

2016 Third 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 third quarter of 2016, the same level of gross domestic product growth predictions in the global markets, United Kingdom's decision to leave the European Union, had a muter effect on United States and China but it had adverse growth effects on United Kingdom and the European Union countries.

In this atmosphere, a same level in the vehicle sales as the last year has been witnessed globally, and the decrease in fuel prices in mature economies seems to have encouraged riding further and longer and especially increased the rate of tire changing in light commercial vehicles segment. Additionally with this, growth in Europe is slowed down and even though a growth in the vehicle park has been recorded in the developing markets with the increasing number of sales, the urbanization decreased the kilometers and tire changes per vehicle. With these events in the markets, an increase in the vehicle park and total tire sales has been recorded in the global tire market compared to the last year's same period.

With these developments, European tire market had a growth of 0.4% in the first nine months of 2016 compared to the same period of last year. In the same period, Lassa has shown a performance higher than the market, especially in the winter tires and high added value performance products segments. In total international sales, Lassa, has recorded a number of 8.9% increase in sales and 5.2% increase in sales revenues in the first third quarter of 2016 compared to the same period of last year.

In the same period, another important development in the global tire industry was the decisions made by countries about the additional custom tax of imported tires from Far East and China. Also in Turkey, starting from 7 September 2016, with the exemption of some countries including the European Union and EFTA countries, an extra 21.8% rate customs tax was applied to vehicle, industry, agriculture and forestry, motorcycle and bicycle external tires.

When we take a look at the automobile industry, market in the total of European Union and EFTA countries, continued its positive performance from the last year as of the January - August period of 2016 and had an increase of 8.5% compared to the same period of the last year.

In Turkey, which is in the 6th rank among the European countries in automobile market, a decrease of 6.8% compared to the same period of the last year was recorded while the total automobile production had the highest market level in the last 10 years' same periods with an increase of 6% Automobile production had an increase of 13% while the commercial vehicles segments production had a decrease due to the transition to comply with Euro 6 exhaust gas emission standards. In the automobile exportation which consists the 76% of the total production, according to the data of Turkey Exporters Council, there was an increase of 13% in January-September period of 2016 and the first ranking in exportation has been maintained.

With the retail attitude of the company that aims a more often and efficient approach to the vehicle owners, the alternative sales channel concept Bridgestone Box, has been located as two in İzmir and one in each of İstanbul, Ankara and Kuşadası. Within the same approach, the products sold in Carrefoursa hypermarkets were provided with a maintenance service in the Speedy points in the car parking areas. To respond the increasing needs of the operational fleet renting firms during the winter period, the tire service and maintenance services has been provided where they want with a mobile

vehicle. OtoPratik and ProPratik stores of the Pratik Family that were designed with the fast service and maintenance concept, innovative applications has been implemented, their infrastructure has been renewed and the new stores continued to be widespread to service the customers faster and better than they would expect. Innovative applications such as free of cost installment service in business partner stores and instant shipment after ordering have continued to make a difference in the Brisa's "lastik.com.tr" website sales which is in the e-commerce area that makes up 2% of the total domestic retail market.

In Turkey in the January - September period of 2016, the markets of tire replacement, automobile and light commercial vehicle tires have been decreased while the heavy commercial vehicle tires markets have grown. In this period when the innovative applications that adds value to the customers are implemented, Brisa has gained market share by performing domestically above the tire replacement market.

3.2. Manufacturing and Products

In the first third quarter of 2016, Brisa operated at a capacity utilization ratio (80.8%), reaching a production level of 6.8 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 Sept. 2016	1 January- 30 Sept. 2015	Change %
Production Quantity (Unit)	6.771.839	7.594.053	-10,8
Capacity Utilization Ratio	80.8%	89.0%	-9.2

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 third quarter of 2016, Brisa and its brands have continued their investments domestically and in abroad.

Public announcements have been made in regard to the company investments. Including the 150 million US Dollars from the European Bank for Reconstruction and Development (EBRD) and 160 million US Dollars syndication loan from the Mitsubishi UFJ Financial Group (MUFG) Corporate Banking unit, a total of 310 million US Dollars investment financing to be used in the investment of the second factory being constructed in Aksaray and for other needs has been announced to the public via the press bulletin.

Sales channels have been revised, concept renewal activities have been carried out to meet the customers' needs and new sales points have been opened.

The new store of ProPratik sales and service chain, which was launched to respond the many needs of the personal commercial vehicle and fleet owners with a high quality guaranteed service and is a first in the industry, has been opened in Hatay.

Marketing, promotion and sponsorship activities for our brands have been continued in the third quarter of 2016.

With the agreement signed with in 2015 that made Lassa the "Official Global Tyre Partner" of FC Barcelona for four seasons, operations towards the end user, domestic and international business partners, customers and press communication have been continued on the occasions of basketball, handball, futsal and ice hockey sports matches.

Our Lassa brand has continued to grow globally and added new markets to its export portfolio. Lassa has opened its first sales point in Portugal in Armamar region in the north of the country, speeding up the operations to strengthen its position in the European market. A new store has been opened in Ukraine. Within the aim of expanding to new markets, the first shipping has been made to Panama. Lassa has continued to gather with its business partners in international markets and presented its product in Wessels Müller fair held in Dortmund, Berlin and Munich, in Germany

Lassa has introduced the new generation light commercial vehicle summer tire Transway 2 to the industry and carried out it's promotion operations.

Supporting the agricultural expo participation of the business partners of Lassa brand under the Agriculture segment has been continued. In this scope, Brisa business partners along with their region employees participated in agricultural expos in Ankara, Niğde and Yozgat and brought Lassa's agriculture group products together with the visitors.

A press conference has been carried out to share the Brisa's 2016 half year assessments and upcoming term's goals under the commercial products segment.

Bridgestone, has supported the art festival of International Gümüşlük Classical Music Festival's "Guitar in the Sand" program as the main sponsor. Also, the brand participated in the motorcycle festival in Eskişehir in August and introduced its products to the participants.

Various sales campaigns have been arranged to encourage the testing and repurchasing of the brand and the products by the vehicle owners.

FC Barcelona's official partner Lassa, initiated the El Clasico Lottery Campaign for the consumers to win the chance of watching the FC Barcelona Real Madrid match in December.

In the scope of Brisa's aim of "becoming the preferred business partner" and strengthening the relationships with the business partners incentive travels, meetings, various events and programs have been carried out.

In this direction with the cooperation of Brisa Academy and BÜYEM (Boğaziçi University Lifelong Education Center) the New Generation On-The-Job Project aimed towards children of business partners, in the age group of 10-15 has been completed.

“Heroines of Customers, a customer experience expert certificate program that support our missions of "empowering women in the business life" and to perfect the sales and services experience in the tire industry, have had their first graduates with the participation of 16 women who works at the business partners' stores.

In the meetings held in Marmara region, Ankara, Adana and İzmir, new customer segmentation in commercial products and solution and value packages offered in this scope have been explained to the total of 72 business partners. In this direction, many events in different locations have been organized for the customers who were designated as locomotive in the light commercial tire group.

In the third quarter of 2016, operations aimed towards the Brisa employees have also been carried out in order to reach the goal of "being the preferred workplace". Marketing and Sales Meeting has been carried out in Sabancı Center with the participation of almost 250 Brisa employees in order to assess Brisa's first half of 2016 and share the goals for the upcoming term. Additionally company employees have come together with university students and participated as guest speakers.

10th of the Traditional Brisa Family Day have been performed with the participation of company employees and Lastik-İş Union's representatives.

Investments in sustainability, corporate social responsibility and various social fields have been continued in the third quarter of 2016. Field works and activities to raise awareness in Çukurova region in the scope of the bio-diversity project "Turnalar Hep Uçsun" (Let the Cranes Fly) carried out in cooperation with WWF have been continued. Additionally environmental applications have been performed by Brisa volunteers in the scope of WWF Turkey Green Office operations.

Brisa Museum which is a first in the industry, have received attention from the Kocaeli region's local people and the students as well as the business partners and the Brisa Museum has attracted more than 2 thousand visitors until today.

Lassa Bicycle Team, a member of the Brisaspor that was established with Brisa's attitude of social sustainability and support to the sports, has achieved many successes nationally and internationally, and these successes have been shared with the public via the press bulletins.

Solar Impulse, which we are the only Official Partner in Turkey, has successfully completed its historic world tour. Press visits, digital communication campaign and exclusive interviews have been performed in order to increase the awareness of the public about this cooperation and to raise awareness in the matter of clean energy.

In the scope of Bridgestone #2minutesforoursafety project that was started in 2013 and provided 3 thousand liters of fuel savings by reaching 60 thousand vehicles, between the dates of 9-19 September, vehicle tire air pressure and tread depth controls have been performed and information on safe traveling has been passed on to the drivers at IDO's Yenikapı, Pendik and Yalova piers.

In the scope of the "Strong Agriculture, Strong Future" project that was initiated in order to inform the farmers on sustainable farming applications under the Lassa brand, trainings and consultancy service were provided on good farming applications in the villages in the company of "Lassa Agriculture Consultant" titled agriculture engineers. In this context, Lassa teams have visited the farming areas in Tekirdağ, Sakarya, Bilecik and Eskişehir and informed the farmers on fields of good farming applications, productive vehicle usage and safe driving.

Awards:

In the study of "Most Sincere Brands of Turkey" conducted by the Mediacat and IPSOS cooperation since 2011, once again Lassa has won the first place in its own industry and Bridgestone brand has won the third place.

Lastik.com.tr has achieved the outstanding achievement award in International Media Awards in e-commerce category.

3.4. Investment, Research and Development Activities

In the first nine months of 2016, a total of USD 31.5 million was extended in investments for the renovation, modernization and capacity increase of the Izmit production plant. USD 24.9 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 94.5 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 8.5 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

The raw material prices have been down trending for a long time, and the downstream movement thereof in the first half of the year ended in the 3rd quarter in line with the increase of the oil prices and they have started to be up trending. But in spite of that change, Brisa has succeeded to increase its gross profitability in compare to the same period of the last year, excluding the income obtained from derivative transactions purposing to hedge the currency risk in raw material purchases.

In return, due to increasing loan use, the financing expenses reached to the level of TL 93.9 million which represents an increase of 30% over the last year.

In consequence of all such developments, a decrease of 60% in net profit occurred in compare to the last year and reached to TL 46.1 million.

Sales Quantity	1 January- 30 Sept. 2016	1 January- 30 Sept. 2015	Change %
Domestic	4.448.144	4.827.996	-8
Export	3.375.009	3.086.429	9
Total	7.823.153	7.914.425	-1

Sales Quantity (Channel Based)	1 January- 30 Sept. 2016	1 January- 30 Sept. 2015	Change %
Replacement	3.385.924	3.586.925	-6
OE	1.062.220	1.241.071	-14
Domestic Total	4.448.144	4.827.996	-8
Lassa Export	2.677.306	2.458.068	9
Bridgestone Export	697.703	628.361	11
Export Total	3.375.009	3.086.429	9
General Total	7.823.153	7.914.425	-1

Net Sales (Million TL)	1 January- 30 Sept. 2016	1 January- 30 Sept. 2015	Change %
Domestic Sales	916,3	948,6	-3
Export Sales	356,1	333,8	7
Total Net Sales	1.272,4	1.282,4	-1

Million US Dolar	1 January- 30 Sept. 2016	1 January- 30 Sept. 2015	Change %
Export Sales	121,3	125,8	-4

(Million TL)

Summarized Income Statement (Million TL)	1 January- 30 Sept. 2016	1 January- 30 Sept. 2015	Change %
Net Sales	1.272,4	1.282,4	-1
Gross Profit	378,0	375,1	1
Operating Profit	141,9	183,0	-22
Net Profit	46,1	115,9	-60

EBITDA	167,0	224,3	-26
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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 Sept. 2016	30 Sept. 2015
Gross Profit Margin (Gross Profit/Net Sales)	29,71%	29,25%
EBITDA Margin (EBITDA/Net Sales)	13,12%	17,49%
Net Profit Margin (Net Profit/Net Sales)	3,62%	9,04%
Return on Asset (Net Profit/Assets)	5,32%	9,58%
Return on Equity (Net Profit/Equity)	23,04%	30,43%

Liquidity Ratios	30 Sept. 2016	31 December 2015
Current Ratio (Current Assets/Current Liabilities)	1,07	1,31
Acid-Test Ratio (Current Assets-Stocks / Current Liabilities)	0,78	0,93

Financial Growth Ratios	30 Sept. 2016	31 December 2015
Total Liabilities/Equity	4,01	2,28
Total Liabilities/Total Assets	0,80	0,70
Equity/Total Assets	0,20	0,30

* As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 175.910.000 for 2016 and amounting to TL 160.016.000 for 2015 are offsetted and disclosed under financial liabilities.