview of the Tire Sector and Brisa's Place and Importance in the Sector

In 2017, sales of passenger vehicles and light commercial vehicles in the world automotive market have made a strong start with positive effects especially in European and Chinese markets, and continued the growth trend in the first half of the year. Accordingly, it has been observed that demand in the world tire market has increased in developing countries, especially in China, and the recession experienced in the Brazilian and Russian markets has started to recover.

European passenger vehicle sales grew by 4.7% in the first half of 2017. While the European passenger tire market remained at similar figures to the previous year, the European commercial tire market grew by 7% with the effect of low-cost imported products.

Despite the stability in the European tire market in the first half of the year, Lassa's European sales increased by about 1% in total. In the segment of high-value-added tires, where the European market grew by 2%, Lassa achieved a growth by 13% compared to the same period of the previous year. Lassa recorded double-digit aggressive growth rates, especially in Spain, Germany and Poland.

Looking at other markets, it has been a period of contraction, especially in the Middle East, and partly in Eastern Europe and North Africa markets, due to increased costs, price pressures and changes in the foreign exchange regimes of local central banks. While the contraction in important markets such as Egypt and Iran reached 40%, Lassa has outperformed in non-European markets in the first half of 2017 compared to the same period of the previous year. While Lassa-branded sales made especially to Tunisia, Ukraine, Russia and Morocco markets increased by more than 50% compared to the same period of the previous year, overall growth in the region by keeping out the Iranian and Egyptian markets was 42%.

In the first half of 2017, in the total international sales of Lassa, an increase of 24% was recorded in terms of turnover when compared to the same period of the previous year. On the other hand, in the total international sales of Brisa, an increase of 9% was recorded as unit wise, and an increase of 34% was recorded in terms of turnover.

Looking at the automotive industry, in the first half of 2017, total production of passenger car and light commercial vehicles increased by 19% compared to the same period of the previous year. The main reason for this increase was the introduction of new vehicles at the end of 2016 due to the increase in production capacity of automotive companies. With this growth in production, automobile export surpassed half a million vehicles with an increase by 48% compared to the same period of the previous year. Along with these developments, Turkey has strengthened its position as a passenger and light commercial vehicle production center especially for European markets. In the same period, it was seen that Brisa's original equipment sales volume in Turkey to automotive companies was affected and dropped by the changes in the product demand.

In the first half of 2017, a 10% growth in the automobile sales within the domestic vehicle park was achieved. However, due to the decrease in other segments, total vehicle sales contracted by 9% compared to the same period of the previous year. The increase in the Special Consumption Tax announced in 2016 and the high exchange rate level have also been effective in this contraction.

In the January-June period of 2017, it was seen that the economic segment, which has high competition in the automobile segment, continued to grow in Turkish replacement tire market. On the other hand, growth in the winter segment and decrease in vehicle sales in the first months of the year led to an increase by 9% in the passenger tire market. The fall in commercial vehicle sales also triggered the sales in the replacement market, resulting in a similar increase in the commercial vehicle tires market.

In the same period, Dayton brand performed well in the economic segment where the competition was high. Brisa had a similar performance with the market in terms of automobile tires, and achieved a growth in the commercial products segment compared to the same period of the previous year, and Brisa's total sales grew by 1% compared to the first half of 2016. Therefore, Brisa has completed the first half of the year with an increase of 17% in its net sales revenues, when compared to the same period of the previous year. On the other hand, due to the increase in the expenses of raw material, currency and financing, net profit level decreased.

3.2. Manufacturing and Products

In the first half of 2017, Brisa operated at a high capacity utilization ratio (85.6%), reaching a production level of 5.1 million units of tires, same level in unit wise but 4% higher in capacity usage wise compared to the same period of previous year, as the planned shutdown which is not taken into account in total capacity calculation, has been done in January this year whereas it was held in July last year and there had been a 8 days unplanned shutdown between 28th of January and 5th of February 2016.

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.

	1 January- 30 June 2017	1 January- 30 June 2016	Change %
Production Quantity (Unit)	5.055.121	5.072.044	-0.3
Capacity Utilization Ratio	85.6%	82.3%	4.0

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

In the second quarter of 2017, Brisa continued to invest in Brisa and its brands with the actions taken in the market.

Brisa got together with sectoral press and conducted a press conference to evaluate the results of the year 2016 on products and services in the commercial products group. At the meeting, the message "We are strengthening our leadership in the commercial vehicle tire market with our customer-focused services" was shared.

Bandag, tire coating brand of Brisa, brought together the business partners around the world with the slogan "For the Better..." and a new logo launch within the 60th anniversary celebrations.

Brisa, with the mobile truck maintenance service, Mobilfix, traveled 11 provinces as part of Anatolian Tour and provided axial misalignment measurement service to 21 fleet. The importance of service was explained to fleet officers visited with Mobilfix by providing estimated life expectancy and fuel loss reports according to axial misalignments.

In the consumer products group, the most important work in the second quarter was new product introductions.

Brisa brought Lars Andersen, known as the world's fastest archer, to Istanbul for the introduction of Bridgestone Driveguard, which opens a new category by providing tires that can travel even in the event of an explosion, to all passenger automobiles on the replacement market. Bridgestone has also issued its new tire Driveguard's press release.

İpek Şenoğlu Tennis Tournament took place for the 5th time in the main sponsorship of Brisa, Bridgestone. This year, the revenues of the tournament held in Istanbul with the participation 518 people were donated to the The Hope Foundation for Children with Cancer.

As for Lassa, promotional activities of Driveways and Driveways Sport products which were put on domestic and foreign markets at the same time were made.

During the second quarter of the year when transition from winter tires to summer tires took place, various sales campaigns for Brisa brands were announced. Lassa and Bridgestone offered discounts of up to 150 TL for purchasing 4 summer tires. In addition to the discount, Bridgestone gave fuel worth 50 TL from BP as a gift. During the month of Ramadan, discounts of up to 120 TL were given to car owners who bought 4 Lassa passenger and light commercial vehicle summer tires, and communication activities of the campaigns were made.

Lassa celebrated World Farmers' Day with the farmers in Bursa in Yamanlı village. With the participation of 365 people everyone had a pleasant time with competitions and games in the event organized by Lassa with its partner in Bursa. Lassa Agriculture Consultants have also provided important information on good agricultural practices.

Lassa has contributed to the Burdur Teke Region Agriculture and Livestock Fair, one of the biggest Agriculture and Livestock organizations in Burdur, with its partner Karadaş Lastik. Lassa came together with the farmers and found the opportunity to listen to their needs and introduce its products at the fair.

Lassa sponsored the Tractor Races organized in Adana Karatas, an important agricultural region. Lassa Agricultural Consultants also provided consultancy on agricultural products to farmers in the event in which nearly 2,000 farmers participated.

The project "Strong Agriculture, Key to a Strong Future!", which Lassa conducted to inform the farmers about sustainable farming practices, also continued this year and the Brisa officials met with the Bursa local press to find out about the project. Within the scope of the project, Lassa visited 670 villages, reached more than 27,000 farms and provided a total of 722 hours of training until 2017. More than 20,000 free reflector assemblies were also installed to tractor trailers to increase their visibility on the road.

Brisa renewed its web site otopratik.com to enrich the value it offers to its customers. In the new website, car owners are provided with a price quote and an appointment. In addition, reminders and communication studies were made for preparing the vehicles for safe driving for summer with the extensive, reliable and professional services provided by the Otopratik stores.

Lassa offered the chance to take their father to Barcelona to those who share their photos taken while wearing their uniforms and scarves with their father during the Father's Day with the tag [#shouldertoshoulderwithmyfather](https://twitter.com/shouldertoshoulderwithmyfather) ([#babamlaomuzomuza](https://twitter.com/babamlaomuzomuza)).

Lassa accelerated its efforts to increase its awareness in global markets.

Lassa organized two separate tire control events by saying "Your Safety is Our Priority" at the Camp Nou Stadium parking area for consumers who came to watch the FCB Lassa vs. Kiel Handball match and for employees of FC Barcelona Club. With these events, tire tread depth and air pressure of more than 500 vehicles were controlled. FC Barcelona employees who participated in the event were also directed to Lassa's sales points with a special campaign proposal.

Brisa, under the brand name Lassa, participated in the 27th Autopromotec Fair held in Bologna, Italy, and promoted its products.

Brisa, with "UK Distributors Meeting", shared the road map and growth targets which will be followed in the UK in the coming period by Lassa with business partners.

In order to respond more quickly to the needs of business partners in international markets, Brisa has changed the content and infrastructure of the CIS (Customer Information System) platform and made it easy to digitally access the documents that may be needed for marketing.

With the "business partner of choice" target of Brisa and to strengthen and make the relations sustainable with the business partners, business trips, meetings, various events and programs were organized.

The national and international business partners, winners of Brisa's sales campaigns, have had the chance to take the field within the "Youplay" organization at the Camp Nou stadium in Barcelona. With Brisa executives, business partners in the organization held with the participation of 40 people, had an unforgettable football experience for two days under the Lassa and FC Barcelona partnership.

Brisa welcomed business partners who won the annual sales incentive campaign with their spouses during their journey to Dubai-Abu Dhabi and Lisbon.

Brisa has started the "Pioneers of the Trip" competition to reward customer-focused & innovative projects jointly conducted by business partners and sales teams and to promote exemplary practices.

Brisa executives met with the General Manager and executives of Oyak Renault in Izmit Plant, and had the opportunity to share information about the latest developments in Brisa and future projects.

Brisa welcomed the newly joined business partners at an introduction meeting in Izmit Plant.

Brisa has rewarded its suppliers as a result of the evaluation process with the participation of Purchasing, Quality Assurance and Technology units. Brisa's 4 raw material suppliers have been awarded with their performance in 2016.

Within the scope of Brisa İzmir Regional Directorate, customer relationship management, product information, guarantee processes and business security were shared with the participants with different perspectives and examples in the "Customer Experiences and Job Security" training for 33 employees of 14 business partners.

Aimed at the 2nd and 3rd generation business partners of Brisa, within the scope of Akbank Family Owned Business Academy program, "New Generation on the Job" program that is actualized in cooperation with Sabancı University Executive Training Unit EDU, has reached its third year, and the business partners who have completed the first module have graduated.

Brisa has reinforced its commitment to provide better service for its customers in the retail channel. It has also strengthened its presence in the sector with new associations and stores.

42nd Otopratik store of Brisa was put into service in Bursa Nilüfer.

Brisa has succeeded in moving its OEM partnership of many years with Karsan, one of the major players of the minibus category, one step ahead under the guidance of Lassa brand. With the new cooperation between Karsan and Brisa, new opportunities have been provided to the consumers purchasing the new model Karsan Jest + series from the first vehicle purchase.

Murat Logistics, one of Turkey's biggest cold chain logistics companies, has preferred Profleet fleet solution partnership offered by Brisa, leader of Turkish tire industry. Murat Logistics began using the Profleet consultancy and service package specially developed for fleet by Brisa in the scope of the agreement.

Kamil Koç, having an important and respected position in the bus transportation sector, has preferred Bridgestone tires for its tire needs. Our sales and service point, Bridgestone Service Center for buses in Esenler met the tire needs of Kamil Koç buses with professional sales and service staff.

In the second quarter of 2017, to reach the "workplace of choice" objective, activities were organized towards Brisa employees, company managers took part in the conferences as guest speakers and got together with university students, and gave various interviews.

Brisa executives came together with the employees of Altunizade, Izmit and Aksaray offices of the company and made meetings with the name "We Are Listening to You".

Mehmet Göçmen, Sabancı Holding CEO; Cenk Alper, Industrial Group President; and Mehmet Hacıkamiloğlu, Cement Group President visited Brisa Aksaray Plant during the establishment phase.

11th of the Traditional Brisa Family Day was held at Tire-Business Social Facilities. About 7,500 people participated in the event as Brisa employees and family members.

Brisa organized special iftar dinners for its employees, with the participation of the executives, General Manager of Tire-Business Union and trade union directors.

Brisa's new products, Bridgestone Driveguard ve Lassa Driveways were introduced to the employees with the launch event organized in Izmit Plant. In addition, winners of the raffle conducted in the event earned the right to be in Driveguard advertisement shooting.

"Boost" trainings, a sales development package designed specifically for Brisa in line with the needs and strategies of the sales team, started with the participation of the first group of 22 people. The

program also includes internal training as well as external trainings that offer carefully selected and tailored solutions.

Brisa organized the activity of "Let's Go To Brisa" within Brisa Academy for the children of employees through the April 23 National Sovereignty and Children's Day.

The children of the fathers owning Brisa delivered the photos taken with their fathers and the special celebration messages to their fathers, with the letters they received, through Brisa's social media accounts for Father's Day.

The Brisa Tennis Team won the second prize in the general classification of the 6th DEIK Business Tennis Cup Tournament in which 240 athletes from 20 companies competed.

Brisa launched a screenplay contest entitled "When We Transition to Summer Tires" among its employees to draw attention to the transition to summer tires. As a result of the votes, the most liked scripts are planned to be videotaped and broadcasted by their owners.

At the 5th Customer Service and Experience Summit held this year, Brisa, Lastik.com.tr relaunch studies were presented.

Brisa Human Resources team participated in the Campus Interview Days held on May 26 at Sabanci University and conducted job interviews with the students.

Lassa Cycling Team within the Brisaspor which was established with Brisa's approach towards support to social sustainability and sport, has gained considerable achievements in the national and international races, which were shared with the public through press releases.

Awards:

Bridgestone awarded the projects carried out across EMEA region in 2016. Within the awards where a total of 83 applications were made across the region, Brisa Academy's training programs for business partners were awarded the Golden Award in the education category. Brisa's "#2minutesforyoursafety" project that was carried out with Bridgestone brand to draw attention to safe driving in traffic was awarded the Silver Award in the Contribution to Society category.

Brisa, once again, ranked as Digitalization Pioneer in the Accenture Digitalization Index and Industry Leader in its industry. Brisa, with an overall score of 83% obtained in the index, plays an important role in Turkey's digitalization journey with its strategic approach, innovative services and operational competence in this field.

The cooperation of Marketing Turkey and the Boomsonar concluded the first and only competition to measure social media performances of brands and agencies based on objective data. Lassa won the Gold Award, and Bridgestone won the Silver Award in tire category in Social Media Awards.

3.4. Investment, Research and Development Activities

In the first half of 2017, a total of USD 17.1 million was extended in investments for the renovation, modernization and capacity increase of the Izmit production plant. USD 14.1 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 64.1 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 3.8 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 has a Research and Development Center approved officially by Ministry of Science, Industry and Technology in 27th of April 2017, which works in coordination with Bridgestone Corporation technical centers in Rome and Tokyo.

3.5. Financial Outcomes and Rates

Rubber prices which were stable in the last two quarters of 2016 are on a rising trend in the first two quarters of 2017. Along with the increase in raw material prices, the increase in the dollar exchange rate also reflected negatively on costs.

Significant increase in commodity prices resulted lower net profit compared to the same period of the last year despite effective pricing, increased sales of high value added products strategy and increased export volume.

With all these developments, it is seen that Brisa completed its quarterly total sales performance with an increase of 15.6% in turnover compared to the same period of the last year, while gross profitability rate was realized as 25.3% in the first half of this year. Decrease in gross profit level in the first half continued at EBITDA level and reached to 125 million Turkish Lira with a decrease of 9% compared to last year.

Sales Quantity	1 January- 30 June 2017	1 January- 30 June 2016	Change %
Domestic	2.792.906	2.940.557	-5
Export	2.447.172	2.239.150	9
Total	5.240.078	5.179.707	1

Sales Quantity (Channel Based)	1 January- 30 June 2017	1 January- 30 June 2016	Change %
Replacement	2.059.497	2.192.333	-6
OE	733.409	748.224	-2
Domestic Total	2.792.906	2.940.557	-5
Lassa Export	1.691.710	1.724.558	-2
Bridgestone Export	755.462	514.592	47
Export Total	2.447.172	2.239.150	9
General Total	5.240.078	5.179.707	1

Net Sales (Million TL)	1 January- 30 June 2017	1 January- 30 June 2016	Change %
Domestic Sales	687,3	626,2	10
Export Sales	320,7	238,6	34
Total Net Sales	1.008,0	864,9	17

Million US Dolar	1 January- 30 June 2017	1 January- 30 June 2016	Change %
Export Sales	92,8	81,8	13

(Million TL)

Summarized Income Statement (Million TL)	1 January- 30 June 2017	1 January- 30 June 2016	Change %
Net Sales	1.008,0	864,9	17
Gross Profit	254,9	287,2	-11
Operating Profit	99,5	122,5	-19
Net Profit	26,6	59,9	-56

EBITDA	125,4	137,9	-9
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*EBITDA: Earnings before interest, tax, depreciation & amortization and interest, foreign exchange and derivative financial instruments gain/loss within other operating income and expenses.

Operation and Profitability Ratios	30 June 2017	30 June 2016
Gross Profit Margin (Gross Profit/Net Sales)	%25,29	%33,20
EBITDA Margin (EBITDA/Net Sales)	%12,44	%15,94
Net Profit Margin (Net Profit/Net Sales)	%2,64	%6,93
Return on Asset (Net Profit/Assets)	%1,62	%8,94
Return on Equity (Net Profit/Equity)	%8,40	%34,76

Liquidity Ratios	30 June 2017	31 December 2016
Current Ratio (Current Assets/Current Liabilities)	1,32	1,06
Acid-Test Ratio (Current Assets-Stocks / Current Liabilities)	0,90	0,76

Financial Growth Ratios	30 June 2017	31 December 2016
Total Liabilities/Equity	4,51	3,68
Total Liabilities/Total Assets	0,82	0,79
Equity/Total Assets	0,18	0,21

* As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 166.532.000 for 2017 and amounting to TL 270.104.000 for 2016 are offsetted and disclosed under financial liabilities.