

2017 Third Quarter Developments and Activities

3.1. Sector Analysis

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

During the 2017 January - September period, World automotive industry's sales growth trend of passenger vehicle and light commercial vehicles continued especially with the positive impact of China, Europe, and developing countries' markets. Further to these markets, double - digit growth was observed within the South European markets. According to the sales forecasts for this segment, a 2% growth is expected in the market by the end of 2017. While the World heavy commercial vehicles segment was supported by the growth of the Chinese market during 2016, in 2017 the growth of China stabilized, yet developing countries' markets recorded growth during 2017. According to the sales forecasts of this segment, a 3% growth is expected by the end of 2017.

In accordance with these developments in the World Automotive Industry, the World tyre industry also recorded growth during January - September period of 2017. While the China's demand continued to grow in the passenger and light commercial vehicle segment, following the slow-down in the economies of Brazil and Russian Federation, double - digit growth was observed in these markets. In the heavy commercial vehicles tyre segment, there was continued growth in the developing countries' markets, where as there was a slow-down in the saturated and developed countries' markets.

During January - August period of 2017, demand for passenger vehicles in Europe gained momentum. In the European Union member countries, vehicle sales increased by 4.5% and more than 10 million vehicles were registered to the system. The total growth in this segment reached to 14.3% especially with the new members of the European Union performing well. During the same period, the demand in the commercial vehicles segment increased and with a 3.7% growth compared to the same period of the previous year, a total of 1.6 million commercial vehicles were sold.

In the saturated European replacement tyre markets, contraction was observed in all segments during the 3rd quarter of the year. The contraction in the passenger and light commercial vehicles tyre segment mainly resulted from sales in West Europe, as Central European markets grew 3% during the same period. The first 9 months of 2017 recorded a 1% decline in passenger vehicles segment, while the commercial vehicles segment grew by 2%. Although the industry witnessed minimal decrease in manufacturing costs after July 2017, it was observed that all tyre brands decreased their prices with campaigns and brought their prices to 2017 1st quarter levels.

In the 3rd quarter of the year, compared to the same period of the previous year, Lassa grew more than the market and gained market share in Austria, Greece, Portugal and Serbia. In Central European markets, Lassa performed well above the market and grew 6 % compared to the previous year where as the market averaged only 3%. As we move into the winter tyre sales period, growth in the European winter tyre segment was approximately 2% during the January – September period of 2017, where Lassa grew approximately 8% in the segment during the same period.

When we take a look at other markets, we can see signs of recovery with the impact of 2017 3rd quarter campaigns in important markets such as Egypt and Iran where the contraction in the markets reached to 40%. In Iran, where recently foreign partnerships were re-established following the embargo period, while the number of important tyre brands was only 20 in 2016 we have reached to 71 important tyre brands in 2017.

In the 2017 3rd quarter, compared to the same period of the previous year, Lassa performed well above the market average and grew by 5 times in Russian Federation, 2 times in Moldavia, 40% in Ukraine, 50% in Egypt and 20% in NCTR. In Tunisia, where many popular products faced with import restrictions for the sake of protecting local manufacturers, Lassa sales increased by 49%. During the 3rd quarter, for the first time in its history, Lassa exported tyres to Thailand and Costa Rica.

By September 2017 Lassa's international sales reached to its peak of all times. In the first 9 months period of 2017, compared to the same period of the previous year, Lassa total international sales grew by 28% in terms of revenue. During this same period, Brisa total international sales increased by 9% in terms of quantity and grew by 36% in terms of revenue.

Focusing on the Turkish automotive industry, in the January – September 2017 period, compared to the same period of the previous year, the passenger vehicle segment shrank by 3%, the commercial and light commercial vehicle segment grew by 2% and the heavy commercial vehicle segment shrank by 6%. With the impact of increased and fluctuating currency levels as well as the increase in taxes resulted in a decline of 2% in total vehicle sales.

In the Turkish tyre replacement market, with the start of the winter tyre purchases the winter tyre segment recorded an increase and with the contribution of this segment the total passenger vehicle tyre market grew by 17%. Truck and bus tyres segment also achieved double – digit growth.

During the January – September period of 2017, compared to the same period of the previous year, Brisa domestic replacement tyre market sales increased by 5%, and grew more than the market average in the passenger vehicle winter tyres segment. Within the 3rd quarter, total Brisa sales quantity performed very well with double – digit growth. While during the first 9 months on the year, in the developing value added segment of the market, Brisa sales performed in line with the market, in the 3rd quarter of the year Brisa achieved great success and performed very well.

In the growing and competitive economy segment, Dayton brand performed above the market both in consumer and commercial segments and with the inclusion of winter tyres to its product range Dayton increased its market share.

Lassa agriculture tyres increased their market share performing above the market growth in the domestic replacement market with Lassa's distinctive implementations. This product range especially performed well during the 3rd quarter of the year.

Brisa increased the pace of its activities to put forth its determination in retail and entrepreneurship. Brisa continued to invest in its organization in the after – sales services market by switching to a franchise model for its “Otopratik Service Concept”, which offers a highly profitable business opportunity to its partners. Brisa aims to increase the Otopratik Service shop points from a nationwide 46 points to 200 in the next 5 years.

As a result, Brisa completed the first 9 months of 2017 with 6% increase in sales quantity and grew its net sales revenue by 27% compared to the same period of last year.

3.2. Manufacturing and Products

In the first third quarter of 2017, Brisa operated at a capacity utilization ratio (87.5%), reaching a production level of 7.6 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.

	1 January- 30 Sept. 2017	1 January- 30 Sept. 2016	Change %
Production Quantity (Unit)	7.637.229	6.771.839	12.8
Capacity Utilization Ratio	87.5%	80.8%	8.3

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

With a press conference, Brisa has announced that the R&D Centre in İzmit factory has been certified with the incentive of the Ministry of Science, Industry and Technology to accelerate value-added product development and production activities.

As the first step in the newly certified R&D Centre, Brisa has started to produce Dayton brand tyres, which have been imported to the Turkish market since 2014 under the roof of Bridgestone Corporation in the İzmit Factory, as of July.

Bridgestone supported the World Solar Challenge, a race for solar powered vehicles, as a name sponsor, and was also the supporter of the Ecopia Ologic tyres of the ITU GAE team formed by the ITU students' which is the only team that participated for Turkey.

Bridgestone Motorsport took part in Turkey's largest motorcycle festival in Manavgat and introduced its products for the motorcycle segment to different customer groups.

Turkey's strong tyre Lassa has continued its promotional activities for Driveways and Driveways Sport products. At the same time, Lassa proved that summer tyre Greenways is the the most economical and sustainable tyre choice in the long term by covering 3 times more distance than the most affordable rivals in the tests performed.

Lassa continued its field activities by participating the 3rd Samsun Agriculture Exhibition between the dates of September 27 and October 1, introducing 5-year guaranteed agricultural tyres. At the same

time, it provided consultancy in the field of sustainable agriculture within the scope of the project "Sevdamız Toprak Yarınlarımız Ortak".

Lassa also accelerated its marketing activities abroad, participating in fairs in Croatia, Italy and Germany in this period and promoting its products.

Brisa has accelerated its work towards potential investors with the aim of expanding the store chain of its brand Otopratik, which operates in the fast maintenance sector. Within this context, communication efforts have been accelerated in both the national media and in the cities where the expansion of the store chain is aimed.

Otopratik participated in the Castrol Road Safety Festival and explained the benefit of vehicle maintenance and correct tyre selection to road safety. Participants who visited the Otopratik stand in the event were offered special gifts and discounts.

Otopratik also offered special opportunities for the vehicle owners within the context of motor vehicles tax (MTV) period. Those who make MTV payment for the second period of 2017 with Yapı Kredi World Card, got a 50% discount on labour cost in stores and free check-up.

Brisa's fast maintenance chain for commercial vehicles Propratik's website (www.propratik.com) has been renovated so that customers and business partners can easily get information about the commercial services.

As a step in the work on digitalization in Brisa, agreements on content sites were accelerated and a content agreement with Arabam.com was made in this period.

During this period, Brisa also presented private campaigns to Sabancı Holding employees. Brisa's fast maintenance chain brand Otopratik has gifted Bosch brand wiper kit and vehicle check-up service free of charge to Sabancı employees who came to the nearest Otopratik shop to have periodic maintenance. Brisa's online tyre sales platform, Lastik.com.tr, offers Sabancı employees a discount advantage of TL100 for tyre orders from the website which costs TL500 or more which will be effective until December 31, 2017.

Brisa has gathered with business partners via business trips, meetings, various events and programs with the goal of "becoming partner of choice" and to strengthen and sustain relationships.

Brisa has offered special benefits to OE Business Partner Oyak Renault's 6500 employees at Lastik.com.tr and Otopratik. Within the context of the campaign, for three weeks, advantageous campaigns were explained in Renault Bursa factory with the "Touch and Buy" stand of Lastik.Com.tr, questions about tyre and vehicle maintenance were answered and awareness was raised via tyre training conference and safe driving banners inside the factory.

Brisa has performed the third of its "New Generation On-the-Job certification" program, which includes collaboration with family members who has taken over the business or ready to take over, designed to ensure the continuity of business partners with cooperation of Sabancı University and Akbank. A total of 49 business partners have successfully completed and graduated from the program since 2015. The certificate program for Brisa's business partners' children in the age of primary school was performed with participation of 8 business partners and 11 children on September 8-9 this year within the scope of the New Generation On-the-Job program.

In order to increase the quality of service of its business partners, Brisa has launched a Service Technician Education Training Program for employees of business partners. The training program created by Brisa Academy has been realized in 3 modules with the slogan “Bring your technicians, we’ll make them specialized”.

Brisa completed the second of the “Heroines of Customers” program, organized for business partners’ female employees, in order to enhance the experience of customers coming to business partners' stores by empowering women with professional knowledge and experience.

“Customer Experience Development and Implementation Trainings” were continued in Otopratik stores; where basic products for passenger and light commercial vehicles are available throughout the life span and basic vehicle maintenance services are provided, in order to increase service quality and customer satisfaction. With Brisa’s trainings, Otopratik employees have found opportunities to develop and implement customer experience in their stores.

Within the scope of the portal Brisa uses and redesigns, which is used in different processes such as procurement, finance, logistics, order tracking, campaign management, Brisa has gathered with its business partners for their ideas, needs and expectations.

Brisa has chosen the winners of the “Pioneers of the Journey” competition, which was created in order to reward successful projects of business partners and sales executives, with the presentation activity that top management of the company has also participated.

In the third quarter of 2017, in order to achieve the goal of “becoming employer of choice”, works for Brisa ve potential employees were also actualized; the company executives took part as guest speakers at conferences, met with university students and gave various interviews.

Sabancı Holding Industry Group Head Cenk Alper, Human Resources Group Head Meral Kuras and Human Resources Director Berrin Yilmaz visited the Brisa İzmit Factory on August 17. Following the presentations made by the teams from different functions of Brisa, the visit continued with Brisa Museum and Factory tour. At the same time, in September, Sabancı Industry Group and Cement Group companies and Enerjisa top management visited Brisa İzmit factory area and took information on good examples of entrepreneurship, R&D, production, quality and education and visited Brisa Museum.

Brisa CEO Cevdet Alemdar met with employees, answered their questions, exchanged interactive ideas and explained priorities for the short term during the “We Are Listening to You” meeting held at the second factory of Brisa in Aksaray which is under construction.

Brisa celebrated the launch of the R&D Centre, which was certified by the Ministry of Science, Industry and Technology, at the İzmit Factory. The celebration ceremony was held following the meeting realized by the Brisa R&D team and which started with the presentations that R&D vision was shared to the employees.

Brisa has launched the “Tracers” project within the company, with the emphasis on learning and inspiring together to bring out new achievements. Within the scope of the project to share best practices and success stories in Brisa, employees will be able to apply with their Tracers projects every month and will have the opportunity to share their projects on a day open to all their colleagues. Presentations of “Tracers” were organized twice at İzmit Factory so far.

In order to increase synergy among the employees and to provide a dynamic communication environment, Brisa has materialised the company's social network "BİRİZ".

Brisa has launched the internal communication work called "#sahadabiriz" with the emphasis on "being on the field" in order to be able to analyse the market better and to observe customer expectations on-site. As the first step of the work, with the answers of the employees and their opinions via a survey, the definition of being on the field for Brisa was made. Brisa will realize many practices related to be in the field until the end of the year.

On September 8, Brisa has organised an event where top management and employees have gathered in the day the Board Meeting held in the Altunizade office. At the same time, while the first tyre produced in Aksaray, Dayton's first domestic production was introduced to the top management, the milestones reached in 2017 by Brisa and the targets for the next term were presented to the participants via poster presentations.

Brisa CEO Cevdet Alemdar has participated to the program which is aired live in MEF university web page and YouTube addresses and aims to inform the students for university choices, prepared by Dr. Erhan ERKUT.

Brisa has prepared a work program for students who are interns in Brisa Technology Directorate this year, so that the interns may spend efficient time and earn technical knowledge while they are in the company. Within the scope of the program, each student has been assigned a work topic except the internship subjects and then made their presentations.

Established with Brisa's social sustainability and contribution to sports approach, Brisaspor's Lassa Cycling Team has achieved many successes at national and international races and these successes have been shared with public via press bulletins.

Awards:

Brisa has been awarded the Gold Status by the Ecovadis Sustainability Platform based in France, which evaluates sustainability works and sustainability performances of the automotive industry. Brisa, ranked among the best 10% among global firms, is evaluated as "Extraordinary" with 80/100 in the environmental category.

3.4. Investment, Research and Development Activities

In the first nine months of 2017, a total of USD 26.9 million was extended in investments for the renovation, modernization and capacity increase of the Izmit production plant. USD 22.8 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 83.2 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 5.4 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 on a rising trend in the first two quarters of 2017 showed a decreasing trend in the third quarter and lost its pressure on margins together with lower fx and resulted in significant net profit increase.

Significant increase in commodity prices compared to the same period of the last year has been compensated through 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 total sales performance with an increase of 27.4% in turnover compared to the same period of the last year, while gross profitability rate was realized as 26% in the first nine months of this year. Increase in the total turnover resulted with an improvement at EBITDA level and it reached to 240 million Turkish Lira with an increase of 37% compared to last year.

Sales Quantity	1 January- 30 September 2017	1 January- 30 September 2016	Change %
Domestic	4.601.289	4.448.144	3
Export	3.691.837	3.375.009	9
Total	8.293.126	7.823.153	6

Sales Quantity (Channel Based)	1 January- 30 September 2017	1 January- 30 September 2016	Change %
Replacement	3.562.414	3.385.924	5
OE	1.038.875	1.062.220	-2
Domestic Total	4.601.289	4.448.144	3
Lassa Export	2.696.081	2.677.306	1
Bridgestone Export	995.756	697.703	43
Export Total	3.691.837	3.375.009	9
General Total	8.293.126	7.823.153	6

Net Sales (Million TL)	1 January- 30 September 2017	1 January- 30 September 2016	Change %
Domestic Sales	1.136,9	916,3	24
Export Sales	483,8	356,1	36
Total Net Sales	1.620,7	1.272,4	27

Million US Dolar	1 January- 30 September 2017	1 January- 30 September 2016	Change %
Export Sales	135,0	121,3	11

(Million TL)

Summarized Income Statement (Million TL)	1 January- 30 September 2017	1 January- 30 September 2016	Change %
Net Sales	1.620,7	1.272,4	27
Gross Profit	421,2	378,0	11
Operating Profit	191,8	148,9	29
Net Profit	75,7	53,1	43
EBITDA	240,1	175,2	37

*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 September 2017	30 September 2016
Gross Profit Margin (Gross Profit/Net Sales)	% 25,99	% 29,71
EBITDA Margin (EBITDA/Net Sales)	% 14,81	% 13,77
Net Profit Margin (Net Profit/Net Sales)	% 4,67	% 4,17
Return on Asset (Net Profit/Assets)	% 3,33	% 5,81
Return on Equity (Net Profit/Equity)	% 17,42	% 24,75

Liquidity Ratios	30 September 2017	31 December 2016
Current Ratio (Current Assets/Current Liabilities)	1,25	1,15
Acid-Test Ratio (Current Assets-Stocks / Current Liabilities)	0,90	0,84

Financial Growth Ratios	30 September 2017	31 December 2016
Total Liabilities/Equity	4,22	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 140.890.000 for 2017 and amounting to TL 270.104.000 for 2016 are offsetted and disclosed under financial liabilities.