

## **2016 Second Quarter Developments and Activities**

### **3.1. Sector Analysis**

#### **An Overview of the Tire Sector and Brisa's Position and Importance in the Sector**

In the second quarter of 2016, recovery became prevalent in the economies of China and the developing countries. Moreover, worldwide decrease in the fuel prices seems to have encouraged longer driving and more mileages and that situation recorded 3% increase in the global market for light and heavy commercial vehicle tyres, especially in China, Russia and Brazil, when compared to the same quarter in the previous year.

In the European market of light and heavy commercial vehicle tyres, due to the increase in the quantity of competitive imported tyres and to longer and further driving, a 2% increase was recorded. In the market of heavy commercial vehicle tyres, the low-priced tyres imported from China were positioned against retread tyres and triggered competition.

It became apparent that the European producers re-shaped their operations as well as the competition in the European tyre market increased with the entrance of the new producers.

When the automotive industry is examined, the market within the total of European Union and EFTA (European Free Trade Association) has sustained its positive performance with a 10% increase in comparison to the same period last year.

Thus, a 0.6% market growth was observed in the European tyre market in the first half of the 2016, when compared to the same period of the previous year. In the same period, Lassa sales in European market increased by 5%. In the first half of 2016, a 10.7% increase in the amount of sales units in the total international sales of Lassa were recorded, when compared to the same period of the previous year.

And in the domestic automotive industry, in the first half of 2016, automobile and tractor production reached its peak throughout last ten years. On the other hand, the transition process to compatibility of Euro 6 emission standards caused a decrease in the production in the segment of commercial vehicles other than truck and bus segment. Compared to the same period of the previous year, total domestic automotive production increased by 9%. In exports, which comprises the 76% of the total production, a 14% growth was observed, the highest increase being in the heavy commercial vehicles segment. When the figures in automotive sales are examined, a similar trend is observed. While there was 3% increase in the automotive market, a 48% decrease in the heavy commercial vehicle market cannot go unnoticed. According to these data, total market remained stable when compared to the same period of the previous year, ranking Turkey in the 6th place among the European countries.

In parallel to the developments in the automotive market, Brisa original equipment sales decreased due especially to the decrease observed in some segments and in the volume of exports towards Russia due to the developments between two countries.

One of the practices that will have an impact on the sector in May 2016 is that imported tyres will be monitored. In this framework, a monitoring fee of 5 USD per kg will be charged on steel belted radial tyres imported out of the Customs Union.

During the period of January-May 2016, it was observed in Turkish replacement tyre market that high competitive economic tyre segment continued to grow. Furthermore, the growth rate expected in the

period when summer tyres replaced, did not live up to the expectations. With these developments, total automobile tyres market remained the same when compared to the same period of the previous year while the market for light commercial vehicles shrank by 5%. The decrease in the production of commercial vehicles triggered the sales in the replacement market, giving rise a 9% increase in the market for truck and bus tyres.

In the same period, Brisa gained market share by showing a performance above the market for automobiles and light commercial vehicles. Dayton brand showed a good performance in the high competitive economic tyre segment. As for the market for commercial products, Brisa showed a performance parallel to the market, securing its market share. In the retread tyre segment, a growing market for commercial products, Brisa gained market share in the growing market.

### 3.2. Manufacturing and Products

In the first half of 2016, Brisa operated at a high capacity utilization ratio (82.31%), reaching a production level of 5.1 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.

	1 January- 30 June 2016	1 January- 30 June 2015	Change %
Production Quantity (Unit)	5.072.044	5.428.471	-6.6
Capacity Utilization Ratio	82.31%	87.97%	-6.4

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 2016, with actions taken in the market, investments continued with Brisa and its brands.

Sales channels have been reviewed, concept renewal activities have been carried out in a way to address customer needs, and new sales channels have been developed.

"lastik.com.tr", which has been providing service in the online trade channel since 2011, and which comprises 1.7% of the retail sector, has been renewed. Thus, Bridgestone and Lassa products to be bought over the internet, payment to be made through the site instantly, tyres to be directed to the nearest dealer have been redesigned again in a way to provide convenience to the users.

Designed to enrich the customer experience and to reach out to different customer groups, OtoPak, the first service point of which was put into operation in Istanbul Etiler, provides fast, reliable and professional car wash service.

New stores of Propratik sales and service chain, the objective of which is to meet the needs of personal commercial vehicle and fleet owners at the same time with high quality assurance, were inaugurated in Gaziantep and Istanbul.

We were among the sponsors of the "New Era in the Seismic Isolation" conference which was organized by Fortune Turkey, and was aimed at the promotion of Bridgestone seismic isolators which were launched by our company in 2015. Activities in this field were presented to the representatives of the sector by Bridgestone Corporation and Brisa representatives.

Promotional activities of our brands have been continued in the second quarter of 2016.

In collaboration with Lassa, which has become the "Global Official Tyre Sponsor" of FC Barcelona for four seasons as per the agreement signed in 2015, activities towards end users, national and international partners, customers and press communication during the first season through basketball, handball, futsal, roller hockey events were organized.

To contribute to the international brand promotion of Lassa, within the scope of the activities organized by the sponsorship of FC Barcelona, 19 durable and innovative tyres have been introduced in Reifen 2016 Fair in Germany, Essen. Also, 7th Guangrao International Rubber Tyre & Auto Accessory fair that took place in Guangrao City of China have been attended.

As at the national level, the movie with the slogan of "Arda, you are our captain" have been broadcast on conventional and digital media channels to show support to Lassa brand ambassador Arda Turan who was the captain of the national team in Euro2016.

Promotion activities have been carried out related to that new Mercedes-Benz C-Series automobiles and GLA SUVs coming out from factory with Bridgestone brand.

Organized in the international platform for more than half a century, "Automobile of the Year Turkey" (TYO) organization held by Automotive Journalists Association for the first time in Turkey, was supported by Bridgestone.

Thanks to the partnership with "Manilo" YouTube channel related to Bridgestone trademark, information on the correct tyre usage have been reached to more than 35,000 subscribers of the channel.

"Anatolia Solar Team", formed by Anadolu University students was supported as the tyre sponsor in 2015 World Solar Challenge which is Turkey's first long-distance alternative energy automobile race.

Our products and services were promoted to our customers in commercial segment at 5th Istanbul Comvex Fair.

Various sales campaigns have been deployed for the brands and products to be tested by the vehicle owners, for stimulating return customers.

With "becoming the desired business partner" target of Brisa and to strengthen and make the relations sustainable with the business partners, incentive trips, meetings, various events and programs were organized. 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 produced its second graduates since 2015.

Our "Customer Experience Specialist Certificate Program" organized by the concept name of "Heriones of the Customer", which supports our two missions, i.e. "Empowerment of women in business" as well as maximizing sales and service experience to excellence in tyre sector, was initiated within Brisa Academy with the participation of 16 women working at stores owned by business partners.

Information related to fast maintenance services trends, automotive after-sales services market, "Pratik Ailesi"(Practical Family) vision of the company and values package were shared in a meeting with business partners of "Pratik Ailesi"(Practical Family) concept.

In the meeting held with the attendance of Brisa commercial product business partners, information related to the practices of Brisa, special services and products towards fleet customers, Profleet processes offered with '360 degree consulting' and information with regards to the market have been shared.

5th of the "En İyiler Bir Arada" (The Best Unite) training and motivation meeting towards Profleet Consultants taking part in the application of Profleet Fleet Management Solutions at the sales and service points of the business partners was held.

With the "Competus Discovery Convoy" which was named after the superior 4x4 product family of Lassa and has now become a tradition, business partners discovered the natural beauties of Iceland.

In the second quarter of 2016, to reach the "becoming the desired workplace" 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.

12th of the traditional Suru-Raku conference in which Brisa drew attention to the standardization and the significance of continuous improvement in business processes was organized with a large attendance of Brisa employees and managers. Winning project was selected to represent Brisa in the conference in Japan.

Innovation being one of the values of Brisa, as a result of activities carried out for the integration and digestion of innovation throughout Company processes, 2014-2015 BIP (Brisa Innovation Portal) awards were presented to the winners with a ceremony.

With the occasion of April 23 National Sovereignty and Children's Day, "Would You Like Your Child To Design the Car of the Future?" event which was attended by the children of the employees was organized.

### **3.4. Investment, Research and Development Activities**

In the first half of 2016, a total of USD 28.8 million was extended in investments for the renovation, modernization and capacity increase of the Izmit production plant. USD 23.9 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 47.3 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 5.3 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.

### 3.5. Financial Outcomes and Rates

In the second quarter of 2016, the expectations of growth are still considered to be on-going thanks to the received data of USA being satisfying and as the global finance markets seem to have recovered from the shock of Brexit even though they are less likely.

The rubber prices tending to have been decreasing for a long time have kept their tendencies in the first quarter of going down also in the second quarter. The fact that the dollar rate has decreased by 2% on average compared to the first quarter has made a positive contribution to expenditures, and the increasing parity has impacted the profitability favourably. Brisa has increased its profitability as it combined the tendency of going down in the commodity prices with the strategies of effective pricing and raising the importance of the products with high added values in sales.

In line with the all these progresses, the total sale performance of Brisa in the 1st half has a 5% increase in endorsement in comparison to the same period of the last year. The gross margin has increased by 20% compared to the last year, and the rate of gross profitability has exceeded the one in the last year by 4 points, having a rate of 32.4%. The positive progress in the gross profitability level has also continued at the level of operating profit, and it has reached 108.7 million TL with an increase of 9% from the last year.

Sales Quantity	1 January- 30 June 2016	1 January- 30 June 2015	Change %
Domestic	2.940.557	3.106.907	-5
Export	2.239.150	2.003.803	12
<b>Total</b>	<b>5.179.707</b>	<b>5.110.710</b>	<b>1</b>

Sales Quantity (Channel Based)	1 January- 30 June 2016	1 January- 30 June 2015	Change %
Replacement	2.192.333	2.234.027	-2
OE	748.224	872.880	-14
<b>Domestic Total</b>	<b>2.940.557</b>	<b>3.106.907</b>	<b>-5</b>
Lassa Export	1.724.558	1.558.506	11
Bridgestone Export	514.592	445.297	16
<b>Export Total</b>	<b>2.239.150</b>	<b>2.003.803</b>	<b>12</b>
<b>General Total</b>	<b>5.179.707</b>	<b>5.110.710</b>	<b>1</b>

Net Sales (Million TL)	1 January- 30 June 2016	1 January- 30 June 2015	Change %
Domestic Sales	626,2	612,2	2
Export Sales	238,7	210,7	13
<b>Total Net Sales</b>	<b>864,9</b>	<b>822,9</b>	<b>5</b>

Million US Dolar	1 January- 30 June 2016	1 January- 30 June 2015	Change %
Export Sales	81,8	82,6	-1

(Million TL)

Summarized Income Statement (Million TL)	1 January- 30 June 2016	1 January- 30 June 2015	Change %
Net Sales	864,9	822,9	5
Gross Profit	280,0	233,7	20
Operating Profit	108,7	99,3	9
Net Profit	47,7	62,5	-24

EBITDA	135,7	130,4	4
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\*EBITDA: Earnings Before Interest and Depreciation and Tax except other operating income and expenses.

Operation and Profitability Ratios	30 June 2016	30 June 2015
Gross Profit Margin (Gross Profit/Net Sales)	%32,37	%28,40
EBITDA Margin (EBITDA/Net Sales)	%15,69	%15,84
Net Profit Margin (Net Profit/Net Sales)	%5,52	%7,59
Return on Asset (Net Profit/Assets)	%8,18	%10,29
Return on Equity (Net Profit/Equity)	%32,10	%30,58

Liquidity Ratios	30 June 2016	31 December 2015
Current Ratio (Current Assets/Current Liabilities)	1,06	1,31
Acid-Test Ratio (Current Assets-Stocks / Current Liabilities)	0,76	0,93

Financial Growth Ratios	31 March 2016	31 December 2015
Total Liabilities/Equity	3,68	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 157.496.000 for 2016 and amounting to TL 160.016.000 for 2015 are offsetted and disclosed under financial liabilities.