

2017 First Quarter Developments and Activities

3.1. Sector Analysis

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

The World Tyre Market has grown by 2.6% in the last 5 years and this ratio realized as 4% in 2016. Much of this growth originated from China and South Asia, as well as NAFTA and the Middle East. In 2017, global passenger and light commercial vehicle tyres market grew by 3.5%, with a slowdown in the previous year's upward trend in the US, European and Chinese markets. Global medium and heavy commercial vehicle tyre markets achieved 2% growth, albeit with a similar slowdown. In this slowdown, in tyre sector as in other sectors, the depreciation of the US dollar, election periods and uncertainty environment in Europe also had an effect.

Total automotive production reached to 18.8 million units in 2016, with an increase of 3% compared to the previous year in the European Union countries. Approximately 16.8 million of this figure was made up of automobile production. Commercial vehicle production increased by 4.8% to over 2 million. European passenger vehicle market increased by 8.4% and reached to reached 4.14 million vehicle in the first quarter of 2017 compared to the same period of the previous year. This growth was influenced by double digit growth figures in January and March, as well as the high number of vehicle sales in Germany, Italy, France, UK and Spain, the top five markets in Europe. European commercial vehicle market also recorded growth in the same period.

With these developments in the automotive sector, European automobile tyre market reached 55.5 millions of unit with a 4% growth rate in the first quarter of 2017 and 2.6 millions of unit with 15% growth rate of commercial vehicle tyres. Brisa reached 20% growth rate in the international markets with its Lassa brand and its high performance in Morocco, Ukraine, Tunisia, Israel and Azerbaijan in non-European markets, and gained market share in the European markets, especially in the UK, France, Serbia, Greece, Portugal, Czech Republic, Lithuania, Latvia and Poland. International markets achieved a growth of 5% in total sales compared to the same period of the last year. In March of 2017, Lassa caught a high record, achieving the highest international sales ever.

In Turkey, total automotive production increased by 23% and automobile production by 44% in the first quarter of 2017 and automobile and tractor production reached its highest level in the first quarters of the last 10 years. In the same period, the production of commercial vehicles carrying freight and passengers caught up with high growth rates in all segments except the light truck segment. 84% of the production was exported, total automotive industry exports maintained their first place in Turkish Exporters Assembly export order. Total automotive market contracted by 8% and the contraction mainly came from the heavy commercial vehicle market. With these developments, Turkey hold its 7th place in total automotive production in Europe, and took place in the first place in commercial vehicle production and the 6th place in the commercial vehicle market.

Turkish tyre market has continued its growth trend in the first quarter of 2017. Achieving double digit growth in the market for heavy commercial tyres, Brisa increased its market share in total, especially in the long distance and urban transportation segments.

Brisa continued its leadership in the Turkish tyre market.

In the first quarter of 2017, the weak trade trend continued and the continuing negative growth performance from 2016 was maintained due to uncertainties in the global economy and agenda topics

outside economy in Turkey. Nevertheless, industrial production and manufacturing industry capacity utilization rates increased in the first quarter of the year, compared to the same period of the previous year.

3.2. Manufacturing and Products

In the first quarter of 2017, Brisa operated at a capacity utilization ratio (87.9%), reaching a production level of 2.5 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- 31 March 2017	1 January- 31 March 2016	Change %
Production Quantity (Unit)	2.467.843	2.546.392	-3.1
Capacity Utilization Ratio	87.9	92.1%	-4.6

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 has continued to provide value to its customers in the first quarter of 2017 through significant cooperation with other companies.

With the aim of providing support to workers, a cooperation began with HaynesPro B.V, the leader of the European online technical data market in the automotive sector, at Otopratik and Propratik service points. Software developed by HaynesPro B.V., a technical software company based in the Netherlands, provides instantaneous support to mechanics and technicians in the maintenance and repair of personal, light commercial and heavy commercial vehicles.

Otopratik has signed a strategic cooperation with Castrol, one of the biggest brands in the mineral oil market, and Castrol engine oils have begun to be offered to customers at Otopratik shops.

Through partnerships with Lastik.com.tr and Garanti Bank, customers paying the Motor Vehicles Tax, -an important aspect for our industry- through the bank, have access to discounts on Bridgestone and Lassa tyres on Lassa.com.tr. In the same period, discounts on routine maintenance labor and free vehicle checkups have been provided to those who pay the tax through the Yapı Kredi Bank.

With the slogan “Love a bird, a butterfly, a stone, and that’s enough!”, on Valentine’s Day Lastik.com.tr let visitors donate through the “Açık Açık” platform on its main page to NGOs like the Darrüşşafaka Foundation and the Tohum Autism Foundation.

As part of the cooperation with Ford Otosan, at the Ford Otosan Technology days, which were held for the first time this year, Lastik.com.tr and Otopratik were promoted.

As part of the cooperation with Massey Ferguson, the most important brand held by ACGO, one of the largest groups in the world in the tractor and agricultural vehicle market, Lassa agricultural tyres are now sold in Massey Ferguson vendors across the nation.

With the two new service points opened in Bursa and Siirt, Otopratik service network increased to 43 in Turkey.

The exchange service with mobile vehicles, which they demand intensively during the transition to summer tyres and promise to provide on-site service to their customers have begun by operational fleet leasing companies and our customers had their summer tyres changed in their car parks.

The promotional activities of our Lassa brand in international markets have accelerated.

In Vienna, Austria 150 taxi drivers preferred our new product, Lassa Driveways, Lassa branding was made on their vehicles and at more than 60 tyre sales point in the same city.

In the Camp Nou Stadium parking lot, tyre tread depth and air pressure information and controls were made with the message "Our Safety is Our Priority" for FC Barcelona employees and a special campaign proposal was offered to them.

The promotional activities of our brands continued in Turkey as well in the first quarter of the year.

Promotion of our brands has also continued in domestic market in the first quarter of the year.

For promotion of our new products in the consumer segment and publishing of reviews of 2016, we have convened with the national automotive press.

A press conference regarding the review of products and services in the commercial products group in 2016 was also held with the participation of the sectoral press. The Bridgestone M-Class construction truck tyre, which was offered for the use of asphalt intensity construction, excavation and concrete transmixer fleets, and the Dayton branded products, which were prominent due to their long life and being economic, were introduced.

As a result of the retail tyre purchase campaign for commercial vehicle tyres, our 5 winner customers took the opportunity to watch FC Barcelona at the Camp Nou stadium.

The advertisement in which Lassa declared its leadership was broadcast on radio, TV, social media, and digital channels across Turkey.

Lassa's radio spots aimed at light commercial vehicle users have started broadcasting.

The Sales and Communication Awards ceremony was organized by the Automotive Distributors' Association, under the sponsorship of Bridgestone. At the ceremony hosting the entire industry, Bridgestone DriveGuard tyres were promoted and a football match travel package was presented by Brisa to a company's representative with the sponsorship of FC Barcelona Lassa.

"The Bridgestone İpek Şenoğlu Cup – Tennis Tournament" was held, where the Bridgestone brand contributes to awareness of healthy living and the development of tennis in our country.

Brisa sponsored the General Council of the International Transporters' Association with the Bridgestone brand. Bridgestone's products and the Filofix service were promoted to almost 1000 members of the association.

Brisa provided tyres for its fleet customer Gürsel Tourism's bus designated for the use of the Fenerbahçe Sports Club.

Within the scope of the Mobilfix Turkey tour, fleet customers in Izmir were served and the effect of tyre maintenance on fuel efficiency was explained.

The website for Otopratik, which was founded on Brisa's fast and reliable vehicle maintenance approach, has been updated to provide the most ideal experience to its customers.

In the first quarter of 2017 Brisa has continued work on projects aimed at business partners.

The new products Bridgestone DriveGuard and LassaDriveways have been promoted to business partners.

A competition titled "Sustainable Stores" was held in the scope of "The Customer's Heroes", a certificate program aimed at female employees working in stores of Brisa's business partners. The Customer's Hero Betül Demirel, from the İzmir Dalita Otopratik store won the competition with the "One Sapling, One Breath" project aiming to protect the environment through reforestation.

Brisa has gathered a council for the Pratik Family partnerships, and exchanged ideas mutually with Otopratik and Propratik labelled partners.

The Brisa Academy website has been updated to allow easier access of stakeholders.

A meeting was held with Austrian business partners and Lassa's new products were promoted.

In the same period, with the aim of becoming employer of choice, employees and potential employees were met with.

The company's goals for 2017 were explained at the Yearly Sharing Meeting with the participation of employees.

Brisa employees shared their ideas on the Innovation Portal, and those who came up with 5 ideas put into practice were presented with the "Fikirbaz" (Thinker) award.

At the Engineering Case Camp, in which students from the best universities in Turkey participated, engineering students seeking to plan their careers were met with.

The Brisaspor Cycling Team, founded with an approach to support societal sustainability and sports, had great success in many national and international races. This success was announced to the public with news bulletins.

Lassa has maintained its social responsibility project "Strong Agriculture Means a Strong Future" with the name "Our Love is the Soil; our Future is Shared!" for three years to form a stronger emotional bond with farmers. Lassa provided consultancy services to farmers in safe driving and sustainable agriculture within the scope of this project.

Researchers, who have gone 21 thousand kilometers on the road working on the "Let the Cranes Fly Forever" project that aims to protect cranes in Turkey, have discovered that around 10 thousand cranes spend the winter in the Çukurova basin. Additionally, 30 villages were visited, 2 thousand educational booklets on cranes were distributed to elementary school students, and local schools, hunting clubs and village coffeeshouses were informed on the topic.

Awards:

Brisa has received accolades for successful applications regarding waste management in the “2017 Waste Management Symposium” organized in Antalya by the Ministry of Environment and Urban Planning with the participation of private sector representatives, NGOs, chambers, universities, and municipality representatives.

From among 83 applications made for the Bridgestone Regional Awards in the EMEA region in total, Brisa received the Golden Award in the training category for training programs aimed at business partners, and the Silver Award in the category of contribution to society for the “#emniyetimizi2dakika” (#2minutesforoursafety) project, which aimed to draw attention to safe driving in traffic.

Lassa’s commercial, “You are our Arda”, shown before Turkish football player Arda Turan’s first match for FC Barcelona was named one of the commercials that made its mark on 2016 by Marketing Turkey.

Lassa’s commercial film “Barcelona’s Secret” took the 7th place among top adverts in the yearly advertisement review held with the cooperation of Mediacat and IPSOS.

3.4. Investment, Research and Development Activities

In the first quarter of 2017, a total of USD 6.5 million was extended in investments for the renovation, modernization and capacity increase of the Izmit production plant. USD 5.0 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 31.2 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 1.8 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, 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

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

Despite the increase in commodity prices, Brisa increased its net profit compared to the same period of the last year, as a result of 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 17.7% in turnover compared to the same period of the last year. EBITDA level reached to 69.5 million Turkish Lira with an increase of 9% compared to last year.

Sales Quantity	1 January- 31 March 2017	1 January- 31 March 2016	Change %
Domestic	1.294.645	1.385.674	-7
Export	1.193.430	1.016.336	17
Total	2.488.075	2.402.010	4

Sales Quantity (Channel Based)	1 January- 31 March 2017	1 January- 31 March 2016	Change %
Replacement	952.828	1.007.542	-5
OE	341.817	378.132	-10
Domestic Total	1.294.645	1.385.674	-7
Lassa Export	880.842	839.502	5
Bridgestone Export	312.588	176.834	77
Export Total	1.193.430	1.016.336	17
General Total	2.488.075	2.402.010	4

Net Sales (Million TL)	1 January- 31 March 2017	1 January- 31 March 2016	Change %
Domestic Sales	315,6	293,3	8
Export Sales	157,5	108,7	45
Total Net Sales	473,1	402,0	18

Million US Dolar	1 January- 31 March 2017	1 January- 31 March 2016	Change %
Export Sales	44,5	39,5	13

(Million TL)

Summarized Income Statement (Million TL)	1 January- 31 March 2017	1 January- 31 March 2016	Change %
Net Sales	473,1	402,0	18
Gross Profit	128,4	134,9	-5
Operating Profit	58,0	56,5	3
Net Profit	24,7	31,6	-22

EBITDA	69,5	64,0	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	31 March 2017	31 March 2016
Gross Profit Margin (Gross Profit/Net Sales)	%27,13	%33,55
EBITDA Margin (EBITDA/Net Sales)	%14,69	%15,93
Net Profit Margin (Net Profit/Net Sales)	%5,22	%7,87
Return on Asset (Net Profit/Assets)	%2,73	%9,80
Return on Equity (Net Profit/Equity)	%13,59	%35,31

Liquidity Ratios	31 March 2017	31 December 2016
Current Ratio (Current Assets/Current Liabilities)	1,22	1,15
Acid-Test Ratio (Current Assets-Stocks / Current Liabilities)	0,85	0,84

Financial Growth Ratios	31 March 2017	31 December 2016
Total Liabilities/Equity	4,23	3,97
Total Liabilities/Total Assets	0,81	0,80
Equity/Total Assets	0,19	0,20

* As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 182.312.000 for 2017 and amounting to TL 270.104.000 for 2016 are offsetted and disclosed under financial liabilities.