

*We continue our leadership
journey with 40 years
of experience*

BEING A LEADER REQUIRES A STRONG START

BEING A LEADER REQUIRES A TEAMWORK

BEING A LEADER REQUIRES A PIONEERING

BEING A LEADER REQUIRES A STRENGTH

BEING A LEADER REQUIRES A QUALITY

BEING A LEADER REQUIRES A RESPONSIBILITY

BEING A LEADER REQUIRES AN INNOVATION

BEING A LEADER REQUIRES A CULTURE

BEING A LEADER REQUIRES A KNOW-HOW

BEING A LEADER REQUIRES A GOOD STRATEGY

BEING A LEADER REQUIRES A COURAGE

BEING A LEADER REQUIRES A NEW BEGINNINGS

**BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.
BOARD OF DIRECTORS ANNUAL REPORT PREPARED AS PER THE CAPITAL
MARKETS BOARD NOTIFICATION NO II-14.1**

Reporting Period

January 1, 2016 - December 31, 2016

Name of Partnership / Commercial Registry No.

Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. / 126429 – 73647

Head Office

Alikahya Mevkii, 41220 İzmit Phone : (262) 316 40 00

Fax: (262) 316 40 40

Istanbul Office

Sabancı Center Kule: 2, Kat: 8, 4.Levent, 34330 İstanbul

Phone : (212) 385 84 50

Fax : (212) 385 84 55

Marketing and Sales Office

Kısıklı Caddesi, Şehit Teğmen İsmail Moray Sokak No: 2/1 Altunizade, 34662 İstanbul

Phone : (216) 544 35 00

Fax : (216) 544 35 35

Web Address

www.brisa.com.tr

Corporate e-mail Address

brisa.info@brisa.com.tr

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AGENDA OF THE ORDINARY GENERAL ASSEMBLY

- 1) Opening and Election of the Presidential Board,
- 2) Presentation and discussion of the Board of Directors' Annual Report, covering the activities and the financial results of the year 2016,
- 3) Presentation of the conclusion parts of the Auditors' Reports related to the fiscal year 2016,
- 4) Presentation, discussion and approval of the year 2016 Financial statements,
- 5) Presenting the assignment of the Board Members who were elected to serve for the remaining term of the Board membership position vacated during the year 2016, to the approval of General Assembly,
- 6) Release of the Board of the Directors for the activities of the Company in 2016,
- 7) Discussion and resolution of the Board of Directors' proposal in relation with the use of 2016 year profits, distribution and dividend rates of the same,
- 8) Informing the General Assembly in relation with the provided 2016 year donations and aids,
- 9) Deciding the Company donation limit for the year 2017,
- 10) Election of the Auditor,
- 11) Providing the respective permissions to the Board of Directors Chairman and Members for performing the transactions stipulated under the Articles 395 and 396 of the Turkish Commercial Code.

Meeting Date : March 28th 2017, Tuesday

Meeting Time: 14 p.m.

Meeting Place: Sadıka Ana 2 Meeting Room

Sabancı Center Kule 2,
4. Levent/İSTANBUL

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Chairman's Message

“The axis of the global economy is changing. The year 2016 proves that this shift will not be easy. Despite all the social and economic fluctuations that Turkey has experienced, Turkey has exhibited a growth performance throughout the stagnant course in the global economy. This once again draws attention to the importance of focusing on our business and taking steps that will guide us in the future. Brisa, one of the leading institutions that contributed to this, continues to increase the value offered by investments and work focused on innovation, sustainability and digitalization”

Dear Stakeholders,

Established in partnership with Sabancı Holding, a leading Turkish company, and Bridgestone Corporation, the world's tire giant, Brisa continues to lead the Turkish tire industry. The success of our company, which spans 28 years of experience, exceeds the borders of the country, spreading to more than 60 countries. Behind Brisa's international success is undoubtedly the transformation from an industrial company to an innovative company with investments in innovation, digitalisation and sustainability. The year 2016 once again proves just how necessary this transformation is. Before moving on to the milestones that our company registered in 2016, I would like to share with you some of the most significant developments that are happening locally and globally.

The year 2016 was under the influence of rapidly changing global economic dynamics. Presidential elections in the United States, Britain's decision to leave the European Union, the refugee crisis that closely affects our country and the developments in the region marked the year 2016. However, the stagnation in the Chinese economy pointed to the fact that the country would head for domestic consumption and exports and foreign investments. In line with these developments, interest rates and commodity prices all over the world fell, while trade volume and growth rates were also below expectations. The fact that the IMF considers low growth rates the “new normal” indicates we will face a similar picture over the next few years.

Along with these developments, the global economy is changing and the uncertainties are increasing. In this environment, we know that for Industry 4.0, innovation and digitization are inevitable investments for companies, as are the developments in automation and artificial intelligence that comprise the foundation of the new world.

Our country is trying to manage internal and external dynamics in a very challenging era. Although the Turkish economy contracted in the third quarter, it showed a positive

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development, overcoming the stagnation in the general global economy. When we consider Turkey's high potential, we believe that we will have much more opportunity to improve this performance in the coming period.

Dear Stakeholders,

Rapidly changing dynamics in our country and in the world have resulted in a slowdown in the growth rate in some segments of the Turkish tire sector and a shrinking market in some segments. Despite the difficult conditions in the domestic market, Brisa gained market share and continued to stabilize its exports by increasing compared to the previous year. Our company's total annual sales revenues were 1,767 million TL. One of the most important factors affecting these results was the achievement of our Lassa brand on an international scale. As of year-end, Lassa expanded its activities with close to 580 sales point locations in more than 60 countries.

With the strength of our performance in the marketplace, we continue to invest in the future of our company. Brisa invested 182 million USD in 2016. Of this amount, 134,5 million USD was spent on building our second factory in the Aksaray Organized Industrial Zone. A progress that we are delighted with in terms of investment financing over the course of the year has once again proved Brisa's credibility at the international level. Brisa provided USD 310 million worth of investment financing from the European Bank of Reconstruction and Development (EBRD) and Mitsubishi UFJ Financial Group (MUFG) Corporate Banking on favorable terms and on a long-term basis.

Brisa, whose devotion to innovation and sustainability together with all of its employees constitutes the basic structure of the company's strategy, has been deemed worthy of many awards by national and international organizations in these fields in 2016. This year, our company took place both in the CDP Turkey Climate Leaders and in the Stock Exchange Istanbul Sustainability Index.

Speeding up innovation and product development work, Brisa strengthened its work with digitalization. Thus, while Brisa enriches the value it provides to its stakeholders from its customers to its business partners, it has also strengthened its place among the pioneering institutions of the future.

Having successfully represented our country and our company in the international arena, Lassa has increased awareness and brand power in overseas markets, especially in Europe, with the acceleration of FC Barcelona's 'Global Official Tire Parties' agreement.

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These successes will continue to grow in the coming period with Brisa's innovative business models, service innovations, and work that adds 360 degrees of value to its customers and new generation products.

I would like to thank all of the architects who have been on this journey for nearly 30 years, my business partners, and my shareholders who always provide their heartfelt support and trust.

Best regards,

Zafer Kurtul

Chairman of the Board

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**(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT
ORIGINALLY ISSUED IN TURKISH)**

INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT

**To the Board of Directors of
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.**

Report on the Audit of Management's Annual Report in accordance with Independent Auditing Standards

We have audited the annual report of Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. ("the Company") for the period ended 31 December 2016.

Management's Responsibility for the Annual Report

The Company's Management is responsible for the preparation and fair presentation of the annual report which is consistent with the financial statements in accordance with the Article 514 of the Turkish Commercial Code No. 6102 ("TCC") and "Communiqué on Principles of Financial Reporting in Capital Markets" with No.14.1 of the Capital Markets Board ("the Communiqué"), and for such internal control as management determines relevant to the preparation and fair presentation of such annual report.

Auditor's Responsibility

Our responsibility is to express an opinion on the Company's annual report based on our audit conducted in accordance with the provisions of the Article 397 of the TCC and the Communiqué. Our audit involves whether the financial information provided in the annual report are fairly presented and consistent with the financial statements.

We conducted our audit in accordance with Independent Auditing Standards, which is a part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information provided in the annual report are fairly presented and consistent with the financial statements.

An audit involves performing procedures to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial information provided in the Management's annual report, in all material respects, are fairly presented and consistent with the audited financial statements.

Other Legal and Regulatory Requirements

In accordance with paragraph three of the Article 402 of the TCC, nothing significant has come to our attention that may cause us to believe that the Company may not continue its activities for the foreseeable future in accordance with Independent Auditing Standard 570 "Going Concern".

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Yaman Polat,SMMM
Partner

Istanbul, 23 February 2017

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1. Briefly Brisa

1.1. Our success story

From a powerful industrial company to an innovation company that "Designs the Future of Your Journey" ...

With our strategy based on sustainability and innovation, we have been pushing sectorial firsts for 28 years and developing products and services that make a difference. We are strengthening our position as Turkey's tyre industry leader with our mission of becoming a company that provides 360 degrees value to our stakeholders.

The foundations of our company, which is the leader of the Turkish tyre industry, were laid with our Lassa brand in 1974 by the initiative of Sabancı Holding and its partners. The start of Brisa's establishment and the journey of the Lassa and Bridgestone brands are based on the partnership of Sabancı Holding and the world tyre industry leader Bridgestone Corporation in 1988...

Having won the first National Quality Award in 1993, we became the first Turkish company to win the European Quality Grand Prize in 1996, which was the result of its outstanding performance in business excellence. Today, we are among the first seven major tyre manufacturers in Europe.

We strengthen our sector leadership by adding value to our business partners and customers with our product and service brands

We are leaders in the sector and add value to our customers with our main tyre brands Bridgestone, Lassa, Firestone, Dayton and, Kinesis, the Bandag coating brand, the Energizer battery brand, as well as OtoPratik, ProPratik, Lastiğim, Lastik Vs, Speedy board sales, services and service points, Bridgestone Box and "lastik.com.tr", alternative sales channels, Road Assistance (Bridestone Alo Yol Dostu, Lassa Road Assistance, Filofix), Profleet, Mobilfix, and Lastik Hotel (tyre storage service) and our Brisa Academy training platform.

Bridgestone and Lassa have a total of 1,800 types of tyres on the market, including automobile, light commercial vehicle, bus, truck, agriculture, and construction equipment tyres. We also import our brand Kinesis' tyres, which meet international industrial machinery

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safety and quality standards, Firestone agricultural tyres, Dayton automobile tyres and Bridgestone motorcycle tyres.

We aim to offer balanced products to vehicle owners through both our brands. While our Bridgestone brand stands out in terms of performance and safety criteria, Lassa stands out in terms of economy, comfort and durability.

Our products and services are sold across more than 1,300 sales points in Turkey. Through the support of our Brisa workers, Brisa tyres produced under our Lassa brand are sold across 580 sales points in over 60 countries.

At the same time; Automotive manufacturers such as Anadolu Isuzu, BMC, Ford Otosan, Honda, Karsan, Koluman, MAN, Mercedes Benz, Otokar, and Oyak Renault, and Özünlü Tractor manufacturers' Tafe, Temsa, Tırsan, Tofaş, Toyota and Türk Traktör use both Lassa and Bridgestone products.

We accelerated investment in the second factory in Aksaray

Our Kocaeli production facilities are among Bridgestone's most important production bases in the world. Spanning an area of 361,000 m², it is one of the world's biggest tyre factories under one roof and one of Bridgestone's most important production facilities.

With an initial investment of USD 300 million, the preparations for our second factory being built in Aksaray across 950,000 m² are running at full speed. Our company has invested USD 310 million, of which USD 160 million has been organized and coordinated by the Corporate Banking Unit of the Mitsubishi UFJ Financial Group (MUFG) from the European Bank for Reconstruction and Development (EBRD) in the direction of long-term investment plans.

We will produce tyres for passenger cars and light commercial vehicles in our factory, which we aim to commission in 2018 with the contribution of this financial support as a demonstration of our international reputation and reliability.

We embarked on a transformational journey of changing an industrial company into an innovation company

These days, we know that it is not enough to only sell products. We have to pioneer innovations to differentiate ourselves. We are trying to make a difference with our innovative ideas by empowering car owners and business partners and focusing on their needs and opinions. With our innovative services and solutions that are the first in our industry, we put our customers first and ensure their satisfaction by aiming to make their lives easier.

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Lassa, the best road companion for a sport and the athlete

Lassa has supported sports and athletes, who, like our brand, are among Turkey's treasures, for many years in the quest to bring new achievements to Turkey. We are among the supporters of our sportsmen whose reputation and success have crossed Turkey's borders. We are currently supporting Arda Turan, our national athlete, and Lassa's brand ambassador. We are passionate about our efforts to measure and support the success of Turkish football with our "Lassa Toughest Defense" and "Lassa Toughest 11" studies.

We are FC Barcelona's "Global Official Tyre' Partner", a giant step that will strengthen our Lassa brand on its global journey. The FC Barcelona Lassa teams, which carry our logo on their uniform, completed the 2015-2016 season with great success. The FC Barcelona Lassa Handball Team won the 23rd international championship and the FC Barcelona Lassa Roller Skating Team won the 27th national championship.

We continue our operations at the highest level with an understanding of sustainability

In order to be able to respond to the needs of our customers in different geographical regions and different roads and climates of the world, we are producing high quality products with a sense of sustainability, and also taking responsibility for the social development of our country and our economy.

On the one hand, we are reducing our CO2 emissions and carrying out our operations in a way that fits into the balance of nature. On the other hand, we have the "Brisa Members Educational Support Association " in the field of education, "Brisaspor Club" Lassa Bicycle Team in the sports field, Lassa' "Take Off Strongly" and Bridgestone's "2 Minutes for Our Safety" in the field of traffic safety, "Strong Agriculture, Key to a Strong Future!" in the field of agriculture, the "Brisa Museum" which is a cultural merit, and with the ""Let the Cranes Fly Forever" project that we carry out together with WWF-Turkey (World Wildlife Foundation) to contribute to biodiversity, we are trying to collect and contribute to the community and the environment in the field of sustainability.

With the inspiration, sustainability and innovation approach we take from our vision, we have become "Turkey's Official Partner" on the "Solar Impulse" project, which relies solely on solar energy without the use of fossil fuels.

In addition to the sustainability work we have been involved in, we have signed the Global Compact in 2013.

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As the Brisa family, we provide a Green Office program diploma that we have presented together with WWF-Turkey as a demonstration of our contribution to the environment.

The Brisa Academy and Museum building, which received the "LEED Gold" sustainable building certificate, inspires us on our sustainability journey.

Brisa stands among Turkey's Climate Leaders determined by the CDP Turkey Climate Change Program. Brisa is among the world's leading companies in terms of water saving and reporting and the first company in Europe to qualify for the ISO 14046 Water Footprint Standard. In addition, Brisa entered the BIST Sustainability Index in November 2015, which is listed on the Stock Exchange in Istanbul and has a high level of sustainability performance. Brisa was also listed between November 2016 and October 2017.

Since the publication of our 2012 report including our previous five years' sustainability work in the GRI (Global Reporting Initiative) system, we have been publicly sharing our understanding and determination annually. In 2014, we were deemed worthy of the "Best B2B Sustainability Report" awarded by the Ethical Corporation.

“We Are Designing The Future Of Your Journey”

Today, we know that it is not enough to sell only sell products. We have mustto pioneer innovations to differentiate ourselves. We are trying to make a difference with our innovative ideas by empowering car owners and business partners and focusing on their needs and opinions. With our innovative services and solutions that are the first in our industry, we put our customers first and ensure their satisfaction by aiming to make their lives easier.

Today we are a family of 2,620 people. A family that works towards building a better future for Turkey...

Drawing inspiration from our vision, we strive to design the journeys in the future that people have not even dreamed of and make the customer's experience different by customizing it into a unique shape while displaying out our best performance for today. For this reason, the Brisa Innovation Team thinks of tomorrow, anticipates tomorrow's needs, dreams of tomorrow and designs for tomorrow.

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1.2. Capital and Shareholding Structure

We gathered speed from our reliable shareholders and our giant capital strengthened through the years. Now we continue to progress on our way, further increasing the momentum of our success.

Authorized Capital : 400.000.000.-TL

Paid-in Capital : 305.116.875.-TL

Shareholders Holding More Than 10% of the Capital

Shareholder	Share Amount (TL)	Capital Ratio (%)	Voting Right	Voting Right Ratio (%)
Hacı Ömer Sabancı Holding A.Ş.	133.111.388	%43,63	13.311.138.806	%43,63
Bridgestone Corporation	133.111.388	%43,63	13.311.138.806	%43,63
Other	38.894.099	%12,74	3.889.409.888	%12,74
Total	305.116.875	%100,00	30.511.687.500	%100,00

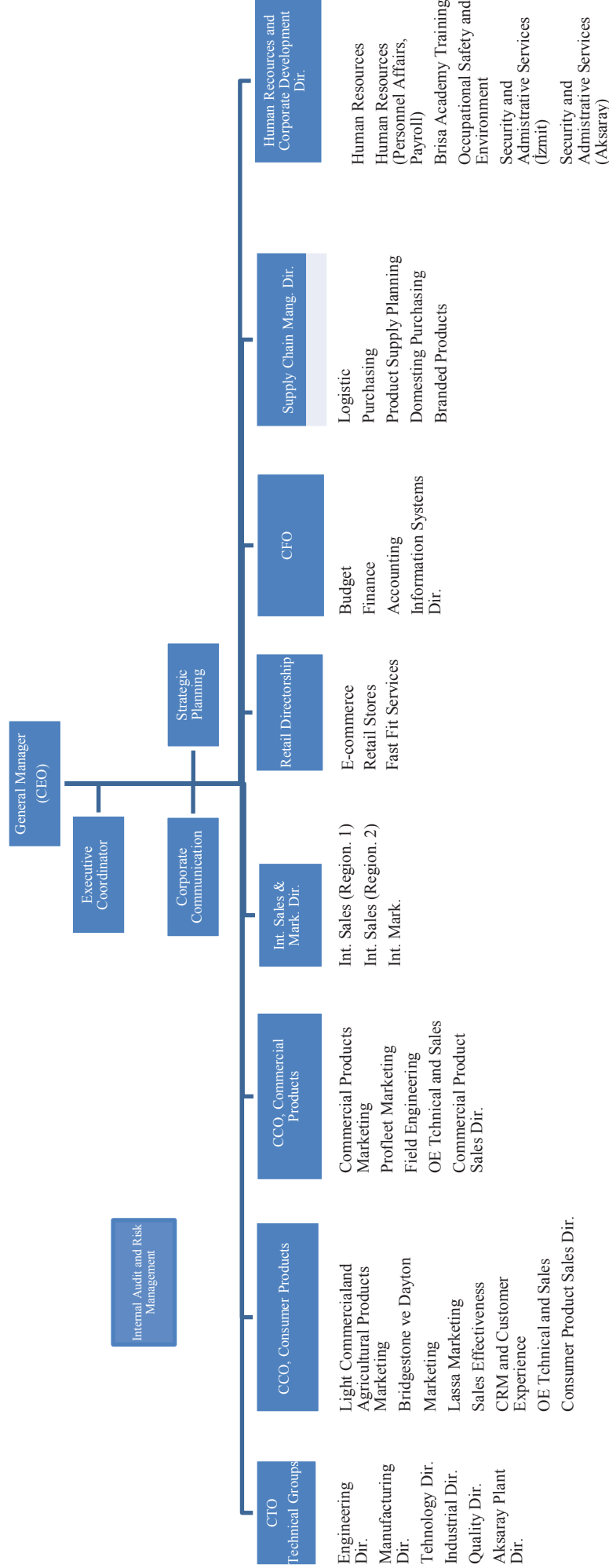
There has not been any change during the financial period regarding shareholder and capital structure.

Disclosure on privileged shares adnt the voting rights of shares

In accordance with the Articles of Association, each share holds one voting right at the General Assembly. There are no privileged voting rights.

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1.3. Organizational Chart



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1.4. Mission, Vision and Corporate Values

Our values and ethics constitute the basis of our strong stance.

Our Mission

To provide superior values to society through sustainable growth.

Our Motto

“Change to Change”.

Our Vision

We innovate your journey.

Brisa Values

Safety, Innovation, Customer Focus, Team Work, Business Excellence, Sustainability

Our Ethics

▪ Integrity

We base relationships with our employees and stakeholders on the principles of transparency and integrity.

▪ Confidentiality

We protect the confidentiality of our customers, employees and other parties in association.

▪ Conflict of Interest

We use our Sabancı identity not for our personal interests, but for exalting our corporate spirit.

▪ Responsibility

Our responsibility is not only to our own business and partners, but also for the benefit of the society and humanity at large.

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1.5. Steps to Add Value to Our Journey

From our first day of service up until today, our vision and our brave steps towards the future have always shed light on our path. We wish to be able to inspire all of our stakeholders in this direction and to be able to finish all of our years with the confidence success brings

▪ **1970'S**

1974

Incorporation of Lassa Lastik Sanayi ve Ticaret A.Ş.

Lassa and the BF Goodrich Company sign “Technical Know-How” and “Engineering Services” agreements.

1975

Selection of the first “Lassa” logo via a design competition.

The establishment of a dealer network in Turkey, granting dealership authorizations to 186 dealers across 60 provinces.

Undersigning an agency agreement with BF Goodrich. LİSA Lastik İthalat ve Satış A.Ş. starts to import tyres under the same brand.

1977

Test production starts at the manufacturing plant.

The first comprehensive TV and press promotional campaigns.

1978

Lassa Lastik Sanayi ve Ticaret A.Ş. commences mass production.

Organization of the First Lassa Dealers Convention.

1979

The company turns a profit for the first time.

Turkey’s first steel-belted radial passenger tyre enters production.

One-millionth Lassa tyre produced.

Establishment of Lassaspor (currently known as Brisaspor).

▪ **1980s**

1980

Turkey’s first radial snow tyre.

Production of the Loder, Turkey’s largest local off-road tyre, commences.

1983

Turkey’s first steel-belted van/ light truck tyre enters production.

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1985

Turkey's first wide tread tyre enters production.

Turkey's first ECE (Economic Commission for Europe) certified tyre enters production.

1986

Number of dealers reaches 550.

1987

Lassa's total exports grow to five million tyres, and the number of export countries reaches 32.

1988

Signing of the joint venture agreement between Bridgestone Corporation and Sabancı Holding. The name of the company changes to BRISA Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.

ARGESA production plant starts to operate at full capacity.

1989

Groundbreaking for the construction of an additional production plant following the Bridgestone Corporation/Sabancı Holding partnership.

Start of test-production of radial passenger and radial bus/truck tyres at the new plant.

Establishment of the Bridgestone dealership network.

▪ **1990s**

1990

New production plant begins mass production.

Brisa adopts Total Quality Management.

1991

Turkey's first 60-series tyre (RE 88) enters production.

Celebration of the First National Quality Day.

With Turkey's first Bridgestone tyre export, Brisa becomes one of the global production hubs for Bridgestone products.

Turkey's first H-rated (210 km/h) high performance passenger tyre enters production.

Bus/truck steel-belted radial tyres introduced.

1992

Turkey's first V-rated (240 km/h) high performance passenger tyre enters production.

ISO 9001 Quality Assurance Standards certification.

1993

Brisa receives Turkey's first National Quality Award granted jointly by the Turkish Industrialists' and Businessmen's Association (TÜSİAD) and the Quality Association (KALDER).

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Brisa Suppliers Convention organized.

1995

First tyre sale to the European automotive industry.

Establishment of Turkey's first Online Dealer Information System.

Tyre Service Center commences operations at the Istanbul Grand Terminal.

Total annual tyre production exceeds four million, exports exceed two million units.

Brisa becomes a member of the European Foundation for Quality Management (EFQM) Board of Directors.

BS 7750 Environmental Management Systems certification.

1996

Brisa wins the "European Quality Award" presented by the European Foundation for Quality Management (EFQM).

Brisa granted the "Best Managed Plant" award by the Bridgestone Corporation.

Brisa receives the "Green Chimney Award" from the Kocaeli Chamber of Industry and the "Environment Award" from Istanbul Chamber of Industry.

The Istanbul Chamber of Commerce's first "Technology Development Award" goes to Brisa.

Brisa becomes the first company in Turkey and the second in Europe to obtain ISO 14001 Environment Management Systems certification.

The Automotive Industrialists Association grants Brisa the "Best Performing Supplier Award."

1997

Brisa shares its business excellence journey that led to the European Quality Award in the European Foundation for Quality Management (EFQM) Winners' Conference held in 20 countries.

1998

Realization of 21 training programs under the title "Brisa Shares Quality."

Corporate website established in Turkish and English.

1999

Brisa obtains QS 9000 Automotive Sector Quality Systems certification.

Brisa's Tyre Testing Laboratory becomes Turkey's first Turkish Standards Institute (TSE) accredited laboratory within the framework of the EU Directives.

Brisa receives Toyota's "Top Scoring Supplier Award."

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▪ **2000s**

2000

Launch of the Road Assistance Service, a milestone for the tyre industry.

2001

Turkey's first 4x4 tyre (Lassa Competus) launched.

Establishment of the Brisaspor Women's Cycling Team.

2002

Introduction of the Enterprise Resource Planning System (SAP) and the Dealer Information System, a B2B project, another pioneering achievement in the tyre industry.

2003

Brisa obtains ISO/TS 16949: 2002 Automotive Sector Quality Systems certification.

Turkey's first asphalt rally tyre enters production.

Brisa obtains TS-ISO 9001: 2000 Quality Management Systems certification.

2004

Brisa receives Toyota's "Best Scoring Supplier 2003" award.

Brisa wins MAN's "Top Scoring Supplier" award.

Turkey's first gravel rally tyre enters production.

Turkey's first W-rated (270 km/h) ultra-high performance passenger tyre (Lassa Impetus Sport).

Brisa Tyre Testing Laboratory obtains TS EN ISO/EC 17025 General Requirements for the Competence of Testing and Calibration Laboratories certification.

Brisa receives Turkish Standards Institute's "Quality Award".

Brisa obtains the Product and System Certification (CCC) by the Chinese Quality Center (CQC).

2005

Turkey's first W-rated (18-inch diameter) ultra-high performance passenger tyre (Lassa Impetus Sport).

Turkey's leading tyre manufacturer Brisa launches a USD 168-million capital investment program for the construction of new facilities. The company's total production area reaches 300,000 m² with a 50% growth.

Brisa obtains ISO 14001:2004 certification, the latest version of Environment Management Systems standards.

Brisa organizes a press conference with Michael Schumacher, the Formula 1 champion, at the first Formula 1TM Turkish Grand Prix.

2006

Lassa Atracta, the first passenger radial with an asymmetric tread pattern, is introduced.

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Filofix Road Assistance Service launched for commercial vehicle fleets.

2007

Bridgestone becomes the exclusive tyre supplier of Formula 1TM.

Ahead of the Turkish Grand Prix Formula 1TM, drivers meet the fans at Dolmabahçe Palace, Istanbul.

The Lassa Rally Team wins the Turkish Rally Teams Championship.

2008

Lassa changes its 30-year logo.

Celebration of the 20th Anniversary of the partnership between Bridgestone Corporation and Sabancı Holding.

The Lassa Rally Team wins the Teams' Cup, Drivers' Cup, Co-drivers' Cup and Group N Cup titles at the Turkish Rally Championship.

Lassa's overseas customer base expands to include 55 countries throughout the world.

Bridgestone receives an award for the "Trafikte Dikkat On Bin Hayat (Caution on Traffic Saves Thousands)" Road Safety Platform with the campaign "Farım da Açık, Yolum da" (My Headlights Are On, My Road Is Open).

2009

Lassa commences production and sales of the AGRI 1 Radial Agricultural Tyre.

With a long list of achievements in the Turkish Rally Championship since its establishment in 2007, the Lassa Rally Team begins representing Turkey in the Italian Gravel Rally Championship.

Brisa wins first prize in the "Individual Performance Management" category at the Sabancı Golden Collar Awards.

▪ **2010s**

2010

Launch of the "Yola Güvenli Çık, Yolun Hep Açık (Set Off Safely for A Clear Road Ahead)" campaign as a part of the social responsibility and road safety campaign "Think Before You Drive" endorsed globally by Bridgestone.

Brisa assumes Turkish operations of Bandag, an American-based tyre retreading company, from the European subsidiary of Bridgestone Corporation (Bandag AG) for a fee of USD 3.6 million.

Lassa's website is published in eight foreign languages.

Foundation of the Brisa Academy.

Brisa wins first prize in the "Individual Performance Management" category of the Sabancı Golden Collar Awards for the second consecutive year.

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The company wins the Grand Prize in the “Excellence” category at the Sabancı Golden Collar Awards.

2011

Launch of Brisa’s “Lastiğim” (My Tyre) project, which unites independent sales points under Brisa’s umbrella.

Launch of “lastik.com.tr”, Turkey’s first web-based at-home tyre replacement and maintenance service.

The Antenna Shop opens in Maslak, Istanbul featuring state-of-the-art technology and innovative services, also designed as a training center for Brisa personnel and dealers.

Lassa brand strikes sponsorship deal with Bolton Wanderers (English Premier League), Espanyol (Spanish Liga de Fútbol Profesional) and Borussia Mönchengladbach (German Bundesliga) football clubs.

Brisa wins first prize in the “Market Orientation” and “Investment in People” categories of the Sabancı Golden Collar Awards.

2012

Bridgestone passenger car winter tyre (Blizzak LM32) enters production in Turkey.

Implementation of the I-CAT application to provide business partners with swift, efficient access to information, and to develop new channels of communication with Brisa.

Insurance plans begin for tyres stored by customers at the Tyre Hotel.

Grand opening of the largest Lassa signboarded store in Milan, Italy. The number of international Lassa signboarded stores reaches 39.

“Sustainability” is the theme of the traditional 24th Brisa Improvement Conference.

Lassa tyres ship to Australia, Hong Kong, Venezuela, Tunisia, Albania, Serbia and Sierra Leone for the first time.

2013

Celebration of the 25th Anniversary of the partnership between Bridgestone Corporation and Sabancı Holding.

Decision for a USD 300-million investment in a second production plant to be constructed in Aksaray Organized Industrial Zone.

Opening of the first Propratik store.

Construction of the Brisa Academy and the Brisa Museum on the basis of sustainability.

The Brisa Museum opens its doors.

Issuance of the first Sustainability Report at A level

United Nations Global Compact signed.

Start of the “Let the Cranes Fly Forever” project in cooperation with World Wildlife Fund (WWF) Turkey.

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Launch of the road safety project, “Güvenli Yolculuk İçin Lastik Başına (Take Care of Your Tyres For A Safe Journey)” in Otopratik stores.

“Corporate Traffic Safety Declaration” signed.

The road safety project “Yola Sağlam Çık (Take Off Strongly),” which focuses on the importance of healthy nutrition, living and road safety for long haul drivers, receives the “Public Health Award.”

The world’s first mobile truck maintenance and repair service Mobilfix receives the “Customer Oriented Service Innovation” award.

Turkey’s biggest tyre ever brought in from Bridgestone Corporation Japan.

2014

Roll-out of the Dayton brand.

The number of overseas stores reaches 122.

Cooperation begins with the Authority Group, offering brands on the market through Lastik Vs. and Speedy stores.

The newly redesigned Otopratik store opens its doors in Ankara with the aim of enhanced customer satisfaction.

Manufacture and roll-out of the first Y speed class Lassa tyre.

Introduction of the environmentally friendly automobile tyre Lassa Greenways and new generation snow tyre Snowways 3.

The first supplier evaluation system in place, high-performing companies awarded.

Public exposure of our 2013 sustainability initiatives at the GRI A+ level

Green Office Program launched in collaboration with WWF-Turkey

Brisa Academy and Museum obtain LEED Gold sustainable building certification.

Number of trainees at the Brisa Academy reaches 3,592 through 24 programs.

ISO 27001:2013 Information Security Management System certification.

BS7750 Environmental Management Systems certification.

Brisa's Greenhouse Gas Emissions from business operations and water footprint verified within the scope of ISO 14064: Verification of Greenhouse Gas Emissions and ISO 14046: Verification of Water Footprint standards, respectively.

Brisa named National Champion in the European Business Awards.

2015

The company is listed on the Borsa Istanbul Sustainability Index for the period between November 2015 and October 2016.

Lassa brand becomes the Global Official Tyre Partner for FC Barcelona.

National football player Arda Turan becomes Lassa's brand ambassador.

Brisa becomes the Official Partner in Turkey for the around-the-globe journey of Solar Impulse, an aircraft working solely on solar power without the use of any fossil fuels.

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Brisa wins the "Digital Sector Leader" and "Pioneers of Digitization" awards in Accenture Digitization Index and the "Database Transformation Project of the Year" award in the SAP Forum Awards.

2014 Sustainability Report named the "Best B2B Sustainability Report" by the Ethical Corporation.

Brisa is included in the Climate Disclosure Leadership Index, ranking among the top five companies in Turkey in terms of carbon reporting, and is placed in the best performance band in Turkey thanks to the B+ grade earned for maintaining a small water footprint.

Brisa is qualified for EN 15838:2009 Customer Contact Centers Service certification, indicating that its services are in accordance with European Union standards.

Brisa is ranked second in the Innovation Strategy category in the Innova-League Awards of the Turkish Exporters' Assembly.

Brisa receives grand prize in the "Business Continuity/Resilience Strategy of the Year" category of the CIR Business Continuity Awards.

2016

Bridgestone Potenza S001 Run-Flat tyres, which can drive even if the wheels go flat, have started to be produced in our Izmit factory.

We agreed with the e-platforms AutoPratik and ProPratik service points for the procurement of spare parts.

In order to strengthen women in business, we launched "Heroines of the Customer– Customer Service Expert Certificate Program" with the Brisa Academy.

We were the first company in Turkey and Europe to be awarded the ISO14046 Water Footprint Standard.

We have been awarded Green Office diplomas for our Izmit Administrative Building and Altunizade Offices with works that have been passed through with the cooperation with WWF-Turkey.

1.6. Our awards

Every person we can reach and add value to their life is a reward for us.

Promotion and Marketing Activities Awards:

- We were awarded the Marketing Power Award

We have been awarded the "Marketing Power Award" for the success of our national and international marketing activities.

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- **Bridgestone brand communication efforts received national and international awards**

We won first prize in the “Brand Promise” category at the “Bridgestone EMEA Vision Awards” competition organized by Bridgestone Corporation to award internationally successful work with our “Relaunch with Barış Falay” work. In Turkey, we won the Gold Effie award for the “Bridgestone Safety Tyre” in the 8th Effie Turkey Advertising Competition presented by the Association of Advertisers and the Advertisers League jointly with Effie Worldwide Inc. We were also awarded the Silver Effie award with the launch of Barış Falay in the category of automotive products.

- **Between Lassa and Bridgestone Turkey's Most Sincere Brands**

Since 2011, we have once again achieved success with our two leading brands in the research "Turkey's Most Sincere Brands" organized by Mediacat and IPSOS cooperation. In our own industry, Lassa came in first and Bridgestone was the third.

Leadership in Sustainability Studies crowned with awards

- **Brisa, ranks the first "Energy Efficient Industrial Plant" of the rubber and plastic products sector**

As Brisa, we won first prize in the "Energy Efficient Industrial Plant” category in the "Industrial Energy Efficiency Project Competition" organized by the Ministry of Energy and Natural Resources for saving energy density by an average of 34% between 2012 and 2014.

- **We ranked again on the BIST Sustainability Index**

We were included in the BIST Sustainability Index, which is comprised of the shares of companies traded on the Istanbul Stock Exchange Istanbul and whose corporate sustainability performances peak at high levels, among the companies that took place between during the November 2016 - October 2017 period.

- **We were among the Climate Leaders of Turkey in the Carbon Disclosure Project (CDP)**

As a proof of our successful operation to manage climate change and our fulfillment of our responsibilities in terms of emissions reduction activities and sustainability, we were once again among Turkey's Climate Leaders in the Carbon Disclosure Project. We won the prize at the leadership level with the global average and the country average "C (awareness)" level with the "A-" score.

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- **We have been awarded the "Sustainable Business Awards" for our Water Management**

We have already achieved a great portion of our goal of reducing water consumption by 61% by 2020. We won an award in the water management category with our "Project for Underground Water Reduction in Brisa İzmit Facilities" at the "Sustainable Business Awards" organized for the third time this year by the Sustainability Academy.

- **The first company in Turkey and Europe to receive the ISO 14046 Water Footprint Standard**

As one of the companies continuing to run the Green Office program run by WWF Turkey, we have been awarded with "Green Office Diplomas" for our offices in İzmit and Altunizade.

- **Qualified for WWF-Green Office Diploma**

WWF Türkiye tarafından yürütülen Yeşil Ofis programına devam eden şirketlerden biri olarak, bugüne kadar Yeşil Ofis ekibinin de desteğiyle gerçekleştirdiğimiz çalışmalarla hem İzmit hem de Altunizade ofislerimizle "Yeşil Ofis Diploma"sı almaya hak kazandık.

- **Praise for our work regarding female employment**

In order to honor the successful work carried out on the issue of women's employment, we were awarded with a plaque "for our sensitivity to women's employment" by the Provincial Directorate of İzmit Municipality and Kocaeli Labor and Employment Institution.

- **We achieved a perfect score from our suppliers**

We have been awarded the "Best Supplier Award" by Güven Makina, a company that has been involved in building a strong business association for many years. Güven Makina, which annually chooses the Best Supplier Award's recipients from among its business partners, applauded our company in terms of quality, customer satisfaction and product development.

- **We are the first company to receive the AOE (Accredited Obligatory Status) in the Turkish tyre sector.**

We were among the first 46 companies in Turkey to receive the AOE (Customs Obligations) status, which increased our customs operations competencies.

Our Innovation and Digitalisation Awards:

- **Lastik.com.tr selected the best e-commerce platform with the customer experience it offers**

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Lastik.com.tr, Turkey's first web-based tyre replacement and maintenance service that is a multi-sales channel and supported by SAP Hybris was chosen the best e-commerce platform in the field of "Customer Experience" at the SAP Innovation Forum. Lastik.com.tr was deemed worthy due to the innovative approach it provided, its role as a model for the sector and in the direction of the consumer mass it reached.

- **Outstanding Achievement Award for Lastik.com.tr**

Lastik.com.tr won the Outstanding Achievement Award at the International Interactive Media Awards (IMA) for a user-friendly interface in the e-commerce category.

- **SAP Kalite Ödülleri “İnovasyon Kategorisi”nde İkincilik ve Üçüncülük Ödülleri Brisa'nın**

Our Suite on HANA project, which provides a new generation in-memory database and application migration and records improvements in reports and applications, was awarded second prize in the "Innovation Category" category at the SAP Quality Awards' and we were also awarded third place for our Hybris project.

- **Innovative internal communication platform Briport selected "Best in Class"**

The Briport platform, the greatest supporter of internal communication within Brisa, was awarded "Best in Class" in the "Intranet" category of the Interactive Media Awards for its design, usability and content.

1.7. Board of Directors

The Chairman of the Board and Board Members have the duties and powers bestowed upon them as stipulated in relevant Articles of the Turkish Commercial Code and the Articles of Association.

Board Members are elected within the framework of provisions contained in the Articles of Association of our company, pursuant to the Turkish Commercial Code and relevant legal arrangements. The replacements take place under the resolutions of the Board of Directors, and they are submitted for approval of the General Assembly following Ordinary General Assembly Meeting.

The names of the members of the Board of Directors and their curriculum vitae as of December 31, 2016, are provided below:

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Board Member's Name - Surname	Executive or Non-Executive	Appointment Date	Term of Office	Duty
Zafer Kurtul	Executive	29.03.2016	Until the 2017 Ordinary General Assembly Meeting	Chairman of the Board
Mitsuhira Shimazaki	Non-Executive	23.03.2015	Until the 2017 Ordinary General Assembly Meeting	Vice-Chairman of the Board
Mehmet Hacıkamiloğlu (*)	Executive	21.04.2016	Until the 2017 Ordinary General Assembly Meeting	Board Member
Mustafa Bayraktar	Non-Executive	23.03.2015	Until the 2017 Ordinary General Assembly Meeting	Board Member
Barış Oran	Non-Executive	23.03.2015	Until the 2017 Ordinary General Assembly Meeting	Board Member
Frederic Jean Hubert Cecile Hendrickx	Non-Executive	18.09.2015	Until the 2017 Ordinary General Assembly Meeting	Board Member
Mübin Hakan Bayman	Non-Executive	23.03.2015	Until the 2017 Ordinary General Assembly Meeting	Board Member
Kazuto Sembu (*)	Executive/ Executive Coordinator	23.03.2015	Until the 2017 Ordinary General Assembly Meeting	Board Member
Ahmet Yiğit Gürçay	Executive /CEO	01.09.2015	Until the 2017 Ordinary General Assembly Meeting	Board Member
Hasan Cihat Erbaşol	Non-Executive	23.03.2015	Until the 2017 Ordinary General Assembly Meeting	Independent Member of the Board
Hüsnü Paçacıoğlu	Non-Executive	23.03.2015	Until the 2017 Ordinary General Assembly Meeting	Independent Member of the Board

(*) In accordance with Board of Directors resolution No. 2017/01 dated January 2, 2017, Laurent Dartoux was assigned to the vacant position of the membership of Board in

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replacement of Mitsuhiro Shimazaki, who resigned from his positions “Vice-Chairman” and “Member of Board”, Makoto Hashimoto was appointed as member of the Board of Directors in lieu of Kazuto Sembu, to serve for the remaining term, effective as of January 1, 2017 as per Article 12 of the Articles of Association and this change would be submitted to the approval of the Shareholders Board in the first General Assembly Meeting. Again with the same resolution, Makoto Hashimoto was nominated as Vice-Chairman and was also assigned as the new Member of both of the Corporate Governance Committee and the Early Identification of Risk Committee instead of Kazuto Sembu and undertake his duties in these Committees effective from January 1st, 2017.

Changes in the Board of Directors during the Period

At the Board of Directors meeting dated 03.29.2016 and numbered 2016/12 on 03.29.2016, Güler Sabancı, who resigned as Chairman and Member of the Board of Directors, was replaced by Zafer Kurtul on 03.29.2016 in accordance with Article 12 of the Company's Articles of Association as a Member of the Board of Directors and it was decided to present this amendment to the shareholders at the first general meeting. Zafer Kurtul was elected as the Chairman of the Board of Directors and Mitsuhiro Shimazaki as the Vice Chairman of the Board of Directors, as a result of the decision of the same Board of Directors and the duty package made pursuant to Article 366 of the Turkish Commercial Code.

Mehmet Nurettin PEKARUN, who resigned from the Board of Directors on 04.21.2016 during the meeting numbered 2016/18, was replaced by Mehmet Hacıkamiloğlu as of 04.21.2016 and it was decided to submit this amendment to the approval of the shareholders at the first general meeting to be held.

Information on the business transactions carried out with the Company by the Board Members for themselves or on behalf of others, and on their activities included within the scope of noncompetition:

In 2016, the Board Members have not carried out any business transactions with the Company on behalf of for themselves or a third party, and they have not taken any steps to compete with the Company in the same subjects of activity, despite being allowed to do so by the General Assembly in accordance with the Articles 395 and 396 of the Turkish Commercial Code..

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Zafer Kurtul / Chairman of the Board

Assignment Period from 03.29.2016 until the Ordinary General Meeting of the year 2017.

Zafer Kurtul is a graduate of the Istanbul University Business Administration Faculty and has a master's degree in finance from the University of Wisconsin-Madison (MBA). Zafer Kurtul holds the title of Chartered Financial Analyst (CFA).

He joined Akbank in 1998 as Executive Vice President and served as General Manager between November 2000 and June 2009. He was appointed Vice Chairman of the Board of Directors on June 2009. Zafer Kurtul previously served as a manager at Citibank, BNP-Ak-Dresdner Bank and Societe Generale. He has been a CEO and a Board Member at Sabancı Holding since July 19, 2010.

Outside Corporate Responsibilities:

Within the Group:

H.Ö. Sabancı Holding A.Ş. board member

Philip Morris SA, Philip Morris Sabancı Marketing and Sales Co. Vice Chairman of the Board of Directors

Philsa Philip Morris Sabancı Smoking and Tobacco Industry San. And Tic. Inc. Vice Chairman of the Board of Directors

Non-Group:

Member of TÜSİAD (Turkish Industrialists' Businessmen Association)

Mitsuhira Shimazaki / Board Member

Assignment Period: 09.08.2014 - until the Ordinary General Meeting of the year 2017.

Mitsuhira Shimazaki received a bachelor's degree in 1981 from the Department of Foreign Studies (German Language) at the University of Tokyo and began working at Bridgestone Corporation the same year.

In July 2005, he was appointed Bridgestone's General Manager of Europe. Then, in December 2005, he was appointed General Manager of the US Operations Division in Japan. In February 2006, he was appointed General Manager of the European Operations Division at Bridgestone Corporation. In July 2007, he became Director in the US and European Operations Division.

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After serving five years as the General Director, he was appointed Board Member and Vice-Director Responsible for European Operations at Bridgestone Europe.

In March 2012, he was promoted to Vice Chairman of the Board of Directors and Director of Operations at Bridgestone Europe. After returning to Japan in July 2014, he served as Vice President of International Tyre Operations, working as a Senior Vice President.

Since September 2014, he has served as Vice President, International Tyre Operations, Asia Pacific, China, Middle East, Africa and Russia. In September 2014, he became a member of the Brisa Board of Directors.

Non-Company Positions:

In-Group:

Bridgestone Europe NV / SA (BSEU) Board Member

Bridgestone Asia Pacific Pte. Ltd (BSCAP) Board Member

Bridgestone Americas, Inc. (BSAM) Board Member

Mehmet Hacıkamiloğlu / Member of the Board of Directors

Assignment Period: 04.21.2016 - until the Ordinary General Meeting of the year 2017.

Mehmet Hacıkamiloğlu graduated from the Boğaziçi University Civil Engineering Department in 1993 and completed the Executive MBA program at Sabancı University in 2001.

Between 1992 and 1993, he worked as a Field Engineer at Üstay Construction Company and joined the Sabancı Group in 1993 and worked as a Concrete Facility Supervisor and Investment and Planning Supervisor at Betonsa respectively. He worked as Strategy Development and Planning Manager in Akçansa between 1997 and 1999 and as the Company Manager in Agregasa between 1999 and 2001. He then worked as Finance Coordinator in Akçansa between 2001 and 2003. In 2003, he was appointed to Çimsa as Assistant General Manager responsible for Financial and Administrative Affairs. Mehmet Hacıkamiloğlu, who was appointed as the General Directorate of Çimsa on 1 July 2006, was appointed as the General Directorate of Akçansa on 1 September 2014. Hacıkamiloğlu, who was appointed as the Sabancı Holding Cement Group Presidency on 17.02.2016, has been appointed as the Industrial Group Presidency on April 21, 2016 in parallel with the merger of Sabancı Holding's Industry Group Presidency and Cement Group Presidency organizations under the heading of Industry Group Presidency.

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Non-Company Positions:

In-Group:

Afyon Çimento Sanayi Ticaret A.Ş. Chairman of the Board
Akçansa Cement Industry and Trade Inc. Chairman of the Board
Çimsa Cement Industry and Trade Inc. Chairman of the Board
Kordsa Global Industrial Yarn and Kord Bezi Sanayi ve Tic. Inc. Chairman of the Board
Temsal Global Industry and Trade Inc. Chairman of the Board
Temsal Business Machines Manufacturing Marketing and Sales Co. Chairman of the Board
Temsal Motorlu Araçlar Pazarlama ve Dağıtım A.Ş. Chairman of the Board
Yünsa Yünlü Sanayi ve Ticaret A.Ş. Chairman of the Board

Non-group:

ÇEİS (Cement Industry Employers' Union) Board Member
İMSAD (Turkish Construction Material Industry Association) Board Member
Advisory Board Member of Boğaziçi University Civil Engineering
Member of TÜSİAD (Turkish Industrialists' Businessmen Association)

Mustafa Bayraktar / Board Member

Assignment Period: 04.19.2004 - until the Ordinary General Meeting of the year 2017.

Mustafa Bayraktar graduated from the Finance Department of Alabama University and graduated from Boston College in the same field. Since 2002, he has been serving as the Chairman of the Board of Directors of H. Bayraktar Yatırım Holding A.Ş.

Non-Company Positions:

Non-Group:

Baylas Otomotiv A.Ş. Chairman of the Board
Baytur Motorlu Vasıtalar Tic. Chairman of the Board
Bayraktar Otomotiv A.Ş. Chairman of the Board
Bayraktar Holding A.Ş. Chairman of the Board
Ege Fren Sanayi ve Ticaret A.Ş. Chairman of the Board
Ege Industry and Trade Inc. Chairman of the Board
ODD (Automobile Distributors Association) Chairman

Barış Oran / Board Member

Assignment Period: 04.30.2012 - until the Ordinary General Meeting of the year 2017.

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Bariş Oran graduated from Boğaziçi University's Business Administration Department and completed his MBA at The University of Georgia.

Mr. Oran started his business life as an auditor at Price-Waterhouse Coopers in 1995. He worked as a supervisor at Sara Lee Corp. in 1998-2003. He first worked in auditing in Chicago IL, then on finance and treasury/capital markets. Between 2003 and 2006, he worked for Ernst and Young first in Minneapolis MN, then as Senior Manager in charge of Europe, Middle East, Africa and India.

In 2006, he started to work at Kordsa Global as Internal Audit Director, Global Finance Director and CFO respectively. In 2011, he worked as the H.Ö. Sabancı Holding Finance Director, and in 2012 was appointed as the Head of Planning, Reporting and Finance Department. Mr. Oran is the Chairman of the Sabancı Holding Finance Group. He is a member of the Brisa, Enerjisa, Teknosa, Carrefoursa, Yünsa, Avivasa, Çimsa, Akçansa and Temsa Global Boards of Directors.

Non-Company Positions:

In-Group:

TEMSA Global Industry and Trade Inc. board member
Enerjisa Enerji Üretim A.Ş. board member
Enerjisa Electric Enerjisi Toptan Satış A.Ş. board member
Enerjisa Doğalgaz Wholesale Sales Co. board member
Enerjisa Electricity Distribution Inc. board member
Enerjisa Electric Retail Sales Co. board member
Enerjisa Anadolu Yakası Electricity Retail Sales Co. board member
Enerjisa Toroslar Electricity Retail Sales Co. board member
Yünsa Yünlü Sanayi ve Ticaret AS board member
H.Ö. Sabancı Holding A.Ş. Head of Finance Group
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş. board member
Teknosa Domestic and Foreign Trade Board Member
Avivasa Emeklilik ve Hayat A.Ş. board member
Çimsa Cement Industry and Trade Inc. board member
Akçansa Cement Industry and Trade Inc. board member

Frederic Jean Hubert Cecile Hendrickx / Board Member

Assignment period: From September 18, 2015 to the Ordinary General Assembly Meeting in 2017.

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Frederic Jean Hubert Cecile Hendrickx graduated from the University of Leuven Law School in Belgium in 1991. In addition, he studied Environmental Management at University of Antwerp (Belgium) and Energy Law at University of Copenhagen (Denmark).

He started his career at the headquarters of United Nations Environment Program in Nairobi, Kenya, and worked for a year in the International Agreements Section of the Danish Ministry of Environment.

In 1993, Mr. Hendrickx joined the Bar Association of Brussels and worked at American law firm Hunton Williams until 1999. He then joined General Electric, assuming various legal leadership roles as the Global General Advisor for the GE Plastics Division in the Netherlands, Water Processing Technologies Division in Belgium and, until recently, for the Life Sciences Division in Stockholm and London offices. He audited all legal, compliance and intellectual property activities in relation to the biotechnology field, which operates with 4,000 employees in more than 30 countries around the world with a turnover of USD 2 billion.

Starting from mid-2015, he has been acting as Legal and Compliance Vice-President, General Advisor and Secretary of the Board of Directors at Bridgestone Europe. Frederic Hendrickx also acts as a visiting professor of International Business Law in the Advanced Business Management program at UC Leuven Limburg in Belgium.

Non-Company Positions:

In-Group:

Legal and Compliance Vice-President, General Advisor and Secretary of the Board of Directors at Bridgestone Europe

Mübin Hakan Bayman / Board Member

Assignment period: From -04.30.2009 until the Ordinary General Meeting of the year 2017.

Mübin Hakan Bayman graduated from the Dokuz Eylül University Department of Economics in 1989. In 1992, he received his MBA from the National University in San Diego, California.

In 1993, he began his professional career as Product Manager at Henkel-Turyağ. Mr. Bayman served as Category Manager at Henkel KgAa Dusseldorf between 1996 and 1997, as Product Manager at Coca-Cola in 1997, as Marketing Manager and Marketing Director at Marsal KJS from 1997 to 2002, as Deputy CEO in charge of Marketing and Sales at Brisa from 2002 until

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2007, and as the CEO of BMW at Borusan Otomotiv between 2007 and 2008. Having acted as the CEO of Brisa between April 30, 2009 and September 1, 2015, Hakan Bayman has been appointed Senior Vice-President for the Commonwealth of Independent States/Russia, Middle East and Africa (CMA) at Bridgestone Corporation, the largest tyre manufacturer in the world, as of the latter date.

Non-Company Positions:

In-Group:

Bridgestone Europe Senior Vice-President for Commonwealth of Independent States/Russia, Middle East and Africa (CMA) Region

Kazuto Sembu / Board Member

Assignment Period: 05.06.2014 - until the Ordinary General Meeting of the year 2017.

Kazuto Sembu started working at Bridgestone Corporation in 1983 after graduating from Osaka University Business Administration Department. He became the General Manager for Aircraft Tyre Sales and Planning Department between 2009 and 2014. Sembu has experience in tyre sales and marketing in the OE and Replacement channel. He worked in Bridgestone Europe (Belgium) and Bridgestone Switzerland Sales Company for eight years. Since May 2014, he has been the Brisa Executive Coordinator and a Board Member.

Non-Company Positions: None

Ahmet Yiğit Gürçay / Member of the Board of Directors

Assignment Period: From 12.20.2015 until the Ordinary General Meeting of the year 2017.

Ahmet Yiğit Gürçay graduated from the Boğaziçi University Department of Chemical Engineering in 1988 and completed an International MBA at Istanbul University in 1989.

Starting his career in the Marketing Division at Unilever, Yiğit Gürçay then joined Roche Turkey as OTC Sales and Marketing Director before being appointed Country Manager. Afterward he worked, respectively, as Roche Global Brand Leader, Country Manager for South Africa, Country Manager for South and Sub-Saharan Africa at Bayer, CEO at Bayer Turkey and, lastly, as CEO at Glaxo Smith Kline (GSK) Turkey between 2007 and 2011. Mr. Gürçay served as Senior Vice-President for Middle East and Africa at GSK between 2012 and 2014, and as Senior Vice-President for Middle East, Africa and CIS between 2014 and 2015.

Non-Company Positions:

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Non-Group:

Chairman of LASDER (Tyre Industrialists' Association)

LASID (Association of Rubber Industries and Importers) Chairman

SKD (Business World and Sustainable Development Association) Member

DEIK (Africa and Asia Pacific Business Councils) Member

YASED (Foreign Capital Association) Member

Hasan Cihat Erbaşol / Independent Member

Assignment Period: From 04.27.2012 until the Ordinary General Meeting of the year 2017.

Born in Istanbul in 1944, Hasan Cihat Erbaşol graduated from Darüşşafaka High School in 1962, from Washington Park High School in 1963, and from the Istanbul University Faculty of Law in 1967.

In 1975, he started working as Legal Counselor for a number of Sabancı Holding group companies. In 1994, he was appointed Sabancı Holding's Head of Legal Office, a post he held until January 1, 2001.

Following his retirement from the Group, he has worked as a freelance lawyer and legal advisor. Mr. Erbaşol has completed various studies in the areas of commercial law, private law arbitration, mergers and acquisitions, as well as technology and transfer agreements, contracts, and partnership agreements, having resolved numerous legal disputes. He has also participated in many seminars, conferences and group activities of the ICC (International Chamber of Commerce) and Management Center Europe.

Non-Company Positions: None

Hüsnü Paçacıoğlu / Independent Member

Assignment Period: From 04.27.2012 until the Ordinary General Meeting of the year 2017.

Hüsnü Paçacıoğlu graduated from Tarsus American College and then from the Middle East Technical University Department of Industrial Management in 1963.

Between 1964 and 1968, he served as Investment Specialist at Karabük Demir ve Çelik İşletmeleri A.Ş. From 1968 to 1996, he worked as Public Relations and Ankara Regional Director, Public Sector Sales Manager, Professional and Technical Services Director, and

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Assistant General Manager responsible for Marketing, Sales, Product and Services, respectively, at IBM Türk.

Between 1996 and 2005, Mr. Paçacıoğlu served as Secretary General at Sabancı University. Between 2006 and 2011 he was on the Board of Trustees and served as Vice-President of the Executive Committee and General Manager of Hacı Ömer Sabancı Foundation (SABANCI FOUNDATION). As of July 1, 2011, excluding his responsibility as General Manager, he has been on the Board of Trustees and the Executive Committee of Sabancı Foundation. Mr. Paçacıoğlu is a founding member of Safranbolu Culture and Tourism Foundation and a member of Hisar Educational Foundation and Turkish Informatics Foundation.

Non-Company Positions:

In-Group:

Hacı Ömer Sabancı Foundation, Board of Trustees and Executive Committee Vice-Chairman
Yünsa Yünlü Sanayi ve Ticaret A.Ş. Board Member
Afyon Çimento Sanayi T.A.Ş. Board Member

Non-Group:

Turkey Spastic Children Foundation Chairman of the Board / Board of Trustees / Chairman of the Board of Economic Business
Hisar Educational Foundation, Member of the Board of Trustees

1.8. Executive Committee

Ahmet Yiğit Gürçay

General Manager (3)

Born in 1964, Ahmet Yiğit Gürçay graduated from the Department of Chemical Engineering at Boğaziçi University, and finished his International MBA at Istanbul University. On September 1, 2015, he became CEO.

Kazuto Sembu

Executive Coordinator (4)

Born in 1960, Mr. Sembu graduated from Osaka University Department of Business Administration (Japan). He has been working at Bridgestone Corporation since 1983 and at Brisa since May 6, 2014.

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Seiichiro Tokunaga

Technical Groups Director (2)

Seiichiro Tokunaga was born in 1958 and graduated from the Engineering Department of Waseda University(Japan). He joined Bridgestone Corporation in 1980 and began his duties at Brisa on 12.20.2010.

Non-corporate responsibilities: none.

Resat Oruç

Assistant General Manager of Finance (1)

Born in 1977, he is a graduate of Marmara University, Department of Economics. He studied Economics at the University of Guelph (Canada) and has been working at Brisa since 01.06.2010.

Non-corporate responsibilities: none.

Ibrahim Korhan Korel

Assistant General Manager, Consumer Products Marketing and Sales (6)

Born in 1978, Ibrahim Korhan Korel graduated from the Boğaziçi University Department of Chemical Engineering and has been working in Brisa since 05.01.2016.

Non-corporate responsibilities: none.

Egemen Atış

Assistant General Manager, Commercial Products Marketing and Sales (5)

Born in 1977, Egemen Atış graduated from the Middle East Technical University, Department of Mechanical Engineering and has a Master of Business Administration degree from Boğaziçi University. He has been working at Brisa since 08.01.2002.

Non-corporate responsibilities: none.

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1.9. Investor Relations

We are grateful to our valuable investors who have supported and encouraged Brisa to become an international scale leader.

We thank the valuable investors who have displayed their confidence in the vision and steps taken by Brisa and encouraged us with their trust and support to embark on new steps ahead.

Amendments to the Articles of Association within the Period

No amendments were made to the Articles of Association in 2016.

Selection of Independent Auditing Company

At the Ordinary General Assembly Meeting dated 25 March 2016, shareholders approved the appointment of DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. to audit financial reports pertaining to the 2016 accounting period and carry out other activities within the scope of relevant legal provisions in compliance with principles according to Turkish Commercial Code No. 6102 and Capital Market Law No 6362. An independent auditing agreement was signed with DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. on May 12, 2016.

Dividend Distribution Policy

As stated on KAP (Public Disclosure Platform) and the website, the dividend distribution policy of the company is as follows:

“The Dividend Distribution Policy of Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. (BRISA) is determined within the framework of the provisions of the Turkish Commercial Code, the Capital Markets Legislation, the article on dividend distribution in our Articles of Association and in line with BRISA’s medium- and long-term strategies, investment and financial plans. The policy is formulated in such a way that considers the national economy and that of the sector while maintaining a balance between shareholder expectations and the needs of BRISA.

In line with the decision made at the General Assembly, it has been adopted as a principle to set the amount of dividends distributable to shareholders and then distribute cash dividends amounting to 30% of the dividend distributable to shareholders.

BRISA does not distribute advance dividends.

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It is accepted policy that dividends be equally distributed as soon as possible to all existing shares, irrespective of their dates of issue and acquisition, and they shall be distributed to shareholders following approval of the General Assembly within the legal period set and on a date the General Assembly determines.

The General Assembly may transfer some or all of the net profits to excess reserve. In the event that BRISA Board of Directors advises the General Assembly that dividends not be paid, the shareholders shall be informed at the General Assembly as to the reasons for such advice and the way the undistributed dividends will be used. In the same vein, such information shall be included in the annual report and furthermore made public on the official company website.

The dividend distribution policy shall be submitted to the approval of shareholders during the General Assembly Meeting. This policy shall be reviewed every year by the Board of Directors in the event that a negative development takes place in national and global economic conditions and in line with the status of the projects and funds on the agenda. The amendments to this policy shall be submitted to the approval of shareholders during the first general assembly meeting following the amendment and be publicly disclosed on the website.”

At the company’s Ordinary General Assembly meeting held on 25 March 2016, it has been resolved that, in compliance with the Dividend Distribution Policy, the dividend at the rate of 51.46% and amounting to TRY 157,013,143.88 in total shall, in cash, on gross basis, be distributed among the stockholders representing the capital amounting to TRY 305,116,875. It is further resolved that the dividend amounting to TRY 9,916,342.76 in total shall, in cash, on gross basis, be distributed among the shareholders holding usufruct shares, and that the dividends shall be paid as from March 29, 2016. The dividend payments have been made to these shareholders accordingly.

Stocks and Bonds Issued

No stocks and bonds were issued in the first nine months of 2016.

Gross Dividend Amounts and Rates, Distributed over the Past Three Years

Gross Dividend	2015	2014	2013
Amount (TL)	166.929.487	161.597.127	126.891.512
Ratio	51,46%	49,50%	39,06%

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2. 2016 Annual Developments and Activities

2.1. Developments in the Sector

In 2016, growing global risks and concerns about global economic growth following developments, such as the Brexit vote in the United Kingdom, the presidential election in the United States, the strong dollar in comparison with other markets and socio-political developments, affected the automotive and tyre sector. On the other hand, key factors, such as vehicle production and sales, increased air traffic, and mechanization of agriculture, were also influential in our sector.

The global tyre market grew by 12% over the past five years. By 2016, unit growth was at an estimated 3% compared to the previous year, with an increase of 52 million units to reach the market of 1.77 billion people. Similar to recent years, China's share of growth has increased, while the developing African and Middle Eastern markets also recorded growth rates. On the other hand, growth in the advanced European and North American markets was lower.

The European automotive industry closed the year with positive news. The influx of passenger cars into the market continued to grow by around 7% in total and light commercial vehicles experienced a 12% increase. The heavy commercial and truck segments of the market grew by 12%, while buses grew by 6%.

In line with these developments in the automotive market, the European tyre market has grown by 2.3% in line with market expectations in 2016. Growth has been driven both by replacement and by original equipment, mainly due to the increase in vehicle sales in both consumer and commercial sectors. Bearing in mind these developments, Brisa in the European tyre market has emerged as an especially promising product group with high added value. Lassa international sales, on the other hand, grew by 10%, both in terms of both volume and income.

In the Turkish automotive market, exports, on the other hand, are at the forefront. Among sectors, the automotive sector exported the most in all months of 2016, which really drove the economy. While total vehicle production in Turkey increased by 9%, growth came from car production. In the commercial vehicle sector, a significant contraction was recorded. These figures in the production were projected onto the sales on the market.

All these developments reached 22.6 million units in total Turkish tyre market where as Turkish replacement tyre market shrank and recorded 16 million units.

Under these market conditions, Brisa continued its leadership in the Turkish tyre market.

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In the total sales performance in all channels, Brisa kept sales figures at the same level in the year-on-year comparison.

2.2. Panoramic view of 2016

We gained \$310 million in investment financing, representing the trust that international financial institutions place in Brisa

The European Bank for Reconstruction and Development (EBRD) invested USD 150 million and from the Mitsubishi UFJ Financial Group (MUFG) Corporate Banking Unit invested USD 160 million with a syndicated loan amounting to USD 310 million in investment financing. We will use this financing for the construction of our second factory investment in the Aksaray Organized Industrial Zone and our other general needs. We will also work with the EBRD in the coming days to develop technical and vocational training programs to ensure that young people can achieve useful competencies that meet the demands of the industry.

We have accelerated our retail efforts

• **Lastik.com renewed**

The 'Lastik.com' application developed by Brisa has been completely revamped in line with the results of the "Criteria that customers consider important when getting tyres from the internet" research conducted with IPSOS research company..

• **The service speed and quality of OtoPratik and ProPratik moved to a higher level with Partvendo**

We agreed with the Partvendo platform, which supplies spare parts at OtoPratik and ProPratik service points. With this agreement, we offer the opportunity to strengthen the service speed and increase the quality of our partners.

We strengthened our Brand Promotion and Sales Activities to be the first choice for users of passenger and light commercial vehicles

• **The tyres that can travel even when they go flat are now produced in Turkey**

We started the production of Bridgestone Potenza S001 Run-Flat tyres using RFT technology in our factory in Izmit. With domestic production, it is possible to meet the expectations of high-end car owners who have high expectations, and to manage flexible production plans and procurement processes in the replacement market.

• **Bridgestone's original factory equipment is preferred by many prestigious automotive companies**

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BMW i3, Volvo40 CC, Jaguar, Honda Civic, Renault Megane Sedan, Mercedes-Benz C-Class automobiles and GLA SUV vehicles preferred Bridgestone for its original factory equipment.

- **We extended our sign boarded sales and service points in Turkey**

The number of OtoPratik's locations, the service points which were opened with the aim of fulfilling vehicle owners' needs such as providing tyre and auto maintenance at the same store, reached 43 with our newly opened stores and we reached a total of 1300 sales and service points across Turkey.

- **Automotive journalists selected "The Automobile of the Year in Turkey" with the support of Bridgestone**

Skoda Superb ranked 1st in the competition of "The Automobile of the Year in Turkey" (AYT) which was held for the first time this year by Automotive Journalists Association (AJA). Skoda Superb scored 3080 points from 64 automotive journalists and took first place at the finals in which 7 automobiles competed. Opel Astra was placed second with 2850 points and Fiat Egea took the third place with 2650 points. Bridgestone was both among the supporters of the competition and the hosts of the award ceremony.

- **FC Barcelona uniforms signed by Arda Turan were quite popular**

The campaigns which were adopted by Lassa in corporation with FC Barcelona continued all year. The people who bought four Lassa wheel rims and tyres measuring 17 inches and greater won FC Barcelona uniforms signed by Arda Turan during the campaign which was conducted for Lastik.com.tr.

- **The FC Barcelona Lassa team was in Turkey**

On December 9th, as a part of FC Barcelona Lassa - Anadolu Efes basketball match, we checked the tyred tread depth and air pressure of the spectators who came to Abdi Ipekci Stadium with their cars. Additionally, we presented our free maintenance service to those who came to the match without their cars.

We adopted our operations which provide 360-degree value to be the first choice of our customers who use heavy commercial vehicles

- **Mobilfix is touring Anatolia**

As an on-site service, we headed off to fleets' parking lots and explained the importance of quality service and the effects of regular maintenance to tyre life and operational costs with Mobilfix, the world's first mobile semi-trailer truck service oriented for heavy commercial

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vehicles. As a part of the Adana region operation, Mobilfix first moved to Hatay, then to Niğde and served more than 200 vehicles in 7 fleets.

- **Our services continue with three new ProPratik stores**

We opened three stores in Istanbul, Gaziantep and Hatay to extend ProPratik, the sales and service chain targeting heavy commercial vehicles. ProPratik fulfills the tyre, battery, spare part and accessory needs of heavy commercial vehicles with innovative solutions and provides support to the drivers for an efficient and safe drive.

- **We continued to create awareness for earthquake-proof buildings with seismic isolators**

Our company was one of the supporters of The New Era in Seismic Isolation Conference organized by Fortune Turkey. We contribute to the Turkish market with the seismic isolators which are developed by the world's largest tyre and rubber products producer, Bridgestone, and increase the earthquake resistance of buildings. Bridgestone, which produced the first seismic isolators in Japan in 1980, is among the world's leading developers of technology in this field today.

Lassa's journey to be an international brand continues

- **Our first global commercial film is broadcasted**

In context of our partnership with FC Barcelona, our first global commercial film was broadcast to raise the recognition and customers' preference for Lassa. Besides national channels, the film was shown live on Euro sport, which broadcasts in 56 countries.

- **Our publicity work continued all yearlong**

In the beginning of 2016, we provided an opportunity to experience the strength of the Lassa products and safe driving to FC Barcelona Lassa team's players, coaches and staff by having them test the tyres we bestowed to them.

We carried out publicity works that increase the interactivity with the visitors coming to indoor sports matches and we hosted our national and international business partners in those matches during the 2015-2016 season.

- **We executed our first e-commerce sale in China**

When, in fact, digitalization is gaining importance in reaching the end user at the present time, we made a breakthrough in China with e-commerce which has an important role in Lassa's global journey. We started sales on Lassa's online channel for China which has a high potential among the markets we are active

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- **Lassa opened its first store in Portugal**

Lassa continued to grow on a global scale and add new markets to its export portfolio in 2016 as well. Lassa, which accelerated its operations to strengthen its position in the European market, opened its first store in the Armamar region located in northern Portugal.

- **We organized Lassa’s first “Business Partners Meeting” in Malaysia**

Lassa’s Malaysia Business Partners Meeting occurred with the support of Brisa Academy and it had 125 attendees.

We are aware of our responsibilities; we work to add value to our shareholders

- **Bridgestone’s “2 Minutes for Our Safety” campaign continues with great attention**

In context of Bridgestone #emniyetimizicin2dakika (2 Minutes For Our Safety) campaign, we explained the subjects to consider for a safe drive to the drivers by measuring the tread depth and air pressure of the tyres in 2016.

- **Strong support from Lassa to farmers**

We trained our farmers and agricultural engineers who work as “Lassa Agriculture Consultants” and explained them good farming applications as a part of “Strong Agriculture, Key to A Strong Future” project initiated in 2013. Additionally, we drew attention to the accidents that are caused by not noticing the tractor trailers in the dark and we reflector assembling for free.

- **We boosted our contacts with our business partners with the help of Brisa Business Partners Council Platform**

Together with Business Partners Council, we regularly discuss market conditions, customer expectations and operational enhancing and we put our work into action.

- **Brisa Academy creates value for all our shareholders**

Brisa Academy presents special training for Brisa people and our business partners with its approximately 50 education programs. In 2016, we provided training for 9678 people who are Brisa employees, national and international business partners, store staff and workers from the automotive and public sector.

- **We stand by our business partners with special programs designed by Brisa Academy**

We designed "New Generation On-the-Job Certification Program", one of our first and industry-leading programs with an education content of 14 days long and 75 people were

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graduated until now. As for another program named "The Heroines of Customers", aiming to strengthen women in work life, we had 15 graduates of 9-day-long education.

- **Support from Brisa Academy to Vocational Schools of Higher Education and Industrial Vocational High Schools**

We reached 264 students and teachers with the our training given in Kocaeli Vocational High School Tyre Plastic Department, Istanbul Samandıra and Industrial Vocational High School, Istanbul Başakşehir Vocational High School and Ankara Güvercinlik Vocational High School OtoPratik Department by Brisa Academy.

- **The Solar Impluse program in which Brisa took place as the only supporter from Turkey, made history**

The Solar Impulse program, in which we took place as the only supporter from our country in accordance with our "We Innovate Your Journey" vision, completed its solar powered world tour, which proved the power of renewable energy and clean technologies. The Solar Impulse plane, which can fly non-stop day and night without using fossil fuels, finished its 40,000-km trip in a total of 17 stages and 21 days.

- **The Brisaspor athletes attended 2016 Rio Olympic Games**

Onur Balkan, the cyclist of Brisasport Bicycle Team, represented our country in the 2016 Rio Olympic Games as the youngest attendee of bicycle road races. Additionally, our athlete of Bulgarian origin, Stefan Hristov Koychev, who has been in the team since the 2009 season, represented Bulgaria with our team's points gained during the competitions in the Rio Olympic Games.

2.3. Manufacturing and Products

In 2016, we operated at a high capacity utilization ratio, manufacturing 9,6 million units.

Being one of the Europe's largest tire manufacturer, our Company conducts its manufacturing operations in İzmit at facilities built on a closed area of 361,000 square meters. The factory, which is 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, capacity to produce products that meet the needs of the market and customers, and its capability to manufacture import products at the local level.

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In 2016, Brisa operated at a capacity utilization ratio (83.1%), reaching a production level of 9.6 million units of tires.

	1 Ocak – 31 December 16	1 Ocak – 31 December 15	Change %
Production Quantity (Unit)	9.641.140	10.535.908	-8,5
Capacity Utilization Ratio	%83,1	%89,2	- 6,8

Our New Products and our Growing Portfolio

We manufacture a variety of 1,800 types of tires under the Bridgestone and Lassa brands that comply with international safety and quality standards for automobiles, light commercial vehicles, buses, trucks, agricultural machinery and heavy-duty vehicles.

Besides our manufacturing operations, we import Firestone brand agricultural tires, Dayton brand automobile and heavy commercial vehicle tires, Bridgestone brand motorcycle tires, Kinesis brand forklift tires.

We also provide tire coating services under the Bandag brand.

While aiming to provide a well-balanced product portfolio to vehicle owners by offering them the criteria of Bridgestone brand performance, environment and safety, we also offer a concept of “Balanced Performance” that prioritizes economy, comfort and sturdiness with our Lassa brand products.

The innovations we brought to the market in 2016 were;

- The local manufacturing of Bridgestone LM001 and Potenza S001 RFT
- Bridgestone M-Steer 001, M-Drive 001, M-Trailer 001
- Lassa's first 20 and 21 inches tires
- New patterns of Lassa Competus AT2 and Competus Winter 2 winter tires, new sizes of Snoways 3
- Lassa Transway 2
- Lassa Energia 320D, Energia 520S
- Dayton DW510E winter products
- Dayton D500S, D600D, D400T

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2.4. Domestic distribution and channel management

Our customers are at the focal point of our business. With this understanding, we continue to broaden the reach of our stores every day to make them easily accessible to our customers. We are also constantly improving our stores in order to be able to meet our customers' expectations and to give them the experience of excellent tire purchasing. Our model stores go beyond providing customers with the best experience, assuming at the same time the role of laboratory and training base.

Through our sales and service network, we aim to establish expert and reliable points easily accessible by vehicle owners and to offer the most effective sales and after-sales service organization within the sector.

Our target is to develop and expand our sales network together with our business partners, who share the same business culture that we enjoy. We focus on each one of the retail, wholesale and fleet distribution channels in order to make our business processes more effective.

Besides our Bridgestone, Lassa and Lastiğim (My Tire) sign boarded sales points, we provide our passenger and light commercial vehicles easy, quality, economical and fast vehicle maintenance service at our OtoPratik stores. We continue to grow, adding new stores every day to the sum of our 43 OtoPratik stores all around Turkey.

Meanwhile, our ProPratik stores, where we provide sales and services to heavy commercial vehicle drivers, offer Bridgestone and Lassa brand products for the bus-truck segment, Bandag tire coating, and basic vehicle and tire maintenance services, all under one roof.

We are also widening the reach of our Speedy, Lastik V points and the Bridgestone Box to provide the accessibility to our products and services that vehicle owners need. We convey our service concept to our customers with Mobilfix and Probox.

Besides conducting national and international campaigns to increase the desirability and customer traffic of our sales points, we run Customer Relations Management (CRM) activities on a regular basis. We give weight to “Customer Relations Management and Guarantee Practices” training in order to increase the competence of our business partners.

At our Model Store, which we use to bring excellence to the customer experience and to improve the retail experience for our business partners, we transfer our know-how to our

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business partners and increase our expertise together, thus effectively managing the overall business enrichment process.

Besides placing great importance on enriching the products and services offered at our sales points, we execute a reliable training and audit system so as to maintain uncompromised standards. We come together frequently with our business partners, whose Customer Satisfaction Evaluation scores are below Turkey's average, in order to increase their awareness of customer service.

Developing relations with our business partners matters to us to ensure long-term collaborations based on a strong foundation and mutual trust and to contribute to the sustainability of their businesses. With the growth vision cultivated together with Brisa's business partners, we offer a "New Generation On-the-Job" certification program that aims to broaden the vision of family firms that are enriched and diversified by the transition of ownership from father to son, to brother, to nephew or the participation in the firm of these persons.

The number of OtoPratik stores reaches 43

The stores of OtoPratik, which was initiated to fulfill the vehicle owners' needs such as tire and vehicle maintenance service at the same place, reached 43 in 25 cities by the end of 2016

ProPratik continues to serve with 3 new stores

ProPratik stores, the sales and service chain targeting heavy commercial vehicle drivers, reach drivers at 6 points throughout Turkey. Our new stores in Hatay, Istanbul and Gaziantep fulfill the sales and service needs for tire, battery, spare parts and accessories with innovative solutions and supports drivers for an efficient and safe drive.

- Our new Bridgestone and Lassa stores: Adana, Antalya, Ağrı, Izmir, Ankara, Istanbul, Bursa, Iğdır, Konya, Van, Sivas
- Our new OtoPratik stores: Istanbul, Afyon, Izmir, Van, Gaziantep, Hatay
- ProPratik stores: Izmir, Van, Afyon, Gaziantep, Istanbul, Hatay
- Bridgestone Box: Our innovative, award-winning, mobile sales points function at Istanbul, Izmir, Ankara, Aydın and Yalova
- This year, we served 969 vehicles of 30 mega fleets in their garages with Mobilfix, which present service to big fleets all over Turkey.
- Probox: Accessible in five points: İzmit Suadiye Cooperative, Ömerli and three on the Third Airport construction site.

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2.5. Domestic Marketing and Sales

The effective management of our company's digitalization process in our marketing and sales efforts enriches the added value we offer our customers. By developing new business models and combining these with know-how, company resources and digital technologies, we work to create unique customer experiences. We aim to be the first choice of our customers by standing closer to them than ever before when they come in for a tire change or maintenance.

We position Brisa as not only a tire manufacturer, but more so as a "value provider". While maintaining our leadership in the Turkish market with our powerful brands, at the same time we add value to our customers' expectations by providing services to meet their needs, carrying customer satisfaction to even higher levels, working to enrich the experiences of both our customers and business partners to ensure that they identify with our brands.

To bring excellence to the customer experience, we do the follow-up with the Customer's Voice Committee, employ the Customer Contact Point Management system and remain in regular contact with each customer, providing every customer with continuous information until the end of the tire's physical life. We directly experience the cycle of customer expectations, shopping and satisfaction through our model stores operating in Istanbul and Ankara. The feedback, opinions and suggestions we receive at the points where we make close contact with our customers inspire us in the direction of new innovations. As a company focused on service and process innovation rather than on the product, this understanding is reflected in the services we offer the customer.

In order to closely follow up on the value we add and our impact, as well as to be able to measure our performance, we make regular contact with customers at the stores of our business partners.

Together with this personal touch, we execute special works together with our business partners who play a key role in customer satisfaction. We conduct a coaching program for empowering the bonds and quick adaptation of new members of the Brisa family. In context of the program, we provide information about our approach to customers, standards for customer satisfaction and right applications and aim to extend good application examples.

Besides investing in our business partners and customers, we employ the power of our brands to diversify the communication channels through which we reach them on the one hand, and on the other, carry out campaigns to increase the recognition and reinforce the images of our Bridgestone and Lassa labels, both taking their places among Turkey's "most sincere brands".

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We fulfill our responsibilities with regard to safe driving and life safety and conduct activities with our brands to increase awareness among vehicle owners.

Our "Profleet" services strive to offer fleet customers the perfect Brisa experience

- We recycle 20% of the tires that our customers set aside as scrap, adding value both to the environment as well as to our customers.
- With Filofix, we continue to provide Turkey's first and only road assistance service in the 11th year of its existence.
- We have examined more than 1 million tires to gather the experience to advise our customers about their needs.
- In the matter of total costs, our focus is on savings.
- We are developing our product performance and service quality by investing in new covering technologies equipment (Shearography).

We met with our business partners and customers

- "All of the Best Together" involves meetings with our Profleet consultants
- "Brisa World: Common Road, Common Future" themed business partners meeting
- International trips for motivation and "Competus Discovery Convoy" together with our business partners
- Product launch meetings for fleet customers
- Regional meetings with our business partners of commercial products
- Business Partners Council Platform for our wholesale, consumer and trading subsidiaries

We promoted Brisa and its brands on a national and global scale in the following fairs; WIN Eurasia Automation Fair, International Natural Stone and Technologies Fair, Istanbul Convex Fair, Essen Reifen 2016 Fair, 7th Guangrao International Rubber Tire & Auto Accessory Fair, Wessels Müller Fair in Dortmund, Berlin and Munich, and Agriculture Fairs in Ankara, Niğde and Yozgat. We displayed our motorcycle tires during the motorcycle festival in Eskisehir.

In accordance with our mission to present innovative and value adding experiences, for the first time in our sector, we ensured our customers to reach our company via Whatsapp application between 08.00 and 20.00, seven days of a week.

We continue our mobile communication with the customers via "SORUN" (ASK) application. Meanwhile, we provide "live support" service with Webhelp; the application operates in 21 countries.

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Promotion works with our Bridgestone brand

- The new commercial film that explains safe drive features of our brand
- Youtube channel cooperation, namely "Manilo"
- Promoting the use of Bridgestone's original factory equipment in BMW i3, Volvo40 CC, Jaguar, Honda Civic, Renault Megane Sedan, Mercedes-Benz C-Class automobile and GLA SUV vehicles
- Sponsorship and communication works for "Bridgestone Ipek Senoglu Cup - Tennis Tournament"
- Sponsorship for the "Sales and Communication Awards Gladiators Night" event, which is organized by Automotive Distributers' Association (ODD) and hosted 800 people.
- Sponsorship for "The Automobile of the Year in Turkey" which is organized by the Automotive Journalists Association (OGD)
- Sponsorship for "Kumda Gitar" (Guitar in the Sand) program in the 13th Gümüşlük Classical Music Festival
- Tire sponsorship for Anadolu University's "Anadolu Solar Team" which competed in the 2015 World Solar Challenge
- Works to raise awareness for #2minutesforoursafety campaign
- Promotion of seismic isolation in the Fortune Conference
- Taking a part in Istanbul Motorcycle Fair with the corporation of Borusan Automotive
- Sponsorship for MotoTrio who are in world tour and promoting the motorcycle tires

Promotion works with our Lassa brand

- FC Barcelona "Official Global Tire Partner" new commercial film
- Communication works for "Lassa brand ambassador Arda Turan"
- Communication works for "Turkey's leading tire Lassa"
- Promotion works of FC Barcelona's Turkey matches
- Celebration of "World Farmers Day"
- "Lassa Ramadan Festival" project
- Strong agriculture, strong future project
- Sponsorship for tractor races
- Football's "Strongest 11" project

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Retail works:

- As a part of online trading, which has a 2 percent share in Turkey's total retail sector, we renewed the first web-based tire replacement and maintenance service, lastik.com.tr. We provided opportunity for online shopping and delivery of our tires either to the customer address or to the closest subsidiary for assembling. Our sales started in Turkey's biggest electronic commerce sites, such as Hepsiburada, Gittigidiyor and N11. We adopted the first unmanned sales point concept where sample tires are displayed and customers can shop via kiosks.
- Together with OtoPratik and ProPratik, we shared information about the Pratik Family concept, which includes fast maintenance trends, service market after automotive sales, the renewed value package and Pratik Family's vision. We conveyed our new vision and goals to all store staff by on-site visits.
- Our products are displayed in 30 spots of the whole sales markets and we offer shop opportunity via catalogue in 130 spots.
- Our tires meet the customers in 37 Carrefoursa hypermarkets. We conducted the "Don't Take Risk" campaign which is devoted to winter tires' promotions and informing in hypermarkets
- We developed "Mobile Change" and, for storing tires, the "Tire Hotel" to fulfill the needs of the companies operating fleet rental in Istanbul and Ankara
- We started to serve in Aydın Kuşadası and Istanbul İstinye Carrefour with the Bridgestone Box. Together with the Ankara, Istanbul, Izmir, Aydin and Yalova stores, the number of mobilized Bridgestone Box trailers reached to 5 spots.

2.6. International Marketing and Sales

With close to 580 stores abroad, new sales channels and effective marketing activities, Lassa continues to grow with giant strides, as it continues along its international journey.

Besides being a sector leader in Turkey, our goal is also to be an arbiter that adds value to business partners and end users in the international arena. With this in mind, we are making progress in international markets, working to increase Lassa-labeled sales points and engaging in efforts to improve brand awareness as we capture the loyalty of our business partners.

Lassa-brand tires, made in Turkey and manufactured through the hard work of Brisa employees, are now available in more than 60 countries.

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Afghanistan	Chile	France	Kosovo	Netherlands	Slovakia
Albania	China	Georgia	Kyrgystan	Norway	South Korea
Algeria	Czech Republic	Germany	Latvia	Pakistan	Spain
Austria	Congo	Greece	Lebanon	Panama	Sweden
Azerbaijan	Croatia	Guinea-Bissau	Libya	Poland	Syria
Belgium	Cyprus	Iran	Lithuania	Portugal	Tayland
Bosnia Herzegovina	Denmark	Iraq	Macedonia	Romania	Tunisia
Bulgaria	Egypt	Israel	Malezya	Russian Federation	Uganda
Cameroon	Estonia	Italy	Malta	Serbia	Ukraine
Cape Verde	Finland	Jordan	Moldava	Sierra Leone	United Kingdom
			Morocco	Singapore	Uzbekistan

We continue with our strategy of deepening involvement in existing markets and entering new markets with Lassa.

The stores not only constitute a significant part of our vision of enriching our business and providing added value to our customers, but also reflect the trust and faith the sector has in the Lassa brand.

The number of sales points that wished to maintain their sales and services under the Lassa sign reached 580 in 2016.

Turkey's leading brand Lassa is moving forward to make its name heard in international markets. 2016 became a year that Lassa pursued devoted efforts for international recognition.

We kept on our international promotion events in context of "Official Global Tire Partner" agreement with FC Barcelona, which is Lassa's biggest step to becoming a global brand so far.

We presented our newly developed comfort and performance tires, Driveways and Driveways Sport Competus family's newest member, the 4X4 land and asphalt tire, Competus A/T2; summer tire Transway2, which belongs to the light commercial vehicle segment and the new generation light commercial vehicle tire, Maxiways 100S, which was released in 2015 in the Essen Reifen 2016 and 7th International Guangrao International Rubber Tire & Auto Accessory Fairs.

2.7. Investment, Research and Development Activities

With its strong faith in the potential progress of the tire industry and in an effort to supply the foreseen demand for passenger and light commercial vehicle tires, our Management Board

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decided at its Board Meeting number 2013/18 on October 4, 2013 to invest in a second factory that would cost around USD 300 million and be located in Aksaray Province Organized Industrial Zone (OIZ). The factory was commissioned in 2014 with our aim to establish it initially on 135,000 m² out of a total area of 952,903 m² in 2018.

In this context, a Control Office established in Aksaray has completed the design, planning and ground study stages. As part of the soil improvement work, the manufacture of the foundation piles of the building's foundation was completed and the present site readied for construction activity. The bidding for construction was concluded in May 2015, a construction contract was signed and the construction activities have started and continue according to the plan. The establishment and commissioning works of tire building machine have started as of June 2016 and keep going. Additionally, an infrastructure contribution agreement has been signed with the Organized Industrial Zone Directorate to specify all the facility's required infrastructure. The infrastructural needs of the Plant such as orbital roads, water, energy, sewage system, natural gas, rainwater have been achieved.

We implemented an investment of USD 64.3 million that covered the modernization of the İzmit factory, our efforts to increase capacity, and other investments undertaken for other departments in 2016.

In the twelve-month period of 2016, a total of USD 47.5 million was extended in investments for the renovation, modernization and capacity increase of the İzmit factory. USD 38.0 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 İzmit factory, our investments are on-going for the improvement of occupational safety, quality, efficiency and information systems. During the same period, the total of our non-İzmit factory investments amounted to US 16.8 million. A total of USD 134.5 million was spent in 2016 in investments with respect to the second factory to be established in Aksaray Province Organized Industrial Zone. To date, the investments undertaken for our Aksaray factory total USD 183.6 million.

	2016	2015	2014	2013	2012
Investment in İzmit Factory (Million US Dolar)	47,5	48,3	59,7	52,4	92,5

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Our company, which holds important competitive superiority in the area of R&D, hosts a product testing center recognized by the Turkish Standards Institute.

Brisa Izmit Factory, which works in coordination with Bridgestone Corporation technical centers in Rome and Tokyo, is one of its major facilities.

2.8. Financial Outcomes and Rates

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 in 2015 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 139 million which represents an increase of 50% 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 80.1 million.

Sales Quantity	1 January- 31 December 2016	1 January- 31 Dec. 2015	Change %
Domestic	6.273.962	6.620.731	-5
Export	4.395.608	4.059.659	8
Total	10.669.570	10.680.390	0

Sales Quantity (Channel Based)	1 January- 31 December 2016	1 January- 31 December 2015	Change %
Replacement	4.837.568	4.937.637	-2
OE	1.436.394	1.683.094	-15
Domestic Total	6.273.962	6.620.731	-5
Lassa Export	3.473.311	3.121.394	11
Bridgestone Export	922.297	938.265	-2
Export Total	4.395.608	4.059.659	8
General Total	10.669.570	10.680.390	0

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(Million TL)

Net Sales (Million TL)	1 January- 31 December 2016	1 January- 31 December 2015	Change %
Domestic Sales	1.292,2	1.357,3	-5
Export Sales	474,3	444,6	7
Total Net Sales	1.766,5	1.801,9	-2

(Million US Dolar)

Gross Export	1 January- 31 December 2016	1 January- 31 December 2015	Change %
Export Sales	168,1	173,3	-3

(Million TL)

Summarized Income Statement (Million TL)	1 January- 31 December 2016	1 January- 31 December 2015	Change %
Net Sales	1.766,5	1.801,9	-2
Gross Profit	518,6	561,4	-8
Operating Profit	218,6	296,8	-26
Net Profit	80,1	197,2	-59

EBITDA	241,7	361,5	-33
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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 December 2016	31 December 2015
Gross Profit Margin (Gross Profit/Net Sales)	% 29,36	% 31,16
EBITDA Margin (EBITDA/Net Sales)	% 13,68	% 20,06
Net Profit Margin (Net Profit/Net Sales)	% 4,54	% 10,94
Return on Asset (Net Profit/Assets)	% 3,23	% 10,35
Return on Equity (Net Profit/Equity)	% 15,65	% 34,68

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*The foreign exchange gain arising from derivative financial instruments realized for cash flow hedge purpose amounting to 42.220.584 TL is included in 2015 gross profit, operating profit, EBITDA and net profit figures. It should be taken into account in last year analysis.

Liquidity Ratios	31 December 2016	31 December 2015
Current Ratio (Current Assets/Current Liabilities)	1,15	1,31
Acid-Test Ratio (Current Assets-Stocks / Current Liabilities)	0,84	0,93

Financial Growth Ratios	31 December 2016	31 December 2015
Total Liabilities/Equity	3,97	2,25
Total Liabilities/Total Assets	0,80	0,69
Equity/Total Assets	0,20	0,31

* As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 270.104.000 for 2016 and amounting to TL 160.016.000 for 2015 are offsetted and disclosed under financial liabilities.

2.9. Future Prospects

The information about our Company's total investment target amount to be in the range of 170- 190 million USD in which the share of the newly constructed Aksaray Plant is in the range of 120-140 million USD for the year 2016 was already disclosed. Actual figures recorded were 199 million USD for total investment and 134.5 million USD for Aksaray Plant as it was explained above in article 2.7.

2.10. Internal Auditing and Internal Control

Internal auditing and controls are executed for the purpose of ensuring that the company's operations and services are conducted effectively, reliably and uninterruptedly; that the

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company's risk management, control systems and corporate governance practices are improved and a contribution is made to having the company reach its corporate and economic goals and the integrity, consistency and reliability of the data obtained from the accounting and financial reporting system.

The existence, operation and effectiveness of internal auditing and controls are a matter conducted under the supervision of a Committee Responsible for Auditing, formed within the body of the Board of Directors. The Committee Responsible for Auditing presents the facts related to its activities, duties and responsibilities, along with its recommendations, to the Chairman of the Board of Directors.

Furthermore, in order to ensure the robust condition of internal auditing and control mechanisms, an Internal Auditing Directorship operates under the Board of Directors. The Auditing Committee holds regular meetings with the Internal Auditing Department to discuss the adequacy of the internal auditing system, informing the Board of Directors of what has been discussed. The Internal Auditing Department Regulations, in which are contained the position of the Internal Auditing Department within the organization and matters of autonomy, have been prepared, approved by the Auditing Committee and put into force. At the same time, an Auditing Guidebook, in which the operations of the Auditing Department are described, has been prepared and applied.

Every year, risks related to all processes are reviewed, and the processes to be audited are determined. The Auditing Universe formed within the company determines the processes that may be audited and ascertains risk score balances depending upon natural risk factors and internal control system conditions. Accordingly, in 2016, eight business processes were audited and the results were presented in a report to the Committee Responsible for Auditing.

To broaden the scope of knowledge and experience of internal auditing among the three Internal Auditing Team members, this trio is a member of the Internal Auditing Institute of Turkey and holds a CRMA certificate (Certification in Risk Management Assurance).

In connection with internal control deficiencies spotted within the framework of Auditing Reports, actions taken by company officials are followed up and the adequacy of those decisions is questioned in the light of risk levels, with results reported to the Committee Responsible for Auditing.

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2.11. Other Explanations

Affiliates and Share Ratios

Our company has no direct or indirect affiliates.

Information on Company Shares Acquired by Company

The company has no shares of its own that it has acquired between January 1, 2016 and December 31, 2016.

Information on Private and Public Audits

Independent audits are carried out on our Company's annual and semi-annual financial statements within the framework of the mandatory regulations issued by the Capital Markets Board with respect to financial reporting and independent audits.

In 2016, there was no private or public audit conducted of the Company.

In relation to the additional corporate tax principal 4.232.081,47 TL and tax penalty 7.481.370,99 TL for the fiscal year 2011 mentioned in our disclosure dated 27 October 2016, the dispute has been settled by payment of 2.391.526,20 TL including the principal and the interest expense in accordance with the Law numbered 6736 on Restructuring of Public Receivables.

There is no case that has been filed against our Company and may have an impact on our Company's financial situation and activities.

Information on Administrative or Judicial Sanctions Imposed on the company and the Board Members due to Practices in violation of Legislative Provisions

There is no administrative or judicial sanction imposed on the company and the Board Members.

Information on General Assemblies

Information on the General Assemblies held in 2016 is provided in Article 2.3 of the Corporate Governance Principles Compliance Report.

The targets set in the previous periods have been achieved. The requirements of the resolutions that were taken at our company's Ordinary General Assembly Meeting held on March 25, 2016 were fulfilled.

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No Extraordinary General Assembly Meeting has been held within the year.

Donations Granted

In 2016, the total amount of donations granted in line with the company's Donation and Charity Policy was TL 1.044.897,27.

Information on the Report Describing the Relationships with Controlling Shareholders and Subsidiaries within the scope of Article 199 of the Turkish Commercial Code

The report describing our relationships with our controlling shareholders within the scope of Article 199 of the Turkish Commercial Code was approved by our company's Board of Directors at the Board of Directors' meeting dated February 23, 2017. The report concludes as follows:

The conditions of merchandise of BRISA Bridgestone Sabancı Tire Industry and Trade Inc., which are common and continuous as regards Hacı Ömer Sabancı Holding A.S., Bridgestone Corporation and affiliated companies as well as related companies, price determination method and reasons are explained and information is given on the status of the transactions against the market conditions, based on the Article No: 199 of Turkish Commercial Code No: 6102. The transactions carried out comply with its comparables in accordance with the holding company explanations in the relevant articles of TTK (TCC) No: 6102 and no incurred loss is in question as it is included in the enterprise system.

It has been observed in this report prepared by the Board of Directors of BRISA Bridgestone Sabancı Tire Industry and Trade Inc., dated 20 February 2017 that all necessary transactions have been carried out and necessary measures have been taken in accordance with the responsibilities provided for in the Article No: 199 of TTK (TCC) No: 6102 and assigned to the board of directors in all transactions that BRISA Bridgestone Sabancı Tire Industry and Trade Inc. has carried out with its controlling shareholders and the affiliated shareholders of the controlling shareholders in 2016.

Financial Rights Provided to Board Members and Senior Management

The company's senior management team comprises the members of the Board of Directors and the Executive Board.

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Remunerations and dividends to be paid to the Board Members are determined under relevant resolutions of the General Assembly. Remunerations of the members of the Executive Board are comprised of two components, with one being fixed and the other performance-based.

In compliance with international standards and statutory obligations, the fixed remunerations for the members of the Executive Board are determined by taking into consideration the macroeconomic data in the market, current wage policies in the market, the size and long-term goals of the company, and individual positions as well. Premia for Executive Board members are calculated in accordance with the performance of both the company and individuals.

In addition, the financial rights provided to the Board Members and the Senior Management are mentioned in Article 5.6 of the Corporate Governance Principles Compliance Report and in Footnote 24 of the Financial Statements.

3. Sustainability

We placed sustainability at the base of our business manner. We feel rightful pride in continuing to be one of the leading organizations en route to sustainable development, together with all of our stakeholders and, notably, our employees, customers and business partners, who join us on this ethical journey.

In Turkey and in all regions where we are active, we make an effort to be more successful every day with our awareness of our social and environmental responsibilities. Being conscious of our responsibilities involving the benefits and interests of all our stakeholders, we conduct research, develop innovations, invest, work and produce.

We believe that continuing to serve as a leading company in the area of sustainability may only be possible together with our stakeholders. Our Brisa Approach to Sustainability relies on the global know-how of the Bridgestone Corporation and national experience of Sabancı Holding. We base our efforts on such international standards as the European Foundation for Quality Management (EFQM) or the Global Reporting Initiative (GRI) by combining the Bridgestone CSR-22 approach and the sustainability understanding of Sabancı Holding with our own corporate policies, strategies, processes and projects.

We plan improvements focusing on strengthening the in-house integration of our sustainability approach. It is this structure that supports us in our journey to achieve our mission of "Offering the community outstanding values through sustainable growth." To this

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end, we constantly update our sustainability strategies, set up action plans and, with the participation of all our employees, continue to ensure the integration of all processes.

In order to make sustainability a part of our daily life, we are aware that we need to act together with all our employees comprehensively in an effort to raise awareness. We have designed a training program to orient new recruits and familiarize them with our “Sustainability Journey.”

Our Approach to Sustainability

We are leaving our imprint on life by adopting sustainable growth strategies in an effort to leave a better world to future generations. For us, social matters and topics of the environment and economy are intertwined, interdependent. Sustainability is the first thing we think about when we conduct any kind of business. We expand our foremost responsibilities related to social, environmental and economic issues with our sustainability policy that we published in 2015.

Our approach to social topics involves our perspective on; human rights, occupational health and safety, and customer health and safety over the entire life cycle of products and services; anti-corruption and anti-bribery; business manner beyond legal regulations; information security; employees' rights, our growth journey and relationships with our stakeholders and the community.

Conservation encompasses the effective use of natural resources as well as the management of wastes, energy and carbon; producing environment-friendly products and services; and respecting biodiversity. In the area of the economy, we prioritize responsible value chain applications, innovation, and our approach to corporate entrepreneurship.

Brisa is now a part of the Borsa Istanbul Sustainability Index

We share all economic, environmental and social aspects of our sustainability efforts with the public in a transparent manner. In 2015, we became eligible to take our place in the ranks of the Borsa Istanbul Sustainability Index. Having successfully fulfilled the index criteria, we take rightful pride in our presence in the November 2016 - October 2017 listings.

3.1 Environmental Sustainability

We design every step of our business manner starting from the supply chain and manufacturing to be in line with sustainability. By this means, we reduce our environmental effects and create benefit with high work efficiency. We lead the business

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world with our ethical works and responsibilities for climate change and usage of natural sources.

We undertake significant efforts to minimize the impact of our manufacturing processes on natural resources and climate change in accordance with our understanding of environmental sustainability. Setting off from this point and acting with a high level of responsibility, we monitor our environmental performance periodically and undertake improvements in conjunction with environmental management systems.

The standardization of our efforts was certified for the first time in 1995, when we were awarded the BS7750 Environmental Management System standard. In line with our ISO 14001:2004 Environmental Management System certification, we continue to regularly renew our benchmarking, evaluation, improvement and training processes.

Relying on the support of our top management, we are generating new projects for a better world, complying with environmental regulations in full, and carrying out improvements that go well beyond legal mandates.

While we have been regularly reporting carbon dioxide emissions since 2011, in 2015 this report was made publicly as we took our place as one of the five companies from Turkey to be included in the "Carbon Disclosure Project (CDP)." In 2016, we won "Turkey Climate Disclosure Leadership Award" for the second time.

We take great pride in being the first company who was acknowledged with the ISO14046 Water Foot Print Standard in Europe with our pioneering work in water saving and reporting. In addition to this, we ranked first in Sustainable Work Awards Water Category, given by the Sustainability Academy in 2016.

Environmental Practices

The Effective Use of Natural Resources and Waste Reduction

At the designing stage we take great care to account for the environmental impact of products during use and after consumption, focusing on the use of raw materials that do not carry pollution or health risks.

With reserves predicted to diminish in the coming years, the efficient use of water resources is the objective of our long-term business plans in line with our conservationist approach. Our goal is to decrease our water consumption by 61% in 2020 as compared to levels in 2008. We

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accomplished 75 percent of this goal by obtaining 46 percent recovery as a result of our operations to diminish the usage of water and waste recycling.

We keep a continuous check on possible sources of pollution in our production processes and strive to constantly improve our waste management, aiming to reduce amounts of hazardous wastes. In carrying out these efforts, our focus is on first preventing waste formation at the

source. In addition, we also work to ensure re-use, recovery or recycling of wastes in our processes. We direct potentially high air polluters such as dust and gases emitted from our production processes into our purification systems in order to preserve air quality. As a result of these efforts, we have been able to reduce our rate of hazardous wastes by 62% since 2009.

In 2015, we continued our projects which aim to raise the employees' awareness as a part of the Green Office Program, started in 2014 and led by WWF. This year, with the contributions of the Green Office applications, we achieved a 17.5 percent improvement over 2014 in terms of organic waste reduction. We also started sending enterprise-based household wastes to energy recycling plants. We were thus able to achieve our "Brisa Zero Landfill" goal since the beginning of 2016.

Energy and Carbon Management

The efficient use of energy or the elimination of wasted or inefficient energy represents one of the cornerstones of our way of doing business. The systematic improvements we have undertaken to ensure efficiency in energy consumption have produced significant results.

In 2015, 45 percent of the lighting requirement is provided by solar panels in the Brisa Museum and Academy buildings which obtained the LEED Gold certification that is given to sustainable facilities in the world. Thus, we prevented greenhouse gas emission equal to 15.741 kWh of energy produced.

We have been maintaining our efforts to reduce carbon dioxide emissions since 2005. By 2020, we aim to have reduced the carbon dioxide emissions per rubber manufacturing unit by 25 percent of their level in 2005. In 2015, we approached this target with a 22 percent reduction compared to 2005.

With a view to reducing the emissions arising from our logistic operations, we give priority to our shipments in maritime transport, an environmentally less invasive means of transport, and undertake route planning.

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Environment-friendly Products

We endeavor to ensure that our products and services are “environmentally friendly” by taking into consideration their environmental impact in and after use. We are working on new product concepts with lower rolling resistance, lighter weight, and reduced emissions that produce less noise.

In line with our understanding of generating more environmentally friendly products, we offer a rich product portfolio comprising the eco-friendly Ecopia and Greenways tyre series.

We also contribute to conservation by minimizing commercial tyre waste through the tyre retraining services we offer with the Bandag brand.

At the same time, as a member of the LASDER Tyre Industrialists’ Association, we support the lawful collection and recycling of end-of-life tyres, according to the regulations.

We keep a close eye on our strategy "to expand the portfolio of environmentally friendly products" through the indicators of "weighted average rolling resistance of products on sale" and the "share of environmentally friendly products in the general portfolio."

Respecting Biodiversity

We continue to work on the project "Let the Cranes Fly Forever," which we launched in 2013 in cooperation with WWF (World Wildlife Foundation)-Turkey. We undertake actions aimed at ensuring the continuation of the crane population in Anatolia along the Çukurova Delta, which is home to 95 percent of domestically overwintering cranes. At the same time as WWF-Turkey’s observations continues, we organized crane-watching events together with students in the Yumurtalık Lagoon of Çukurova Delta.

Brisa employees’ contribution to environmental protection with their office projects

We continued to raise awareness of the efficient use of resources through the "Green Office" program, initiated in 2014 and driven by Brisa employees. Thanks to the efforts of our Green Office staff, both our Izmit and Altunizade offices received a Green Office Diploma as part of the "Green Office" program, held by WWF-Turkey.

3.2 Occupational health and safety

We continue to work to provide a comfortable and safe working environment for our employees, constantly improving our conditions and investing in innovation.

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Within the scope of Occupational Health and Safety, a cornerstone in our corporate values and our most important priority, our facilities have qualified for OHSAS 18001:2007 Occupational Health and Safety Management certification. Moreover, we endeavor to do even more by complying with the relevant legislation and standards regarding Occupational Health and Safety risks in all our activities.

Within the scope of the Bridgestone Safety Mission Statement, we at Brisa undertake efforts to prevent occupational accidents through awareness-raising activities, systematic approaches, and engineering approaches.

We believe in the immense importance of Occupational Safety training in enabling employees to adopt habits of safe behavior and transform these into a lifestyle.

We utilize the Occupational Safety Simulation Center as an active training ground to ensure "Zero Occupational Accident" at our facilities. We have made it a requirement to have every new employee in our manufacturing areas complete this training. With a view to planning and implementing the training sessions in a more effective manner, we provide our employees with Disaster Prevention (Fire and Earthquake) and Occupational Health and Safety training, within the scope of the activities of BRISA-MEC (Manufacturing Education Center). We are also launching "Basic Occupational Safety Activities."

Accident management issues are constantly on our agenda for such stakeholders as dealers and providers, too.

To prevent the recurrence of any occupational accident, we analyze every accident and prepare action plans to address the findings. We prioritize practical exercises and preventive actions with the aim of being continuously alert in emergency prevention and emergency management.

Our ultimate goal is to create an on-going Occupational Safety culture and turn it into a lifestyle.

Our target is "Zero Accidents!"

Our Curing-1 Department have completed 737 days of zero occupational accident, Product Control-1 Department completing 3073 days, 3rd Maintenance 3107 days, Utility Services Department completing 3382 days of zero occupational accident in Brisa.

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3.3 Human Resources

Administrative Operations

In line with our main strategy of becoming a model workplace, we continue to add value to professional life. We leave our mark for the future by leveraging our employees' Brisa journey with development and leadership programs.

Personnel and Worker Activities

As of December 31, 2016, the number of personnel employed in our company with contracts of indefinite duration is 2,580; 1,957 of these are subject to the Collective Labor Contract provisions, while 611 are outside its scope. Twelve employees are foreign nationals. In addition, 40 people are employed on a fixed-term contract.

Implementation of the Collective Labor Contract

The 19th Collective Labor Contract agreement, of which the negotiations started in November 24, 2015, between the company and the Petroleum, Chemical and Rubber Industry Workers' Union of Turkey (Lastik-İş) is in effect for 24 months, namely from January 1, 2016 to December 31, 2017. And the Collective Labor Contract, belonging to said period, was signed in January 7, 2016. With this agreement, there have been improvements on the employees' salary and social rights.

Employee Benefits and Rights

In relation to the Collective Labor Contract, employees working under and outside its scope are paid, in addition to salary, a bonus worth four months gross salary, Personal Retirement Insurance and health insurance. Those covered by the contract furthermore benefit from fuel, holiday, annual leave, maternity, death, marriage, educational, family-food, and child allowances. All employees receive meal and transportation allowances.

Brisa Family Day

We held the 10th leg of the Traditional Brisa Family Day at the Lastik-İş Social Facilities. An approximate number of 6,500 participants including Brisa employees and their relatives attended the event. While children were enjoying the activities prepared specially for them, the family had a pleasant time during the gift draw which included such prizes as a television, washing machine, etc.

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Our children designed the future cars

As a part of 23rd April National Sovereignty and Children's Day, we organized the event, namely “Would you like your child to design the car of the future?” with the attendance of Brisa Museum’s employees’ children. At the same day, children and their families visited the museum and got informed about Brisa’s history and the journey of tyres. All the designs were exhibited in the Brisa Academy and Museum between April 19 and 23.

On World Women’s Day, “The Women who Design the Future” presented their handicrafts; our business partners supported them

We designed crane-patterned cloth bags on World Women’s Day. We sold the bags in the Brisa Business Partners Meeting and donated the revenue to the "Let the Cranes Fly Forever" project.

We organized our annual review and vision-sharing meeting

The vision-sharing meeting that brought together company executives with employees drew an attendance of more than 500 employees. “The Future is on Our Track” themed meeting started with our CEO’s speech and the executives shared 2015 realization and 2016’s priorities, targets and vision.

“What Happened When You Were Away?” program started for Brisa’s new mothers

We initiated the “What Happened When You Were Away?” program for our women workers who returned to their jobs after maternity leave. As a part of the program, we inform them about the changes in the company and ease the adaptation process after their long break.

Brisa people looked forward to Fridays in 2016

Differently from previous years, we adopted “Casual Friday” days for our employees.

“Safe Driving Techniques” courses were organized for our woman workers

In line with our company's Occupational Health and Safety Policy, we give particular importance to safe driving in traffic which we see as one of our responsibilities. In this context, we give safe driving lessons to our employees with the partnership of Intercity's Istanbul Park Driving Academy. During “Safe Driving Techniques” courses, organized by Brisa Academy, our women employees reinforced their driving experience with practical applications after theoretical presentation.

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We presented "Innovation Competition Awards" organized by Brisa Innovation Team

As a part of Brisa's values, the works for integration and internalizing innovation to company processes ended up with Brisa Innovation Portal (BIP) Competition 2014-2015 Awards.

Brisa Innovation Portal was renewed and our employees said “#dreamandmoveon” (#hayalethareketegeç)

Brisa Innovation Portal (BIP), launched for innovative service and processes that increase user experience, has a new interface. Brisa Innovation Team informed our employees about the use of BIP and the new interface in the launch, themed #dreamandmoveon.

Our works which developed our business processes and determined the standards were awarded in the Suru-Raku Conference

The 12th Suru-Raku Conference, in which Brisa draws attention to standardization and continuous development in work processes, was carried out with a broad participation of Brisa employees and executives. The first ranked project will represent Brisa in Japan.

We evaluated sustainable work strategies on Sustainability Day

We assessed new generation sustainability approach and sustainable work strategies on Sustainability Day, which took place in our Izmit Factory.

3.4 Social Sustainability

We attach particular importance to social development and prosperity. Accordingly, Brisa has undertaken numerous valuable projects to date.

Being a manufacturer and a company with a quarter century of experience, we have realized a large number of social service projects over the years. We specifically give the highest priority to road safety as an area that matches our products. In addition, we prioritize our ability to outreach all walks of society, regardless of whether they pertain to our manufacturing and products, and to add value to various fields extending from education to culture, from sports to knowledge exchange.

We implement projects in different segments to contribute to Traffic Safety and Safe Driving Awareness

We are among the pioneering companies in the industry that have signed the "Traffic Responsibility Action Declaration." We endeavor to raise traffic safety and safe driving

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awareness through the project titled "Bridgestone safety tyre - tread depth and air pressure measurement and information," implemented for drivers of cars and light commercial vehicles; the "Lassa Yola Sağlam Çık" ("Lassa Take Off Strongly") project undertaken for heavy commercial vehicles and farmers; and "Lassa Tarım Sağlamsa Gelecek Sağlam" (Lassa Strong Agriculture, Key to a Strong Future), as part of which we equipped agricultural vehicles with reflectors.

- **Bridgestone "#Emniyetimiziçin2dk" (#2minforoursafety) campaign continues**

As a part of #2minforoursafety campaign, we continued to inform the drivers about road safety between April and December in 2016. We explained the important points for a safe journey by measuring the tread depth and pressure of the tyres. Brisa accomplished the measurement of approximately 40,000 vehicles and reached to 1 million people with the campaign held in Istanbul Yenikapı, Pendik, Sirkeci, Yalova, Bandırma, Bursa Sea Bus piers and Istanbul, Izmir, Bursa, Ankara and Antalya OPET stations.

- **Lassa's strong support to Farmers**

For 70 days, we visited 156 villages in 21 provinces and reached 2,750 farmers within the scope of the "Strong Agriculture, Key to a Strong Future" project, started in 2013. Two agricultural engineers who were assigned as "Lassa Agriculture Consultants" provided farmers with 876 hours of information and consultation services about productivity and agricultural economy in Adana and Konya regions.

Lassa Agriculture Consultants visited farms, coffee houses in villages and agriculture credit cooperations. They paid a visit to 840 farms and determined the wrong applications of the farmers. They reached more than 7,000 farmers by making at least two follow up visits.

We also drew attention to the accidents caused by the inability to recognize tractor-trailers in the dark. Likewise, in previous years, we assembled 4,192 reflectors for free and tallied 14,932 reflector installations since 2013.

Lassa's field engineers explained the correct use of the tyres to nearly 4,000 farmers in 15 different points and Lassa Agriculture Consultants described good agricultural applications during Massey Ferguson Farming Days.

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Contribution to Education and Culture

We support students in their educational endeavors through the income generated from virtual trainings offered at Brisa Academy and the fund we have established with the Brisa Members' Educational Support Association.

Brisa Members Educational Support Association

Founded to support students in need, Brisa Members Educational Support Association (BMÖDD) maintains its activities with voluntary participation of our employees. Our association has supported more than 400 students with scholarships until now and extended support to 81 students in the 2016. Today it gives us great pride to see a total number of 300 students trained in their occupations and gainfully employed as good citizens.

The Brisa Museum continues to attract visitors' attention

With the main theme of "Journey", Brisa Museum, the first in the sector, explains the story of Lassa/Brisa from being an industrial firm to transforming into an innovation company offering products and services.

Besides Brisa history, the fabrication and the anatomy of the tyre, rolling resistance, pressure, balance, the importance of weight and softness, the differences between winter and summer tyres, discharging water and the importance of discharging water are also explained in the Museum.

The Brisa Museum's smart and environmental building provides %20 of its electricity from the solar panels on the roof. Being one of the buildings which have a Leed Gold Certificate, it has over 90 varieties of plants in the garden and watering is sustained by refining

The Brisa Museum, which gets attention from our business partners as well as the people and the students from Kocaeli region, hosted 3000 visitors until now.

Contributions to Sports

Sports Club, our pride and joy.

Besides the achievements in Turkey, our athletes represented our country successfully in the Balkans and Europe in 2016. Additionally, Onur Balkan and Stefan Hristov Koychev, attended the Rio Olympic Games.

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Support to Women’s Cancer Awareness from Brisaspor

While Brisaspor achieves success in the national and international arena, it also takes part in social projects for the society and the environment. Brisaspor's three athletes attended the Bicycle Event for Women’s Cancer Awareness, organized by the Cancer Control Department with the support of the Health Ministry in 2016.

Exchange of information

Our managers speak at conferences and university events, sharing their experiences and knowledge.

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PROPOSAL FOR PROFIT DISTRIBUTION

The company made a “Profit Before Tax” in the amount of **TL 79.945.116,67** according to the financial statements for the period of 01.01.2016-31.12.2016 which are prepared in compliance with the Turkish Accounting Standards pursuant to “Communiqué About Guidelines For Financial Reporting in Capital Market” Serial No II, Article No 14.1 of Capital Markets Board, and are audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member of Deloitte Touche Tohmatsu International).

As described in the following Profit Distribution Table, it was unanimously resolved that all of the Net Distributable Period Profit amounted to **TL 77.045.238,83** remained after deduction of Primary Legal Reserves and Tax Provision in compliance with CMB communiqué and as stipulated by the Article 28 of the Articles of Association, out of the Profit Before Tax, is to be preserved as Extraordinary Reserves by not making it subject to profit distribution, in order to strengthen our Company’s financial structure and to provide additional fund for our investments and is to be submitted for the approval of the Ordinary General Assembly Board Meeting to be held in March 28, 2017.

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CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

PART 1 – DECLARATION OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

As one of the pioneers and leader companies in the Turkish industry, Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. (it is hereinafter referred to as “Brisa” or “Company”), which is aware of its responsibilities that it upholds to its stakeholders, adopts as a principle to comply with the Corporate Governance Principles issued by the Capital Markets Board and the four principles of corporate governance based on transparency, fairness, responsibility and accountability and to make provisions where circumstances require amendments thereof. In the 1 January – 31 December 2016 accounting period, in line with this principle adopted by the Company, Brisa has applied and accommodated “the Capital Markets Board Corporate Governance Principles” set out in the CORPORATE GOVERNANCE COMMUNIQUE No II-17.1 (“the Communiqué”), which has been issued by the Capital Markets Board (“CMB”) and has entered into force upon publication in the Official Gazette dated 3 January 2014 and No 28871.

Brisa has prepared the “2016 Corporate Governance Principles Compliance Report” in accordance with the new format indicated by the Capital Markets Board's Board Bulletin No. 2014/2 published on January 27, 2014.

Brisa;

has taken the required steps in line with the Corporate Governance Principles, and its engagement to compliance thereto as well as all its activities to date have demonstrated awareness of responsibilities towards shareholders and stakeholders;

is well-aware of the advantages of adopting the Corporate Governance Principles and aims to strengthen its compliance with these principles in cooperation with all employees and top management executives;

exercised due diligence in following the mandatory and non-mandatory regulations set out in the Corporate Governance Principles during 2016, published the related detailed reports to inform shareholders and stakeholders on www.kap.gov.tr and the Company’s website, www.brisa.com.tr.

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In this regard;

- The 2015 General Assembly information document has been prepared in detail and published on the company's website three weeks prior to the General Assembly meeting, and thereby submitted for information of the shareholders and stakeholders.
- As stipulated by Article 10 of the Communiqué on Corporate Governance and Article 5 of the CMB's Communiqué on Principles to be Followed by Joint Stock Corporations subject to Capital Market Law (Serial: IV, No: 41), the conclusion of the report on transactions exceeding the thresholds envisaged between the company and its associated parties has been submitted for information of the shareholders through the Public Disclosure Platform and the company's website.
- In accordance with Article 19 of the Capital Market Law No. 6362, the limit of the donation to be granted by the company in 2016 has been fixed as five percent (5%) of the net profit, as approved by the General Assembly.
- Directors and Officers Liability Policy for Board Members and Executives numbered 63280532, that has been issued by Aksigorta A.Ş. effective as of September 21, 2015 in order to insure the damages to the Corporation that may be caused by faults of the board of directors during the exercise of their duties for 25 million US dollars pursuant to Article 4.2.8 of Corporate Governance Principles annex to CMB's Communiqué on Corporate Governance No. II-17.1, has been renewed in September 29, 2016 with the Policy numbered 74067489 for one year period.
- The company has simultaneously and promptly submitted any required information to all investors and analysts in a secure, consistent and regular manner. Moreover, the company has organized investor meetings and sought to reach more investors through press releases and media interviews in order to establish continuous and thorough communications with them.

Acknowledging the importance of full compliance with Corporate Governance Principles, Brisa is committed to follow all the mandatory principles set out by the Communiqué on Corporate Governance No II-17.1. However, challenges faced in implementation of some non-mandatory Corporate Governance Principles, ongoing domestic and international debates concerning compliance with some principles, and incompatibility of others with the market and the company's current structure constituted obstacles to full compliance. The aforementioned principles and justifications for non-implementation thereof are summarized below:

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- As regards the recommendation on “vesting shareholders with the right to request for special audits and adding a provision concerning minority rights in the Articles of Association,” since the company is of the opinion that current Turkish Commercial Code provisions on appointment of special auditors and minority rights are sufficient in this regard, these rights have not additionally been regulated by the Articles of Association.
- Although the company does not have any policy with reference to the recommendation in Article 4.3.9 of the Communiqué, which reads as “Corporation shall determine a target rate provided that it is not less than 25% and a target time for membership of women in the board of directors and form a policy for this target,” due diligence will be exercised in future plans in order to reach this target.
- Besides this, the Corporate Governance Committee assumes obligations of the Nomination Committee and Compensation Committee laid down in Article 4.5.1 of the Communiqué. On another front, although effort is made to comply with the recommendation in Article 4.5.5 of the Communiqué, stating that “any member of the board of directors shall not serve duty on more than one committee,” some Board Members are indeed members of more than one committee due to committee structuring requirements, the number of Board Members, and because of the business expertise required by committee membership.
- In accordance with Article 4.6.5 of the Corporate Governance Principles, remunerations and all other benefits provided to Board Members and Senior Executives are publicly announced via annual reports. However, these disclosures are not released on a personal basis.
- There is no model or mechanism established for participation of stakeholders in the management. Nevertheless, the company and shareholders, as well as stakeholders, are represented by means of independent members taking part on the Board of Directors.

The principles that have not yet been implemented have not caused any conflict of interest among stakeholders to date. Relevant developments are followed, and efforts continue toward compliance.

These efforts will be maintained in the near future by taking into consideration legislation updates as well as practices.

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PART 2 - SHAREHOLDERS

2.1. Investor Relations Department

Our company comprises an **Investor Relations Department** operating to maintain proper relations with current and potential shareholders, protect and facilitate exercise of the shareholding rights, enhance the recognizability of our Company in the capital markets, and ensure required compliance with the Legislation on Capital Markets.

The Investor Relations Department at Brisa operates under Chief Financial Officer, Reşat Oruç, who is also a Member of the Corporate Governance Committee. To fulfill the obligations inflicted from the Company's Capital Market legislation and the coordination in the Corporate Governance applications is provided by, Capital Markets Activities Advanced Level License (License number: 203738) with Corporate Governance Rating Specialists License (License Number: 700270) owner SerafettinKarakis and the Corporate Governance Committee Rapporteur İpek Rakunt, who holds a Capital Markets Activities Advance Level License (License Number 203047), serves as Manager of Investor Relations Department. Another member of the department is Cemal Aydemir.

Contact Persons			
Name Surname	Title	Phone Number	E-mail
Reşat Oruç	Budget and Finance Director	0262 316 57 00	r.oruc@brisa.com.tr
Şerafettin Karakış	Investor Relations Responsible	0212 385 81 64	yatirimciiliskileri@brisa.com.tr
İpek Rakunt	Investor Relations Manager	0262 316 56 06	i.rakunt@brisa.com.tr
Cemal Aydemir	Investor Relations Specialist	0212 385 84 67	c.aydemir@brisa.com.tr

Among the duties of the Investor Relations Department are ensuring exercise of shareholding rights, reporting to the Board of Directors, and providing communication between the Board of Directors and shareholders. The primary activities carried out by the Department within the period are as follows:

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- It has been ensured that correspondences exchanged between investors and the Company, records of other information and documents are kept properly, securely and up-to-date, and transactions within the Central Registry Agency have been coordinated;
- Requests for company-related information—with the exclusion of confidential information and information of a trade secret nature—received by the Department during the financial year have been answered clearly and explicitly in person or via communication means in line with the Company’s Disclosure Policy;
- It has been ensured that this year's Ordinary General Assembly meeting was held in compliance with the applicable legislation, the Articles of Association and other internal regulations;
- Practices have been developed to facilitate participation of the shareholders in the General Assembly and enhance the communications during the meeting. Informative documents have been prepared for shareholders to reference during the General Assembly meetings; the website has been updated continuously to provide shareholders with uninterrupted access to clear information about the company;
- In addition to disclosures released as per legal requirement, communication with the public has been coordinated and interviews have been held with investors and analysts with an eye to observing and monitoring the fulfillment of obligations arising out of the Legislation on Capital Markets including all kinds of matters concerning corporate governance and public disclosure. Conferences and roadshows organized by intermediary institutions have been well attended.

The company’s performance in providing detailed information to investors within 2016 is given with numbers in the table below:

Number of investors interviewed in conferences and meetings	52
Number of investors and analysts interviewed face to face	14
Number of teleconferences related to financials	4

The Investor Relations Department operating under Chief Financial Officer and establishing communication between company stakeholders and investors prepared an annual report on activities conducted in 2016 and submitted to the Board of Directors on February 21, 2017, pursuant to Article 11 of the Communiqué on Corporate Governance numbered II-17.1 issued by the Capital Markets Board.

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In 2016, the company released 25 material event disclosures through KAP (Public Disclosure Platform) in accordance with CMB's regulations. These disclosures have been released in a timely manner. Therefore, CMB or BIST have not imposed any sanctions.

Finally, the “Corporate Intermedium Contract Regarding Central Registration System” was signed by and between Ak Yatırım Menkul Değerler A.Ş. and the company on February 10, 2009. This contract stipulates fulfillment of issuer operations under the Central Registry Agency and related services to be provided to company shareholders. The Contract was in effect in 2016, as well.

2.2. Shareholders' Right to Obtain Information

The Corporate Disclosure Policy requires that all shareholders, potential investors and analysts be treated equally with regard to the right to obtain and review information, and that same disclosures are accessed by everyone. All information is shared within the scope of reports previously disclosed to the public. All matters concerning the public disclosure obligation are presented in compliance with legislation and the Articles of Association. Within this scope, material event disclosures, which are of importance for investors, are released to the public through KAP (Public Disclosure Platform) and published on the Company’s website, all in a timely manner and in compliance with legislation.

In 2016, written and mostly verbal information requests have been transmitted by shareholders via telephone, E-mails, and face-to-face conversations. These information requests were particularly relevant to the General Assembly meetings held within previous activity period, as well as the capital increase and profit share/dividend payments in previous years and the Company’s investments. These requests have been answered meticulously by the Investor Relations Department within legal framework and without any delay. For this purpose, the information that would be of concern to shareholders has been disclosed on the website (www.brisa.com.tr) within the mandatory notification time frames.

The company’s annual report is published on its website. In addition, interim financial statements, material event disclosures and announcements for shareholders issued are available on the website.

In 2016, no information or disclosure that could affect shareholders' exercise of their shareholding rights was published on our corporate website.

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The Articles of Association do not define appointment of a special auditor as a right. Since Article 438 of the Turkish Commercial Code grants each shareholder of the joint stock companies the aforementioned right, it was not deemed necessary to add any provision into the Articles of Association in this regard. No request has been received with respect to appointment of a special auditor for the company during the financial year.

The company's activities are regularly and periodically audited by the Independent Auditor appointed by the General Assembly. Independent auditing for 2016 was performed by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Deloitte Touche Tohmatsu Limited).

2.3.General Assembly Meetings

Regulations concerning Brisa's General Assembly meetings are available on the corporate website in the document titled "Internal Regulations on the Working Principles and Procedures of Brisa's General Assembly" under the "Information Society Services" category. Additionally, disclosures and documents that should be shared with the public through KAP prior to and after General Assembly meetings, as required by law, are also presented under the "Investor Relations" tab on the company's website.

Brisa's 2015 Shareholders Ordinary General Assembly meeting was held on Friday, March 25, 2016 at the company headquarters, namely at Istanbul, Beşiktaş, 4. Levent, Sabancı Center Sadıka Ana 2 Toplantı Salonu, under the supervision of the Ministry's Representative Orhan KARABEY appointed by decree number 14785919 dated March 23, 2016 issued by the Provincial Directorate of Commerce of Istanbul Governorate. Shareholders participated in the Ordinary General Assembly meeting in a physical and electronic environment, personally and/or by means of their representatives.

The invitation to the General Assembly meeting, as well as its agenda and date, were published in the Turkish Trade Registry Gazette No. 9022 dated March 1, 2016, on the Public Disclosure Platform website www.kap.gov.tr, on the E-General Assembly System of the Central Registry Agency, and on the company's website www.brisa.com.tr as stipulated in the Code and in the Articles of Association. This was performed minimum three weeks in advance of the General Assembly meeting via all kinds of communication means, including electronic communication, which would ensure that as many shareholders as possible were informed, in addition to legally stipulated procedures.

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The annual report comprising the audited 2015 figures, financial statements and reports related to 2015, profit distribution proposal, information note on agenda items of the General Assembly meeting, and other supporting documents related to agenda items have been submitted for reviews of the shareholders at our Istanbul headquarters, on our website and at KAP 21 days prior to the General Assembly meeting date. Questions with respect to these documents have been answered accordingly.

In order to ensure shareholders' representation at the General Assembly, the Electronic General Assembly System was used and the power of attorney form certified by a public notary as stipulated by Capital Markets Board's Communiqué No II-30.1. This form is available for inspection at the company headquarters and on the company's website. Shareholders, whose shares are monitored by the Central Registry Agency on a dematerialization basis, have the right to participate in General Assembly meetings in person or may send representatives authorized under public notary-certified powers of attorney. Shareholders also have the right to participate in the General Assembly meeting via Electronic General Assembly System using their secure electronic signatures. Thus, due diligence has been exercised for equal, cost-efficient and easy participation by shareholders. Prior to the General Assembly meeting, the shareholders, the Capital Markets Board and/or other public institutions and organizations in relation with the Company did not propose any additional agenda item.

Of 30,511,687,500 shares corresponding to company's total capital amounting to TL 305,116,875.00; 21,231,446.3 shares corresponding to the capital amounting to TL 212,314.46 have been represented by acting as principal, and 27,445,795,057.2 shares corresponding to the capital amounting to TL 274,457,950.57 have been represented by acting as representative at Brisa's Ordinary General Assembly meeting. Rate of participation to the General Assembly was 90.02%.

Board Members, the Company's Auditor, General Manager, Chief Finance Officer and the personnel involved in charge of meeting preparations attended the General Assembly meeting. However, stakeholders or news media did not take part in the meeting.

The main agenda articles of this meeting comprised the following: briefing on the 2015 Annual Report and Auditor's Report, discussions on and approval of the financial statements, approval of the assignments due to the resignations at the Board of Directors, discharge of obligations of the Board Members, planning how to use the 2015 profits and determining the distribution procedure/dividend ratios, informing about the 2015 donations and aids,

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determining the donation limit for 2016, appointment of auditor, and giving permission to the Chairperson of the Board and Board Members to carry out transactions referred to in Articles 395 and 396 of the Turkish Commercial Code.

At the General Assembly meeting, it was submitted for information of the shareholders that the total amount of donations in 2015 was TL 1,010,643. It was resolved, by a majority of votes cast by meeting participants, that the upper limit of donations to be granted by the company in 2016 shall be 5% [five per cent] of the company's net profit. Shareholders were given the chance to declare their opinions and ask questions under equal conditions at the General Assembly meeting. During the General Assembly meeting, shareholders did not bring forward any item or proposal outside the agenda, nor did they ask any questions to Corporate Management.

At the General Assembly meeting, no proposals have been submitted by the shareholders, except for the articles of the agenda.

Minutes of the General Assembly meeting were published on KAP, the Turkish Trade Registry Gazette, and the Electronic General Assembly System. In addition, any announcement, document and paper concerning the General Assembly meeting was uploaded to Brisa's website for information of the shareholders and stakeholders.

No Extraordinary General Assembly meeting was held in 2016.

2.4 Voting Rights and Minority Rights

According to the Articles of Association, each shareholder may vote only once at General Assembly meetings, without any privilege in voting rights.

With a view to preserving and maintaining the Company's harmonious management structure, no regulation regarding granting cumulative voting rights in the current shareholding structure and in the current shareholding ratios was added to the Articles of Association.

The Company is not engaged in any cross-shareholding relationship with another company.

In the Articles of Association, there is no provision concerning representation of minority shareholders and stakeholders in the management. However, at the Board of Directors, two

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Independent Board Members take part in order to represent all shareholders (particularly minority shareholders) and stakeholders equally.

Brisa attaches importance to exercise of minority rights in compliance with provisions of the Turkish Commercial Code and regulations issued by CMB. In 2016, no complaints were received with respect to this matter.

2.5. Dividend Right

As required by the Articles of Association, Hacı Ömer Sabancı Foundation holding 100 usufruct shares has privilege in the profit. These privileges are calculated as per the Articles of Association provisions.

According to the Profit Distribution Policy approved at Brisa's Ordinary General Assembly meeting on March 21, 2014, profit distribution has been determined within the framework of the Turkish Commercial Code provisions, the Legislation on Capital Markets, the relevant article of the Articles of Association on legislation and profit distribution, and also according to Brisa's medium- and long-term strategies as well as investment and financial plans. The policy considers the current situation of the national economy and of the sector, and likewise strikes a balance between shareholders' expectations and Brisa's needs.

According to the resolution taken at the General Assembly meeting, the amount of profit share to be distributed shall be determined and a profit share in cash (at the rate of 30% of the distributable profit) shall be distributed among shareholders.

Brisa does not distribute dividend advances.

It is adopted that profit shares shall be distributed to all current shares equally and within the shortest period of time, regardless of their dates of issuance and acquisition. However, they shall be distributed among shareholders on the date fixed by the General Assembly within statutory terms.

The General Assembly may transfer net profit entirely or partially to the extraordinary reserve fund. If Brisa's Board of Directors proposes the General Assembly to not distribute the profit, during the General Assembly meeting shareholders shall be informed about the reasons thereof and how undistributed profit shall be utilized. This information shall also be shared publicly through annual report and via website.

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The Profit Distribution Policy is submitted for approval of shareholders at the General Assembly meeting. This Policy is reviewed every year by the Board of Directors, taking into consideration any setback in the national and global economic conditions as well as current situation of ongoing projects and funds. Any amendments to this Policy shall be submitted for approval of the shareholders at the next General Assembly meeting following the amendments and disclosed to the public via the website.

The Profit Distribution Policy and proposal for distribution of annual profit are available in the annual report, shared with shareholders at the General Assembly meeting, and publicly announced via the “Investor Relations” page on our website.

At the 2015 Ordinary General Assembly Meeting, the Board of Directors’ proposal (dated February 29, 2016) for distribution of profit was accepted, and it was resolved that the profit share/dividend payments start on March 29, 2016. According to 2015 financial results, the company distributed TL 166,929,486.64 worth of profit shares in total, of which TL 157,013,143.88 was distributed to shareholders and TL 9,916,342.76 to Hacı Ömer Sabancı Foundation holding usufruct shares. Board members were not paid any profit share/dividend

2.6. Transfer of Shares

As elaborated under Article 31 of the Articles of Association, transfer of the registered shares held by the controlling shareholders, namely Hacı Ömer Sabancı Holding A.Ş and Bridgestone Corporation, is subject to certain limitations. In brief, any controlling shareholder intending to transfer shares shall offer them firstly to the other controlling shareholder. The controlling shareholders may not transfer their shares to third parties in actual or potential competition with either Sabancı Holding or Bridgestone, or with their affiliates or subsidiaries, by engaging in the same or similar lines of business as theirs.

The Articles of Association do not include any provision limiting transfer of shares by other shareholders.

PART 3 - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Web Site and the Contents thereof

Our company’s corporate website address is www.brisa.com.tr.

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In addition, within the framework of the principles and procedures concerning creation of websites, and for allocation of a certain part of these sites for publication of announcements to be made by the company as required by law and for the information society services pursuant to the “Regulation on Web Sites Created by Corporations” and the first paragraph of Article 1524 of the Turkish Commercial Code, our company receives Central Database Service Provider support services from the Central Registry Agency (CRA). Announcements to be published by the company as required by law are accessible through CRA’s “e-Company, Companies Information Portal.”

For public disclosure purposes, in order to maintain relationships with the shareholders more effectively and rapidly, and communicate with the shareholders continuously, the company’s website is used actively within the framework of the Corporate Governance Principles.

Information available on Brisa’s website may not substitute material event disclosures and notices required by the Legislation on Capital Markets. All public disclosures of Brisa are accessible through its website configured and organized accordingly and secured with all possible measures. The company’s website is reviewed and revised within the framework of the section titled “2.1. Corporate Website” within the reference Corporate Governance Principles, as part of the CMB’s Corporate Governance Communiqué No II-17.1. The website provides access to information and documents stipulated by legislation. Previously initiated efforts toward translation of the website content in Turkish into English are underway. Annual financial statements, Annual Reports and other similar documents are also available in English. Announcements and agendas of the General Assembly meetings, information documents related to the agenda, other information, documents and reports related to the agenda, and participation methods of the General Assembly in particular are clearly presented on the website. Our website is improved on a regular basis.

Important website content is outlined below:

- Detailed information regarding corporate identity
- Mission, vision, corporate values, ethical rules and main strategies
- Information on board members and senior management
- Organization and shareholding structure of the company
- CMB Material Event Disclosures
- The Articles of Association
- Trade registry information

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- Financial information
- Press releases
- Announcements on the date, agenda and agenda topics of General Assembly meetings
- General Assembly internal directive
- Minutes of General Assembly meetings, and list of participants
- Corporate Governance practices and compliance report
- Profit Distribution Policy
- Disclosure Policy
- Donation and Aid Policy
- Anti-Bribery and Anti-Corruption Policy
- Remuneration Policy

The website management principles are provided in our “Disclosure Policy.”

3.2. Annual Report

The Brisa Annual Report is prepared in detail to enable public access to reliable information about the company’s activities in a complete and timely manner in compliance with “Regulations on Determining the Minimum Content of Companies’ Annual Reports” issued by the Ministry of Customs and Trade and entered into force upon publication in the Official Gazette dated August 28, 2012. The terms are stipulated in the CMB’s Communiqué No II-14.1 on “Principles of Financial Reporting in Capital Markets,” the Turkish Accounting Standards/Turkish Financial Reporting Standards (TMS/TFRS), formats determined by CMB, and the Corporate Governance Principles. Unless the Board of Directors resolves, under a separate statement of responsibility, that it shall be disclosed after financial statements, it is disclosed to the public along with financial statements via KAP and the Company’s website (www.brisa.com.tr).

In addition, quarterly bulletins and financial statements are published on KAP and the Company’s website. Annual report is also available in printed form, ready to be shared with relevant parties.

Within this framework, the Brisa 2015 Activity Report was presented to our shareholders at company headquarters via the Central Registry Agency’s (CRA) Electronic General Assembly portal and on the company’s website for three weeks prior to the 2015 Ordinary General Assembly meeting as stipulated by the Turkish Commercial Code, relevant

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regulations and Capital Market Law. The Activity Report was then subsequently read and discussed at the Ordinary General Assembly meeting of March 25, 2016.

PART 4 – STAKEHOLDERS

4.1. Informing Stakeholders

Employees, customers, suppliers, trade unions, NGOs, the state, potential investors and similar parties who work directly with the Company are regarded as stakeholders. Recognizing the long-term benefits of close cooperation with stakeholders, the Company endeavors to respect and protect their rights as derived from legislations, bilateral agreements and contracts.

Brisa's stakeholder information process is based on the Information Policy, issued on December 25, 2014 by the Investor Relations Department and published on the Public Disclosure Platform www.kap.gov.tr and www.brisa.com.tr. Within the scope of the Disclosure Policy, information that does not constitute trade secrets is shared with stakeholders in line with the principle of transparency, through public announcements, the media, press meetings and similar activities.

Company employees are provided with information both specific to their respective field and about general topics through email, and activities such as meetings, seminars and trainings. The Company has also established an information portal where employees can access all information or documents relevant to their tasks.

Recognizing the importance of dealers as the most important points of contact with the customer, the Company has developed an online "Dealer Information System". Moreover, a dealer database management system has been created to provide dealers with the ability to manage their communications with their employees and corporate clients. These systems are complemented by a series of advanced support systems, including the Dealer Automation System developed to assist dealers in managing their operations in a more professional manner, the Guarantee System (e-Guarantee) offering end users services and information about our products, and "Customer Application Management" used primarily by the call center in order to meet customer requests concerning the Company's products, services, systems, and methods. All flow of information towards dealers and users is carried out in an integrated manner with Brisa's CRM Model, and the Company also organizes general and regional meetings with dealers to facilitate sharing of information.

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Suppliers working directly with the Company are provided with information mainly through the procurement portal (OSAT), as well as various events such as meetings, visits and notifications.

The Company has adopted a code of conduct to protect the rights of its stakeholders. Stakeholders can contact the Ethics Board of our main partner, H.Ö. Sabancı Holding via email to etik@sabanci.com or calling (212) 385 85 85, or directly contact Nilgün Özkan, Brisa Ethics Consultant, Human Resources and Corporate Development Director at (262) 316 58 00. The Audit Committee and/or Corporate Governance Committee are also informed as necessary.

4.2. Stakeholder Participation in Management

There is no established model or mechanism regarding stakeholder participation in management. However, the presence of independent members on the Board of Directors allow all stakeholders, and not only the Company or its shareholders, to take part and be represented in the management.

Shareholders participate in the management during the General Assembly, and they are given equal opportunity to voice their opinions and make inquiries. All Board members elected in a vote at the General Assembly, participated by all stakeholders.

The Company implements a governance model that promotes employee participation in key policy-making processes, dissemination of policies within the Company to inform goals, implementation of planned practices, and review of implementation results to ensure continuous improvement.

White-collar employees take part in management through periodical meetings as well as annual goal-setting and performance evaluation meetings. An Employee Loyalty Survey is used to measure loyalty and satisfaction among both white- and blue-collar employees, and results obtained from the survey is used to develop action plans in areas of opportunity. Additionally, employees provide feedback to their colleagues and management through a 360-degree feedback model, where results are evaluated in various management meetings to inform action plans to bring about the necessary change. These methods enable employees to participate in and contribute as necessary to ensure efficient governance.

Any changes in the working conditions, working environment, employee benefits and similar matters concerning blue-collar workers are discussed in meetings with participation from such employees as well as the Lastik-İş Trade Union.

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Open channels of communications are maintained with all other, non-employee stakeholders (customers, suppliers, etc.), and topics discussed at meetings with such parties are taken into consideration in policymaking.

4.3. Human Resources Policy

Together with our Human Resources, Corporate Development and Working Principals, we add value to our vision of “creating the journey ahead together as the Brisa Family” in the light of our mission, vision, business ethics, excellence and social responsibility. We “leave a mark on life” together with all our stakeholders. Our policy supporting and sustaining our mid and long term business targets is to create a workplace aware of its social responsibilities, where people are proud and happy to work. This philosophy ensures work harmony and sustainability, emphasizes occupational health and safety, ethical values and fair approach, and thus becomes “the most preferred workplace.” Moreover, we want to sustain this labor environment with employees willing to take initiative because of their innovative competencies and strong desire to succeed. These are our “pioneers” who are open to transformation and development.

In order to manage our relations with the blue-collar workers, we co-operate with our employee Ersin Aytakin who is the Kocaeli Branch Board Member of Lastik-İş Trade Union, and workplace trade union representatives Barış Bülent Günel (Chief Representative), Şakir Yılgin, Yusuf Cengiz Sevim, Melkan Kandemir, Akın Giray and Remzi Gürgün. Representatives handle the relations with the workers, while the Branch Board member manages relations with the Representatives and the Branch Management.

Within the framework of our company’s Human Resources Policy, we adopted the principle of “Providing Equal Opportunities to People with Equal Conditions.” The company is committed to treating all employees fairly, respecting their religious, linguistic, ethnical and gender differences, and taking measures to protect them against mistreatment. The company has equal opportunity policies and avoids employing or forcing child labor. Our compliance is hand in hand with related laws, regulations, workplace legislation and our ethical rules in the field. Before and during 2016, we have received no complaints of discrimination.

The job descriptions, distributions, performance and rewarding criteria of personnel are announced corporate-wide. Efficiency is taken into account when determining wages, raises and other benefits.

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Brisa, like other Sabancı Holding companies operating domestically and internationally, respects and complies with local law and private law arrangements such as collective labor contracts in the industry. The company shows due diligence from the beginning until the termination of the labor agreement in an attempt to protect all rights and pay the receivables of employees.

4.4. Codes of Conduct and Social Responsibility

Codes of Business Conduct have been formed, put into effect, and released for public attention on our website. Employees have been informed about the Codes via intra-company communications platforms, manuals, and trainings. Moreover, employees are updated via e-information programs and reinforce their commitment to the Codes by signing the “Business Conduct Compliance Declaration.”

Brisa Sustainability Policy has been announced to share and deploy Brisa sustainability approach to stakeholders in all BRİSA’s operations.

Our prior responsibilities at social dimension of the policy have been showed below.

SOCIAL

Human Rights

- Respect and support International Human Rights and take responsibility to prevent violations
- Increase awareness against all kind of violations including family violence

Occupational Health and Safety

- Recognize Health and Safety primarily

Customer Health and Safety through Products and Service lifecycle

- Give priority to customer health and safety through product and service lifecycle
- Share information about health, safety and environmental impact of our products and services with our customers systematically and transparently

Anti-Corruption and Anti-Bribery

- Recognize anti-corruption and anti-bribery as our principal responsibilities
- Review our processes by considering anti-corruption and anti-bribery

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Business Beyond Legal Arrangements

- Maintain method of doing business beyond full compliance of legal requirements
- Confirm transparency, fairness, responsibility and accountability principles in corporate governance

Information Security

- Protect information confidentiality, integrity and accessibility and increase awareness

Employee Rights

- Maintain the business ethics guidelines (SA-ETİK)
- Recognize equal opportunity is one of the fundamental part of social sustainability
- Ensure women participation in business life equally and actively, and increase women employment
- Support the elimination of all forms of forced and compulsory labor and the effective abolition of child labor
- Respect and recognize our employees' rights of organization, unionization and collective bargaining, which are most fundamental rights emanating from the constitution and international agreements
- Avoid discrimination in recruitment
- Take responsible attitude in balancing work and private life for our employees

Development Journey

- Become employer of choice
- Carry out corporate and individual performance evaluation process by deploying strategies and targets to organization and employees
- Create a participative working environment by being best practices with our corporate development approaches

Stakeholder and Society Relations

- Communicate transparently, participatively and based on mutual trust with our stakeholders in all our operations
- Manage our social, environmental and economic impacts with stakeholders proactively
- Embrace the understanding of social responsibility management based on stakeholder expectations which are reflected on our business manner, culture and values

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- Shape and diversify our contribution to society based on our social responsibility strategies
- Promote and spread sustainability approach

Brisa’s 2016 social responsibility projects within the framework of corporate citizenship are listed under “Social Sustainability” heading.

Brisa is responsive to its social responsibilities and abides by environmental, consumer and public health regulations as well as codes of conduct. The company supports and respects universal human rights. Complying with Corporate Governance Principles Article 3.5.2., Brisa created the Anti-Bribery and Anti-Corruption Policy in 2015 and released it to the attention of stakeholders on (www.brisa.com.tr). Brisa, struggles for any kind of malpractice including bribery and corruption within this policy.

PART 5 – BOARD OF DIRECTORS

5.1. Structure and Composition of the Board of Directors

The Board of Directors observes the compatibility of corporate activities with legislation, the Articles of Association, internal regulations and determined policies. The Board represents and directs the company by observing its long-term interests in taking decisions with full consideration of risks, growth, and profits of the company.

The company is represented and directed by a Board of Directors which was established in accordance with the provisions of Turkish Commercial Code and Capital Market Legislation. The Board is composed of at least eleven (11) members elected in the Ordinary General Assembly meeting of 2014 held on March 23, 2015 to serve until the Ordinary General Assembly meeting of 2017 to be held in 2018.

The Articles of Association does not specify minimum qualifications for members of the Board of Directors. However, the required qualifications for members of the Board of Directors overlap with relevant articles in the Capital Markets Board’s Corporate Governance Principles.

The Board of Directors is composed of both executive and non-executive members. A greater part of the board membership is non-executive as defined in the Corporate Governance

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Principles. Among non-executive members are two independent members who can perform their duties under no influence. The members of the Board of Directors are elected by General Assembly in accordance with Corporate Governance Principles.

Within the framework of Capital Markets Board’s Corporate Governance Principles article 4.3, amendments have been made to the Articles of Association, which now allows independent members on the Board of Directors. Independent members of the Board of Directors were determined by approval of the independent members’ candidate lists comprising two persons in the Ordinary General Assembly meeting on 23 March 2015, in accordance with the Board of Directors resolution No. 2015/06 dated 25 February 2015. Upon their nomination for independent membership, independent members of the board declare to the Board that they embody the criteria of independence. During the term in question, no incidence was reported risking the independence of the independent members of the board of directors.

The maximum term of office for the members of the Board of Directors is three years. Members whose term of office has expired can be reelected. In cases where a position becomes vacant for any reason, the Board of Directors appoints a new member for the position, which they submit for the approval of the General Assembly. This member completes his predecessor’s remaining term of office.

In accordance with Board of Directors resolution No. 2016/12 dated March 29, 2016, Zafer Kurtul was assigned to the vacant position of the membership of Board in replacement of Güler SABANCI, who resigned from her positions “Chairman” and “Member of Board”, to serve for the remaining term, effective the same date as per Article 12 of the Articles of Association and this change would be submitted to the approval of the Shareholders Board in the first General Assembly Meeting. Again with the same resolution, assignment of duties was carried out as per the Article 366 of the Turkish Commercial Code and as a result, Zafer KURTUL was elected as the Chairman of Board and Mitsuhiro SHIMAZAKI as Vice-Chairman.

Again in accordance with Board of Directors resolution No. 2016/18 dated April 21, 2016, Mehmet Hacıkamiloğlu was appointed as member of the Board of Directors in lieu of Mehmet Nurettin Pekarun, to serve for the remaining term, starting from the same date as per Article 12 of the Articles of Association and this change would be submitted to the approval of the Shareholders Board in the first General Assembly Meeting.

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The members of the Board of Directors as of December 31, 2016, along with their types of membership are as follows:

Name and Surname	Type of Membership	Title
Zafer Kurtul	Executive	Chairman of the Board
Mitsuhira Shimazaki (*)	Non-executive	Vice-Chairman of the Board
Mehmet Hacıkamiloğlu	Executive	Board Member
Mustafa Bayraktar	Non-executive	Board Member
Barış Oran	Non-executive	Board Member
Frederic Jean Hubert Cecile Hendrickx	Non-executive	Board Member
Mübin Hakan Bayman	Non-executive	Board Member
Ahmet Yiğit Gürçay	Executive/General Manager	Board Member
Kazuto Sembu (*)	Executive/Executive Coordinator	Board Member
Hasan Cihat Erbaşol	Non-executive	Independent Board Member
Hüsnü Paçacıoğlu	Non-executive	Independent Board Member

(*) In accordance with Board of Directors resolution No. 2017/01 dated January 2, 2017, Laurent Dartoux was assigned to the vacant position of the membership of Board in replacement of Mitsuhira Shimazaki, who resigned from his positions “Vice-Chairman” and “Member of Board”, Makoto Hashimoto was appointed as member of the Board of Directors in lieu of Kazuto Sembu, to serve for the remaining term, effective as of January 1, 2017 as per Article 12 of the Articles of Association and this change would be submitted to the approval of the Shareholders Board in the first General Assembly Meeting. Again with the same resolution, Makoto Hashimoto was nominated as Vice-Chairman and was also assigned as the new Member of both of the Corporate Governance Committee and the Early Identification of Risk Committee instead of Kazuto Sembu and undertake his duties in these Committees effective from January 1st, 2017.

There is no provision restricting the members of the Board of Directors from taking up extra-company positions. CVs and extra-company positions of members of the Board of Directors are contained in the activity report with in-group and out-group distinction.

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Although the company does not have any policy with reference to the recommendation in Article 4.3.9 of the Communiqué, which reads as “Corporation shall determine a target rate provided that it is not less than 25% and a target time for membership of women in the board of directors and form a policy for this target,” due diligence will be exercised in future plans in order to reach this target.

5.2. Operating Principles of the Board of Directors

As indicated in the Articles of Association, the Board of Directors convenes as much as is necessitated by the company’s dealings and proceedings. However, holding a meeting every three months is compulsory. The Board of Directors convenes by invitation of the Chairperson or Vice-Chairman. The Board of Directors meetings can be held either at home or abroad with the attendance of its members. The resolutions of the Board of Directors are taken both in Turkish and in English.

The agenda of the Board of Directors meetings is set following the Chairperson’s negotiations with the existing members and General Manager. To make sure that the agenda is set before the meeting, the call for meeting is announced at least 10 days before the meeting via E-mail, registered letter, or signed fax. All members prioritize attendance at every meeting and share opinions in these meetings. However, this procedure can be ignored in emergency situations. Under such circumstances, at least eight (8) members of the Board of Directors are necessary for starting the meeting. The meeting date is determined by decision of the Board of Directors. When the Chairman or Vice-Chairman of the Board of Directors does not call for the meeting, the members can also assume ex-officio authority for a call upon written request by one member. Under circumstances where no member requests a meeting, the Board resolutions can be taken when one member’s written suggestion on a specific issue is approved by at least other seven (7) Board members via written statement, which means approval by a total of at least eight (8) members as stipulated in Turkish Commercial Code Article 390 (4).

The Board of Directors held 33 meetings in 2016, of which four were face-to-face meetings and 29 were meetings convened upon the written approval of members in accordance with Turkish Commercial Code and Articles of Association decrees. The decisions were taken unanimously; Corporate Governance Principles were also observed.

Each member of the Board of Directors has a single vote. The Articles of Association stipulate that at least 8 out of 11 members should cast affirmative vote for decisions to be ratified.

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Members of the Board of Directors did not present any opposing views to the resolutions of the Board in the 2016 meetings. Given the absence of any questions by the members regarding the matters at hand, these questions were not recorded into minutes.

No weighting vote is given to any member of the Board of Directors.

In accordance with the Article 10 of Capital Markets Board's Corporate Governance Communiqué with the serial number II.17.1., when the total amount of common and continuous transactions between our company and the related parties in a financial year is expected to reach at least 10 % of the proportion of the amount of sales costs as contained in the latest yearly financial tables publicly released in purchasing operations, of the amount of revenues as contained in the latest yearly financial tables publicly released in sales operations, it is necessary to prepare a report regarding the terms of the transactions and their comparison with market conditions, and to release the report or concluding part thereof.

Within this framework, the report "Planned Operations with the Related Parties" was prepared in the 2016 financial year and approved by resolution No. 2016/15 of the Board of Directors dated 7 April 2016. The conclusion part of the report was announced on Public Disclosure Platform.

Accordingly, "The purchase of goods (rubber) between Brisa and the affiliated institution Bridgestone Singapore Pte. Ltd in 2015 has been performed in accordance with market conditions and its counterparts. In a similar vein, the transactions with the affiliated institution in 2016 will be performed in accordance with market conditions as planned in the Company's budget."

During the relevant term, there existed no transactions with the related parties and no transactions of an important nature as submitted for the approval of the independent members of the board of directors. In addition, no unapproved transactions emanating from all these and submitted for the approval of the General Assembly were recorded.

The Board of Directors' management rights and representation authority are defined in the Articles of Association.

In accordance with the Communiqué article 4.2.8, any faulty conduct by members of the Board of Directors in the exercise of their duties and any damages by these persons to the company are insured within the framework of Aksigorta A.Ş. "Directors and Officers

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Liability Insurance Policy” numbered 63280532 with an insurance coverage of up to 25 million American Dollars and it has been renewed in September 29, 2016 with the Policy numbered 74067489 for one year period.

5.3. The Number, Structure, and Independence of the Committees Formed within the Board of Directors

In accordance with Capital Market Legislation, Capital Markets Board regulations, and Corporate Governance Principles, Committee Responsible for Auditing (i.e. Audit Committee), Corporate Governance Committee, and Early Identification of Risk Committee were established to help the Board of Directors exercise duties and responsibilities properly. Moreover, the duties of “Nomination Committee” and “Compensation Committee” as mentioned in the Communiqué article 4.5.1 have been assumed by “Corporate Governance Committee.”

The decisions of the committees, which are taken as a consequence of studies carried out independently, are submitted to the Board of Directors as mere suggestions. The final resolution is taken by the Board of Directors.

The Board of Directors is structured in accordance with the Corporate Governance Principles Communiqué. Although the Communiqué article 4.5.5 advises that “any member of the Board of Directors cannot take part in more than one committee,” an instruction seriously considered by the Board, some Board members take part in more than one committee depending on the number of members on the Board, the necessities of the committee structuring, and expertise necessitated by a specific committee membership. In this respect, due to the fact that the Audit Committee has to be completely composed of independent members of the Board and that other committee’s chairmen have to be independent members of the Board, Hüsni Paçacıoğlu currently serves on all three committees at the same time. In addition, Hasan Cihat Erbaşol serves as the chairman of Audit Committee and as a member of the Corporate Governance Committee. In a similar vein, Barış Oran and Kazuto Sembu (Makoto Hashimoto since January 1st, 2017) serve as members on both Corporate Governance Committee and Early Identification of Risk Committee.

The Committees have carried out their works regularly since the day of their establishment.

No conflicts of interest were reported in the committees in year 2016.

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Detailed information about the committees formed within the body of Board of Directors is provided below:

Audit Committee

The Audit Committee was established upon the resolution of the Board of Directors dated March 21, 2003, in accordance with article 28/A added by the Communiqué with Serial: X and No. 19 to the Independent Audit in Capital Market Communiqué with Serial: X and No. 16 of Capital Markets Board. The responsibilities of the Audit Committee include informing the board of directors of the corporate accounting system, financial reporting, financial information released to the public, the activities of the internal audit department, the functions and activities of the internal control system with independent audit; supporting the company's compliance with Capital Markets Board Legislation as well as other relevant legislations and laws, Corporate Governance Principles and Code of Business Conduct; and monitoring all relevant processes on these issues.

In meeting number 2016/13 on March 29, 2016, the Board of Directors decided the below-mentioned members of the Board of Directors to be elected to the Audit Committee and the aforementioned committee to be authorized with the duties described in the Capital Markets Board's Communiqué with Serial: X and No. 22.

Name Surname	Title	Board Member Status
Hasan Cihat Erbaşol	Chairman	Independent Board Member
Hüsnü Paçacıoğlu	Member	Independent Board Member

The audit committee is composed of members who have no direct executive functions, carry the title of independent member on the board of directors, and have sufficient knowledge and expertise in financial matters. The chairman and member of the audit committee are appointed by the Board of Directors. The internal audit department acts as the rapporteur of the audit committee. Funds and any other support necessary for the functioning of the committee are provided by the Board of Directors.

The committee convenes every three months at least, which means at least four times a year, and records the conclusions of the meeting in minutes later reported to the Board of Directors. The Committee generally reviews the works of the Internal Control Department and Independent Auditing Firm, audits financial statements, and examines any violation of business conduct and code of behavior in these meetings.

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The Audit Committee convened four times over the course of 12 months in 2016 and submitted a report to the Board of Directors regarding the authenticity and accuracy of the financial statements to be released to the public. Moreover, the Audit Committee convened with the internal control department four times in 2016 to approve the auditing schedule, to examine internal audit reports corresponding to eight business processes, and to discuss competence of the internal control system.

Main activities performed by the Audit Committee in 2016 are as follows:

- Tracking the company’s financial and operational activities,
- Monitoring and approving the authenticity, accuracy, and congruity of the yearly and interim financial statements to be released to the public with the company’s accounting principles,
- Choosing the independent auditing firm, preparing independent auditing contracts, and initiating independent auditing processes,
- Tracking the efficiency and performance of independent auditing activities,
- Monitoring the function and efficiency of the internal control and internal auditing system,
- Evaluating the findings of the internal control system and reporting them to the Board of Directors,
- Auditing and approving the reports on internal control and internal audits.

Corporate Governance Committee

Corporate Governance Committee was established in accordance with the Capital Markets Board’s Corporate Governance Communiqué with an attempt to follow up the company’s compliance with corporate governance principles, to make improvements in the process, and make suggestions to the Board of Directors. The Committee has been established and its Internal Directive has been approved by resolution No. 600 of the Board of Directors of Brisa Bridgestone Sabancı Tire Manufacturing and Trading Inc. dated April 30, 2012. Early Identification of Risk Committee was separated from the Corporate Governance Committee by Board resolution No. 2013/13 dated August 2, 2013, which necessitated revisions be made on the Internal Directive in question. As prescribed by the Communiqué and the Board resolution No. 2014/16 dated June 30, 2014, the existing Chief Finance Officer, who meets the predetermined criteria in the Communiqué, was appointed as a member of the Corporate Governance Committee, thereby increasing the number of members to four and necessitating

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more revisions be made to the Internal Directive and subsequent approval. Finally, in accordance with Board of Directors resolution No. 2015/13 dated March 24, 2015, re-modifications were made to Internal Directive of Corporate Governance Committee and the number of committee members was increased from four to five.

In accordance with Board of Directors resolution No. 2016/13 dated March 29, 2016, following the Partners' Ordinary General Meeting of 2015 convened on March 25, 2016, Corporate Governance Committee members were determined as:

Name Surname	Title	Board Member Status
Hüsni Paçacıoğlu	Chairman	Independent Board Member
Hasan Cihat Erbaşol	Member	Independent Board Member
Barış Oran	Member	Board Member – Non-executive
Kazuto Sembu (*)	Member	Board Member – Executive
Reşat Oruç	Member	Chief Finance Officer

(*) In accordance with Board of Directors resolution number 2017/01 dated January 2, 2017, it was unanimously decided that Kazuto Sembu's membership to the Corporate Governance Committee be cancelled due to him leaving his position and Makoto Hashimoto to be assigned as the new member of the Committee, effective from January 1, 2017.

In accordance with Capital Markets Board "Corporate Governance Principles" Corporate Governance Committee is composed of a maximum of four members excluding the chairman, appointed by Brisa Bridgestone Sabancı Tire Manufacturing and Trading Inc. Board of Directors from among its independent members, and two rapporteurs. Committee members (excluding the Chairman) include three members of the Board of Directors appointed by the Board of Directors and Chief Finance Officer (CFO) from Investor Relations Department, which makes a maximum of four members in total. The rapporteurs of the Committee include the Director of Human Resources and the Manager of Investor Relations Department.

In cases where the position of the committee chairman becomes vacant for whatever reason, the Chairman of the Board of Directors appoints a member of the Committee as interim chairman in the first Board of Directors meeting following the incidence of vacancy. The interim serves until a new chairman is appointed.

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The agenda of the meeting is determined by the Chairman of the Committee. Members and shareholders communicate the issues they wish to be put on the agenda to the rapporteurs, who report them to the Chairman of the Corporate Governance Committee.

Corporate Governance Committee meetings are held at least four times a year at the places and on the dates the Chairman deems appropriate. The meeting and resolution quorum is the absolute majority of the total number of members. Other people can also attend the meetings if the Chairman deems appropriate.

Corporate Governance Committee keeps a written record of all its works and reports all relevant information and conclusions to the Board of Directors.

Corporate Governance Committee convened four meetings in year 2016.

The Committee's activities in 2016 included:

- To make suggestions to the Board of Directors for improving corporate governance operations, to perform necessary operations ensuring and observing the company's compliance with legislation within the body of the company, all in accordance with Capital Markets Board Corporate Governance Communiqué numbered II-17.1,
- To monitor activities of the Department of Investor Relations,
- To determine and monitor the principles, criteria, and practices to be employed in setting the remuneration for directors with administrative responsibilities in line with the company's long-term objectives,
- To make suggestions to the Board of Directors regarding remuneration for directors with administrative responsibilities by taking into consideration the degree to which they meet the criteria for remuneration settings,

Early Identification of Risk Committee

Early Identification of Risk Committee has been established upon the resolution of Brisa Board of Directors dated August 2, 2013 and numbered 2012/13. The Committee was commissioned and authorized by Turkish Commercial Code numbered 6102 and by article 378 thereof, as well as Capital Markets Board's Corporate Governance Communiqué.

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The activities of the Committee include early identification of any strategic, operational, financial, external and miscellaneous risks threatening the existence, development and sustainability of Brisa; implementation of necessary measures and remedies; and the management of risks.

The members of the Early Identification of Risk Committee include:

Name Surname	Title	Board Member Status
Hüsnü Paçacıoğlu	Chairman	Independent Board Member
Bariş Oran	Member	Board Member – Non-executive
Kazuto Sembu (*)	Member	Board Member – Executive

(*) In accordance with Board of Directors resolution number 2017/01 dated January 2, 2017, it was unanimously decided that Kazuto Sembu’s membership to the Early Identification of Risk Committee be cancelled due to him leaving his position and Makoto Hashimoto to be assigned as the new member of the Committee, effective from January 1, 2017.

The chairman of the Early Identification of Risk Committee is appointed among the independent members by Brisa Board of Directors.

The Committee is composed of a minimum of two members appointed by the Board of Directors. Other persons can also participate in the meetings if the chairman approves. The term of office for committee members is parallel to that of the members of the Board of Directors. The committee membership is renewed upon the renewal of the members of the Board of Directors.

The Early Identification of Risk Committee convenes at least six times a year at a venue the chairman deems appropriate.

The Early Identification of Risk Committee convened six times in 2016.

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5.4. Risk Management and Internal Control Mechanism

Organization

In accordance with the New Turkish Commercial Code article 378 entering into force on July 1, 2012 and the relevant sections of the Capital Markets Board Communiqué with Serial: IV, Number 56 dated December 30, 2011, the Board of Directors in companies whose certificates of stock are traded at the exchange are responsible for early identification of risks threatening the company's existence, development, and sustainability. Therefore Brisa established an expert committee, operated and developed the system for the purposes of taking necessary measures, implementing remedies, and managing risks.

The Early Identification of Risk Committee has been established in accordance with article 6 of the Communiqué with Serial: VI, Number 63 amending Determining and Implementing Corporate Governance Principles of the Capital Markets Board with Serial: IV, Number 63 and dated February 22, 2013. The committee has taken over all responsibilities performed by "Corporate Governance Committee" pertaining to the early identification of risks.

The Early Identification of Risk Committee has also taken over the duties of the risk committee as mentioned in the New Turkish Commercial Code Article 378. The Committee reports to the Board of Directors every two months, when it evaluates the critical risks, points out the threats and proposes remedies if any. The report submitted to the Board of Directors is also made accessible to the company's independent auditor. The Committee evaluates the efficiency of the company's risk management system once a year.

Risk Committee and Risk Management Department are established for the early identification of risks, their efficient management, and integration with the company's strategies and processes. Risk Committee is composed of Executive Board Members including the General Manager, Executive Coordinator, Chief Technical Officer, Deputy General Manager for Consumer Products Marketing and Sales, Deputy General Manager for Commercial Products Marketing and Sales and Chief Finance Officer and as well as Risk Manager.

The Framework and Process of Risk Management

Risk Management Department seeks to integrate corporate risk management with corporate strategies and corporate culture so that all employees are aware of risks, opportunities, and responsibilities in the performance of their daily duties and so that the company achieves sustainable growth while simultaneously creating value.

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Within the framework of policies and standards concerning risk management as supported and approved by the senior managers and with full support of the management team and active participation by company employees, the Risk Management Department is responsible for determining and evaluating all corporate risks. Risk Management Department furthermore cooperates with employees to determine strategies and actions aimed at efficient risk management process, and coordinates the work and tracks the risk management action plans of the functions. Risk Management Department also formulates policies and procedures in line with the risk propensity of the company to ensure that processes are managed in line with these policies and procedures; formulates and manages policies and plans for business continuity; prepares and shares risk management reports.

Critical factors for successful risk management are that all employees ranging from high level executives to low level employees understand the concept of risk, corporate risks, responsibilities, and common risk consciousness; that risk management responsibilities are determined and embraced by all; that changes are tracked and reported; and that the process is handled with an understanding of perpetual improvement. The company also embraces these factors as key strategic objectives.

Risk Management Department arranges yearly risk evaluation workshops with managers and employees. In these workshops the company's strategic, financial, operational and responsibility risks are determined and defined. The impact and probability of financial, nominal, environmental and human loss scenarios are measured and prioritized. Strategies and actions are formulated to reduce, remove or transfer the negative impacts of the related risks. Critical risk indicators are determined, and existing risk management actions are tracked. Risk Committee convenes every year to evaluate yearly risk evaluation results and risk management strategies.

Risk Management Department shares monthly numerical indicators on critical risk areas as well as monthly development trends, their situation as determined by limits and tolerances, the reasons for deviations and changes, the costs of and reasons for business interruptions, and actions taken with the whole management team, thereby providing an early warning mechanism against the growth of the risks. This policy ensures that all interacting functions formulate a common perception of risk and management strategy. Besides, Risk Management Department also reports to relevant directors the specific risk studies based on global and local sources and completed risk analyses.

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Early Identification of Risk Committee, made up of people chosen from among the Board of Directors, performs critical risks assessment every two months in the report prepared in light of information coming from Risk Management Department and Risk Committee and submitted to the Board of Directors. This Committee also annually evaluates the efficiency of the company's risk management system.

Operational Risk Management and Business Continuity Planning

The company attaches great importance to the continuity of all business processes and institutional operations so that it can provide the greatest value possible. The company performs its operational risk management activities, which include emergency situations, crisis management, business continuity and recovery stages, on a platform comprising all employees. This is achieved with the help of a planned roadmap which is subject to constant reviews and improvements.

Risk Management Department seeks to minimize losses induced by business and production interruptions in cases of operational risks such as supply-chain problems, interruptions in information systems, machine breakdowns, fire, natural disaster, epidemics, among others. To this end, Risk Management Department cooperates with related functions in devising policies and plans for business continuity, extending their viability across the institution, updating and testing. Closely observing product safety and quality, relevant laws and legislation, corporate reputation and social responsibility, priority for and dignity of human life, and environmental awareness, the company's ultimate objectives include:

- Providing correct information flow externally/internally and managing incidents/emergencies in cases of business interruptions,
- Developing and constantly improving reaction and response plans to make sure that our customers have access to our services of critical importance without any interruption,
- Benefiting from resources efficiently in cases of employee-related and other resource-related scarcities,
- Minimizing the duration of interruption for the company, customers, suppliers, and other critical shareholders,
- Ensuring the efficient normalization of the working order after possible interruptions and the ensuing recovery operations
- Investing in the corporate infrastructure to minimize the prospects for interruption,
- Minimizing the negative financial and nominal impacts of business interruptions.

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Company employees have the core responsibility for determining the reasons for business interruptions in the operational processes they manage or work. They must take measures and implement the very business continuity plans which they formulated previously. Risk Management Department is responsible for preparing business continuity plans across the company and coordinating the review and test processes. Risk Management Department, with the contribution of senior management, has developed an institutional policy and guideline for business continuity management and planning across the company.

Future Risks

The purchases of raw materials are transacted in American Dollars, while the products are sold in various currencies including Turkish Lira, Euro, and American Dollar. Therefore, currency fluctuations are the leading macroeconomic risk for our company. For an ideal management of this risk, the company implements the “hedging” policy efficiently, which is designed in full accordance with the financial instruments, tools, company profile, and operations for protecting the company against currency risks. This policy enables the company to take early measures against the possible negative consequences of currency fluctuations.

Raw materials costs comprise an important part of total products costs, which means that sudden fluctuations in raw materials costs can possibly have critical impact on corporate profitability. In cases where raw materials costs exhibit high volatility, and hence where fluctuation is harsh, several problems might occur with the supply of goods: scarcity, delay, postponement, and retraction. Our company implements the policy of forward-buying, which includes close tracking and detailed analyses of international markets. The company thus purchases raw materials with affordable prices in particular amounts for future terms, thereby minimizing problems arising from harsh price changes and supply imbalances.

Because of the economic fluctuations in Turkey’s economy, dealers may have difficulty in collecting their receivables and consequently may have difficulty in paying their debts to Brisa. Towards this risk, with the close follow-up of Brisa top management, the actions are being taken and closely monitored to increase the dealers’ collateral amounts.

Internal Audit and Internal Control

Our company has internal audit and internal control mechanisms to ensure the efficient, reliable, and uninterrupted conduct of activities and services; the development of applications

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for risk management, control system and institutional management; contribution to the achievement of institutional and economic targets; and the unity, consistency, and safety of information derived from accounting and financial reporting system.

Audit Committee, which is established within the body of the Board of Directors, is responsible for ensuring the existence, functioning and efficiency of internal audit and control processes. Audit Committee performs the duties assigned by Board of Directors within the framework of the existing internal regulations and reports its activities, findings and suggestions to the Chairman of the Board of Directors.

Moreover, by the principle of independence, the Internal Audit Department, which is organizationally affiliated with the Board of Directors, helps ensure that internal audit and control mechanisms function in a healthy manner. Audit Committee regularly convenes with Internal Audit Department to discuss the efficiency of the internal control system. Finally the Committee reports its findings to the Board of Directors.

Internal Audit Department Directive explains the organizational position and independency of the department. This directive has been approved by Audit Committee and entered into force. In addition, the Audit Guide, which defines business manners for the Audit Department, has been prepared and put into practice.

5.5. Company's Strategic Goals

Brisa's mission, vision, values and policies are reviewed by the senior management each year, and strategic targets determined in line with this direction are communicated to employees at annual meetings and through the Brisa's website.

Brisa's Mission: "To provide superior value to society through sustainable growth"

Brisa's Vision: "To innovate your journey"

Strategic goals and targets, set by the Executive Board in line with the mission and vision of Brisa, are discussed by the Board of Directors for approval within the scope of budget and mid-term plans. The budget is prepared per annum, along with a five-year mid-term plan.

Strategic goals are determined in line with,

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- Financial Results
- Customer Experience
- Operational Excellence
- Human Resources and Organizational Development
- Information Systems
- Risk Management
- Corporate Governance
- Sustainability
- Innovation

Goals approved through these general areas are then used to determine the specific goals for each individual function within the Company. All company employees perform their tasks in accordance with the vision and strategic goals as they also guide individual performance targets, as well as annual performance evaluations.

Strategic goals and performance indicators are monitored using made-to-purpose software, outputs of which are used by the Executive Board who convenes twice a month to evaluate the Company's performance and relevant agenda items. These comprehensive evaluations, as well as the constantly updated projections, are used to determine the actions that must be taken in order to achieve key performance indicators.

The Board of Directors convenes at least four times per year to evaluate the progress towards goals, current operations, and term performance.

5.6. Financial Rights

The Board of Directors is responsible for making sure that the company reaches operational and financial performance targets specified and released to the public.

Any rights, benefits, and wages, as well as the criteria for determination and principles for setting remuneration for members of the Board of Directors and senior executives with administrative responsibilities, were communicated to shareholders as a separate item in the

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2014 Ordinary General Assembly meeting held on March 23, 2015 in accordance with Capital Market Board’s compulsory Corporate Governance Principles numbered 4.6.2. Shareholders have been given the opportunity to express their views on this issue. Moreover, this issue is also released to the public via company website under “Remuneration Policy.”

According to the Articles of Association, any rights, benefits, and wages bestowed upon the members of the Board of Directors are decided in the Ordinary General Assembly meetings. Salaries determined in the annual General Assembly meetings and deemed appropriate by shareholders are recorded officially and released to the public. The members of the Board of Directors have been decided to be paid 3,500 TL gross wage throughout their office terms in the Shareholders Ordinary General Assembly meeting of 2014 held on March 23, 2015.

In accordance with Capital Markets Board’s compulsory Corporate Governance Principle numbered 4.6.3, stock options or payment plans based on the Company’s performance do not apply in the remuneration of the Independent Board Members.

Rights, benefits, and wages bestowed upon senior executives are collectively given in the footnotes of the financial tables of related terms. In this respect, the aggregate salaries and remunerations paid in the 12-month term which ended on December 31, 2016 amount to TL 4,445 thousand (2015: TL 4,658 thousand).

In 2016, the Company has not advanced money, has not provided any loan facilities and has not extended credits (under the name of personal loan through a third party) or sureties (such as surety in favor) to any Board Members or the senior executives.

PROPOSAL FOR PROFIT DISTRIBUTION

The company made a “Profit Before Tax” in the amount of **TL 79.945.116,67** according to the financial statements for the period of 01.01.2016-31.12.2016 which are prepared in compliance with the Turkish Accounting Standards pursuant to “Communiqué About Guidelines For Financial Reporting in Capital Market” Serial No II, Article No 14.1 of Capital Markets Board, and are audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member of Deloitte Touche Tohmatsu International).

As described in the following Profit Distribution Table, it was unanimously resolved that all of the Net Distributable Period Profit amounted to **TL 77.045.238,83** remained after deduction of Primary Legal Reserves and Tax Provision in compliance with CMB communiqué and as stipulated by the Article 28 of the Articles of Association, out of the Profit Before Tax, is to be preserved as Extraordinary Reserves by not making it subject to profit distribution, in order to strengthen our Company’s financial structure and to provide additional fund for our investments and is to be submitted for the approval of the Ordinary General Assembly Board Meeting to be held in March 28, 2017.

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**CONVENIENCE TRANSLATION INTO ENGLISH
OF FINANCIAL STATEMENTS
AT 31 DECEMBER 2016 TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

**(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR’S REPORT ORIGINALLY ISSUED IN TURKISH)**

**To the Board of Directors of
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.**

Report on the Financial Statements

We have audited the accompanying financial statements of Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. (“the Company”), which comprise the statement of balance sheet as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Turkish Accounting Standards (“TAS”), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by Capital Markets Board and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority (“POA”). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards.

Other Concern

Without qualifying our opinion, as described in note 2.5.24, The Company management has decided to capitalize the expenses related to the development projects in the current period and has resolved the research and development expenses in the prior period and restated the prior period financial statements by capitalizing the expenses related to development phase.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 (“TCC”), the auditor’s report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 23 February 2017.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company’s set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company’s articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Yaman Polat, SMMM
Partner

İstanbul, 23 February 2017

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BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.**AUDITED BALANCE SHEET AT 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Current Period 31 December 2016	Restated Prior Period 31 December 2015
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	85.736.102	60.713.519
Trade Receivables	6	825.877.076	762.610.504
Trade Receivables From Related Parties	24	41.924.144	34.509.332
Trade Receivables From Third Parties		783.952.932	728.101.172
Other Receivables	7	10.827.826	9.171.722
Other Receivables From Related Parties	24	92.099	587.407
Other Receivables From Third Parties		10.735.727	8.584.315
Derivative Financial Instruments	5	3.077.383	7.065.185
Inventories	8	364.067.909	357.632.271
Prepaid Expenses and Deferred Income	9	31.230.546	31.501.383
Other Current Assets	15	11.909.945	6.327.890
Total Current Assets		<u>1.332.726.787</u>	<u>1.235.022.474</u>
Non-Current Assets			
Trade Receivables	6	46.717.535	29.523.216
Other Receivables	7	131.280	121.191
Derivative Financial Instruments	5	100.025.565	7.433.137
Property, Plant and Equipment	10	1.089.522.968	676.146.959
Intangible Assets	11	70.917.208	57.515.797
Prepaid Expenses	9	184.329.431	121.073.728
Deferred Tax Assets	22	11.897.371	9.207.543
Total Non-Current Assets		<u>1.503.541.358</u>	<u>901.021.571</u>
TOTAL ASSETS		<u>2.836.268.145</u>	<u>2.136.044.045</u>

The accompanying notes form an integral part of these financial statements.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.**AUDITED BALANCE SHEET AT 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Current Period 31 December 2016	Restated Prior Period 31 December 2015
LIABILITIES			
Current Liabilities			
Short-term Borrowings	4	459.582.804	537.889.388
Short-term Portion of Long Term Borrowings	4	277.498.799	77.139.541
Trade Payables	6	359.749.707	270.138.681
Trade Payables to Related Parties	24	141.026.215	111.088.885
Trade Payables to Third Parties		218.723.492	159.049.796
Payables Related to Employee Benefits	14	22.080.116	14.974.098
Other Payables	7	5.921.480	5.625.643
Other Payables to Related Parties	24	700.557	443.694
Other Payables to Third Parties		5.220.923	5.181.949
Derivative Financial Instruments	5	2.575.314	1.589.322
Deferred Income	9	14.610.486	15.671.615
Current Tax Liabilities	22	642.427	2.230.061
Short-term Provisions		12.483.829	18.609.352
Short-term Provisions For Employee Benefits	14	8.846.095	10.830.714
Other Short-term Provisions	12	3.637.734	7.778.638
Total Current Liabilities		1.155.144.962	943.867.701
Non-Current Liabilities			
Long-term Borrowings	4	1.046.184.000	486.042.000
Trade Payables	6	28.456	518.903
Trade Payables to Related Parties	24	-	518.903
Trade Payables to Third Parties		28.456	-
Derivative Financial Instruments	5	4.560.575	-
Deferred Income	9	6.750.733	1.429.510
Long-term Provisions		53.413.359	46.586.111
Long-term Provisions For Employee Benefits	14	53.413.359	46.586.111
Total Non-Current Liabilities		1.110.937.123	534.576.524
Total Liabilities		2.266.082.085	1.478.444.225
EQUITY			
Share Capital	16	305.116.875	305.116.875
Adjustment to Share Capital		54.985.701	54.985.701
Share Premium		4.903	4.903
Other Comprehensive Income or Expenses That Will Be Reclassified to Profit or Loss			
Hedging Reserve (Losses) /Gains		327.501	924.403
Other Comprehensive Income or Expenses That Will Not Be Reclassified to Profit or Loss			
Actuarial Losses		(3.546.159)	(3.546.159)
Restricted Reserves		114.135.542	88.919.684
Retained Earnings		19.049.069	14.001.248
Net Income For The Period		80.112.628	197.193.165
Total Equity		570.186.060	657.599.820
TOTAL LIABILITIES AND EQUITY		2.836.268.145	2.136.044.045

The accompanying notes form an integral part of these financial statements.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.**AUDITED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED
31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	<u>Notes</u>	<u>Current Period 1 January- 31 December 2016</u>	<u>Restated Prior Period 1 January- 31 December 2015</u>
Sales	17	1.766.472.991	1.801.875.943
Cost of Sales (-)	17	<u>(1.247.912.326)</u>	<u>(1.240.495.578)</u>
GROSS PROFIT		518.560.665	561.380.365
General Administrative Expenses (-)	18	(118.246.313)	(82.175.820)
Marketing Expenses (-)	18	(227.072.976)	(218.738.526)
Research and Development Expenses (-)	18	(6.722.094)	(11.514.565)
Other Operating Income	19	79.232.992	61.517.994
Other Operating Expenses (-)	19	<u>(27.165.952)</u>	<u>(13.675.846)</u>
OPERATING PROFIT		218.586.322	296.793.602
Income From Investing Activities	20	357.307	135.028
Expenses From Investing Activities (-)	20	<u>(17.866)</u>	<u>(415.562)</u>
PROFIT BEFORE FINANCIAL EXPENSES		218.925.763	296.513.068
Financial Expenses (-)	21	<u>(138.980.647)</u>	<u>(91.904.969)</u>
PROFIT BEFORE TAX		79.945.116	204.608.099
Taxation on Income		167.512	(7.414.934)
Current Tax Expense (-)	22	(2.373.090)	(8.229.172)
Deferred Tax Income / (Expense)	22	2.540.602	814.238
PROFIT FOR THE PERIOD		80.112.628	197.193.165
Earnings per share	23	0,240	0,580

The accompanying notes form an integral part of these financial statements.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.**AUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Current Period	Restated
	1 January-	Prior Period
	31 December	1 January-
	2016	31 December
	2015	
PROFIT FOR THE PERIOD	80.112.628	197.193.165
<i>OTHER COMPREHENSIVE INCOME /(EXPENSES)</i>		
Other Comprehensive Income or Expenses That Will Be Reclassified to Profit or Loss	(596.902)	11.932.308
Hedging Reserve Gains/ (Losses)	(746.128)	14.915.385
Deferred Tax Income / (Expense)	149.226	(2.983.077)
OTHER COMPREHENSIVE INCOME/ (EXPENSE)	(596.902)	11.932.308
TOTAL COMPREHENSIVE INCOME	79.515.726	209.125.473

The accompanying notes form an integral part of these financial statements.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

AUDITED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Share Capital	Adjustment to Share Capital	Share Premium	Hedging Reserve Gains/(Losses)	Actuarial (Losses)/ Gains	Restricted Reserves	Retained Earnings		Shareholders' Equity
							Retained Earnings	Net Income For The Period	
Balance at 1 January 2015 (Beginning of the Period)	305.116.875	54.985.701	4.903	(11.007.905)	(3.546.159)	66.032.094	6.972.485	186.319.625	604.877.619
Corrections for misstatements (Note 2.5.24)	-	-	-	-	-	-	-	5.193.856	5.193.856
Balance at 1 January 2015 (Restated Beginning of the Period)	305.116.875	54.985.701	4.903	(11.007.905)	(3.546.159)	66.032.094	6.972.485	191.513.481	610.071.475
Transfers	-	-	-	-	-	22.887.590	168.625.891	(191.513.481)	-
Total Comprehensive Income	-	-	-	11.932.308	-	-	-	197.193.165	209.125.473
Dividends Paid (*)	-	-	-	-	-	-	(161.597.128)	-	(161.597.128)
Balances at 31 December 2015 (End of the Period)	305.116.875	54.985.701	4.903	924.403	(3.546.159)	88.919.684	14.001.248	197.193.165	657.599.820
Balance at 1 January 2016 (Beginning of the Period)	305.116.875	54.985.701	4.903	924.403	(3.546.159)	88.919.684	14.001.248	197.193.165	657.599.820
Transfers	-	-	-	-	-	2.521.585	171.977.307	(197.193.165)	-
Total Comprehensive Income	-	-	-	(596.902)	-	-	-	80.112.628	79.515.726
Dividends Paid (*)	-	-	-	-	-	-	(166.929.486)	-	(166.929.486)
Balances at 31 December 2016 (End of the Period)	305.116.875	54.985.701	4.903	327.501	(3.546.159)	114.135.542	19.049.069	80.112.628	570.186.060

(*) Dividends paid by the Company per share with a TL 1 nominal value is TL 0,5146 (2015: TL 0,4950).

The accompanying notes form an integral part of these financial statements.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

AUDITED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Current Period 1 January- 31 December 2016	Restated Prior Period 1 January- 31 December 2015
Net Profit For The Period		80.112.628	197.193.165
Adjustments to Reconcile Profit For The Period		274.201.078	199.061.979
Adjustments Related to Depreciation and Amortization Expenses	18	81.999.985	111.685.308
Provisions for Employee Benefits		18.353.052	18.377.484
Adjustments Related to Retirement Pay Provision	14	11.212.692	12.358.411
Lawsuit Provision	12	860.332	1.051.242
Adjustment Related to Provisions	12	820.742	5.283.238
Adjustments Related to Doubtful Receivables	6	31.095.302	864.580
Interest Income	19	(451.064)	(46.068)
Interest Expense	21	123.934.147	83.019.269
Unrealized Foreign Exchange Losses / (Gains)		16.541.510	10.218.984
(Gains) / Losses From Derivative Financial Instruments	5	(4.686.835)	(44.094.512)
Adjustments Related to Tax Expense / Income	22	(167.512)	7.414.934
Losses / (Gain) On Sale of Properties, Net	20	(84.490)	280.534
Losses / (Gain) On Sale of Intangible Assets, Net	20	(254.951)	-
Impairment on inventories	8	5.512.168	612.897
Finance expense accruals from credit purchases (net)		1.266.414	732.229
Finance income accruals from credit sales (net)		(11.750.414)	(8.696.551)
Changes In Working Capital		(59.216.293)	(311.846.314)
Adjustments Related to Increase / Decreases in Trade Receivables		(94.539.410)	(233.318.270)
Adjustments Related to Increase / Decreases in Inventory		17.692.539	(47.041.631)
Adjustments Related to Increase / Decreases in Other Receivables Related to Operations		(7.235.867)	9.256.933
Adjustments Related to Increase / Decreases in Prepaid Expenses		(47.538.238)	(93.991.995)
Adjustments Related to Increase / Decreases in Trade Payables		81.639.089	60.514.607
Adjustments Related to Increase / Decreases in Deferred Income		3.701.410	7.610.721
Adjustments Related to Increase / Decreases in Employee Benefits Payables		(13.231.653)	(18.137.064)
Adjustments Related to Increase / Decreases in Other Payables Related to Operations		295.837	3.260.385
Cash Flows From Operating Activities		(13.717.082)	(11.983.455)
Interest Received	19	451.064	46.068
Taxes Paid / Reimbursed	22	(3.960.724)	(5.999.111)
Paid / Reversed Provisions	12	(5.409.049)	(322.001)
Paid / Reversed Lawsuit Provisions	12	(412.929)	(1.544.830)
Retirement Benefits Paid	14	(4.385.444)	(4.163.581)
A. NET CASH GENERATED FROM OPERATING ACTIVITIES		281.380.331	72.425.375
Proceeds From Sale of Property, Plant and Equipments		542.558	377.471
Proceeds From Sale of Intangible Assets		317.326	-
Payments For Property, Plant and Equipment and Intangible Assets	10,11	(494.719.367)	(237.771.831)
Cash Inflow / (Outflows) from Derivative Instruments		(9.202.772)	50.352.242
B. CASH FLOWS FROM INVESTING ACTIVITIES		(503.062.255)	(187.042.118)
Proceeds From Borrowings, Net		591.724.076	395.672.576
Cash Used for Repayment of Obligations Under Finance Leases		(1.310)	(97.891)
Dividends Paid		(166.929.486)	(161.597.128)
Interest Paid		(178.088.773)	(68.494.614)
C. CASH FLOWS FROM FINANCING ACTIVITIES		246.704.507	165.482.943
Net Increase/ (Decrease) in Cash and Cash Equivalents (A+B+C)		25.022.583	50.866.200
Cash and Cash Equivalents at the Beginning of the Period		60.713.519	9.847.319
Cash and Cash Equivalents at the End of the Period		85.736.102	60.713.519

The accompanying notes form an integral part of these financial statements.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

1. ORGANIZATION AND NATURE OF OPERATIONS OF THE COMPANY

Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. ("Brisa" or "Company") was established in 1974 as a subsidiary of Hacı Ömer Sabancı Holding A.Ş.

Brisa is primarily engaged in manufacturing, marketing and selling vehicle tires in Turkey. In 1988, the Company entered into a license agreement with Bridgestone Corporation for the purpose of manufacturing and selling Bridgestone tires.

The control of the Company is jointly held by H.Ö. Sabancı Holding A.Ş. and Bridgestone Corporation.

The Company's employee headcount with indefinite-term employment contract is 2.580 (2015: 2.600). This number includes 1.957 employees who are subject to Collective Bargaining Agreement terms (2015: 1.989), and 611 employees who are not subject to these terms (2015: 602). There are 12 foreign employees (2015: 9). In addition, there are 40 employee who is subject to definite-term employment contracts (2015: 1).

Brisa is registered with the Capital Markets Board ("CMB") and its shares have been quoted in Borsa İstanbul A.Ş. since 1986. As of the same date, the main shareholders and their respective shareholding in the Company are as follows:

	%
Hacı Ömer Sabancı Holding A.Ş.	43,63
Bridgestone Corporation	43,63
Other	12,74
	100,00

The address of the registered office of the Company is as follows:

Sabancı Center Kule 2 Kat: 8
4. Levent 34330 Beşiktaş / İstanbul

The financial statements for the period 1 January-31 December 2016 have been approved for issue by the Board of Directors on 23 February 2017 and signed on behalf of the Board of Directors by Ahmet Yiğit Gürçay, General Manager, and Reşat Oruç, Chief Financial Officer. General assembly has the right to make changes in the financial statements after the aforementioned financial statements are issued.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation

Statement of compliance with TAS

The accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which were published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

Additionally, the financial statements and disclosures are presented in accordance with the formats published by CMB on 7 June 2013.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.1 Basis of Presentation (Cont'd)

Statement of compliance with TAS (cont'd)

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and presentation currency

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position are expressed in Turkish Lira ("TL"), which is the functional currency of the Company and the reporting currency for the financial statements.

Preparation of financial statements in hyperinflationary periods

Based on CMB's resolution No: 11/367 issued on 17 March 2005, companies operating in Turkey and preparing their financial statements in accordance with the POA Accounting Standards are not subject to inflation accounting effective from 1 January 2005. Therefore, starting from January 2005, TAS 29 "Financial Reporting in Hyperinflationary Economies" is not applied in the accompanying financial statements.

2.2 Change in Accounting Policies

Significant changes in the accounting policies are applied retrospectively and prior period financial statements are restated. There are no changes in the accounting policies for the period 1 January - 31 December 2016.

2.3 Change in the Accounting Policies

Changes in accounting estimates should be applied prospectively, if only for a period in which the change in the current period. If it relates to future periods they are recognized to prospectively both in the current period and in the future period considering the impact on the profit of loss. There are changes in the accounting estimates for the period 1 January - 31 December 2016 (Note 2.6). Identified accounting errors are corrected in financial statements retrospectively (Note 2.5.24).

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.4 New and Revised Turkish Accounting Standards

a) Amendments to TAS affecting amounts reported and/or disclosures in the financial statements

None.

b) New and revised TAS applied with no material effect on the financial statements

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> ¹
Amendments to TFRS 11 and TFRS 1 Annual Improvements to 2011-2013 Cycle	<i>Accounting for Acquisition of Interests in Joint operations</i> ¹ <i>TFRS 1</i> ²
Amendments to TAS 1 Annual Improvements to 2012-2014 Cycle	<i>Disclosure Initiative</i> ² <i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> ²
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements</i> ²
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ²
TFRS 14	<i>Regulatory Deferral Accounts</i> ²

¹ Effective for annual periods beginning on or after 31 December 2015.

² Effective for annual periods beginning on or after 1 January 2016.

Amendments to TAS 16 and TAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

b) New and revised TAS applied with no material effect on the financial statements (cont'd)

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 Agriculture: Bearer Plants

This amendment include 'bearer plants' within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TFRS 1 Accounting for Acquisition of Interests in Joint operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 Disclosure Initiative

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

**NOTES TO THE AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

b) New and revised TAS applied with no material effect on the financial statements (cont'd)

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 Equity Method in Separate Financial Statements

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Amendments to TFRS 10 and TAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to TFRS 10, TFRS 12 and TAS 28 Investment Entities: Applying the Consolidation Exception

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 Regulatory Deferral Accounts

TFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

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(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

2.4 New and Revised Turkish Accounting Standards (cont'd)

c) New and revised TAS in issue but not yet effective

The Company has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9	<i>Financial Instruments</i> ¹
TFRS 15	<i>Revenue from Contracts with Customers</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2018.

TFRS 9 *Financial Instruments*

TFRS 9, issued by Public Oversight Authority ("POA") in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

TFRS 15 *Revenue from Contracts with Customers*

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies

2.5.1 Revenue

Revenues are recognised on an accrual basis at the time deliveries are made, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods sold less sales returns and commissions, and exclude sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest income on a time proportion basis that takes into account the effective yield on the asset.

Other revenues earned by the Company are recognised on the following bases:

Interest revenue

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.5.2 Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour, translation difference from financial and an appropriate amount of factory overheads. The unit cost of inventories is determined on the moving weighted average basis (Note 8). Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

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(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies (Cont'd)

2.5.3 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment, if any (Note 10). Land is not depreciated. Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful Lives
Land and land improvements	20
Buildings	15-50
Machinery and equipment	10 and 20
Motor vehicles	5
Furniture and fixtures	10

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their carrying amounts and are included in the related income and expense accounts, as appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset.

Estimated useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

Expenses for the repair and maintenance of property, plant and equipment are normally charged against income. They are, however, capitalised in exceptional cases if they result in an enlargement or substantial improvement of the respective assets.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and depreciated over the average expected life between major overhauls.

2.5.4 Intangible assets

Intangible assets include acquired rights, software, special selling rights, licences and other identifiable rights. Intangible assets are carried at cost less accumulated amortization. Amortisation is calculated using the straight-line method over a period not exceeding 10 years (Note 11).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies (Cont'd)

2.5.4. Intangible assets (cont'd)

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.5.5 Cash and cash equivalents

Cash and cash equivalents are carried at cost in the balance sheet. Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments, whose maturity at the time of purchase is less than three months (Note 3).

2.5.6 Finance leases

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Principal payments are disclosed as liabilities and decreased according to payments made. The interest element of the finance cost is charged to the income statement over the lease period. Obligations under finance leases are stated in the financial statements at the acquisition values of the related property, plant and equipment and depreciated over the useful life.

2.5.7 Trade Receivables

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortised cost. Short-term receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant. A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due.

The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception. Those with maturities greater than 1 year are classified as non-current assets. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income (Note 6).

2.5.8 Due date income / (charges)

Due date income /(charges) represents the income / (charges) that are resulting from credit purchase or sales. These income / (charges) are considered as financial income and expenses which result from credit purchase or sales during the period and included in other operating income / (expense) throughout the maturity period.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies (Cont'd)

2.5.9 Taxes on income

Taxes on income for the period comprise of current tax and the change in deferred taxes.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies (Cont'd)

2.5.9 Taxes on income (cont'd)

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination.

2.5.10 Borrowings and borrowing costs

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in the income statement as financial expense over the period of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. All other borrowing costs are charged to the income statement when they are incurred (Note 4).

2.5.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method (Note 6).

Those with maturities greater than 1 year are classified as non-current liabilities.

2.5.12 Foreign currency transactions

The financial statements are presented in Turkish Lira ("TL"), which is the functional currency and the presentation currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign currency differences related with borrowings are recognized in the "financial income / (expense), whereas foreign currency differences related with cash and cash equivalents and other monetary assets and liabilities are recognised in the "other operating income/(expense)" in the statement of profit or loss.

Foreign currency differences related with non-monetary assets and liabilities are recognised as fair value gains and losses.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies (Cont'd)

2.5.13 Provisions, contingent assets and liabilities

Provisions are recognised when the Company has a present legal constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate, used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

2.5.14 Provision for employment termination benefits

Provision for employment termination benefits represent the present value of the estimated total reserve of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. All calculated actuarial gains and losses are accounted for under other comprehensive income (Note 14).

2.5.15 Share Capital

Ordinary shares are classified as equity. Dividends payable are recognised in the financial statements as a result of profit distribution in the period in which they are declared.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.5.16 Earnings per share

Earnings per share disclosed in the income statement are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

In Turkey, companies can increase their share capital through a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and inflation adjustment to equity. For the purpose of earnings per share computations, the weighted average number of shares in existence during the period has been adjusted in respect of bonus share issues without a corresponding change in resources, by giving them retroactive effect for the period in which they were issued and each earlier period as if the event had occurred at the beginning of the earliest period reported (Note 23).

2.5.17 Related Parties

For the purpose of these financial statements, shareholders, the Group companies of Hacı Ömer Sabancı Holding A.Ş. and Bridgestone Corporation Group companies, key management personnel and board members, in each case together with their families and companies controlled by or affiliated with them and associated companies are considered and referred to as related parties. The Company assigned its key management as board of directors and the members of the executive board (Note 24).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies (Cont'd)

2.5.18 Derivative financial instruments

The derivative financial instruments of the Company consist of foreign exchange forward transactions and cross currency swap transactions. Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at their respective fair values. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company has designated their derivatives ("hedging instrument") to hedge its cash flows on foreign purchases ("hedged item").

The Company documents, at the inception of the transaction the relationship between hedging instrument and hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statements of income.

Since the terms of cross currency swap agreements match with the terms of the borrowing contracts, the foreign currency differences are offsetted and disclosed under financial liabilities.

The gain or loss relating to the ineffective portions of foreign exchange forward transactions is recognised in the statement of profit or loss. Amounts previously recognised in other comprehensive income are transferred to the statement of profit or loss in the periods when the hedged item affects profit or loss (when the forecast transaction that is hedged takes place). The gain or loss relating to the effective portions of cross currency swap transactions is recognised in other comprehensive income (Note 5).

2.5.19 Reporting of cash flows

Statements of cash flows are reported by presenting cash flows from operating, investing and financing activities separately.

Cash flows from operating activities are the cash flows from Company's principal revenue-producing activities.

Cash flows from investing activities are the cash flows from Company's acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Cash flows from financing activities are the cash flows from Company's changes in the size and composition of the contributed equity and borrowings.

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within 3 months (Note 3).

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5. Significant Accounting Policies (Cont'd)

2.5.20 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.5.21 Provision for warranty expenses

Warranty expenses are recorded as a result of repair and maintenance expenses for products sold under the scope of the warranty terms.

2.5.22 Financial assets

Financial assets within the scope of TAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2.5.23 Events after the reporting period

Events after the reporting period comprise any event between the balance sheet date and the date of authorization of the financial statements, even if the event after balance sheet date occurred subsequent to an announcement on the Company's profit or following any financial information that are released.

2.5.24 Comparatives and restatement of prior period financial statements

The financial statements of the Company are prepared comparatively with the previous period in order to enable the determination of the financial situation and performance trends. In order to comply with the presentation of the current period financial statements, comparative information is reclassified when necessary and significant differences are disclosed.

Long-term prepaid expenses amounting to TL 43.401.307, which were presented under the current assets in the balance sheet as of 31 December 2015, are reclassified and presented as prepaid expenses under fixed assets.

The foreign currency net expenses from doubtful receivables amounting to TL 402.821 TL which was presented under general administrative expenses in the statement of income for the period ended 31 December 2015, are reclassified and presented as other income. The sales return from previous years amounting to TL 583.181, which was presented under marketing expenses in the statement of income for the period ended 31 December 2015, are reclassified and presented as other expenses.

The Company has reviewed the research and development expenses which are accounted in the statement of income during current period and has separated the expenses as research and development in accordance with TAS 38. The expenses which are related to development of products are capitalized in the current period. In this context, prior period financial statements have been restated according to Turkis Accounting Standart No:8 "Accounting Policies, Changes and Errors in Accounting Estimates" ("TAS 8").

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.5 Significant Accounting Policies (Cont'd)

2.5.24 Comparatives and restatement of prior period financial statements (Cont'd)

The restatement effects on financial statements for the year ended 2015 and 2014 are as follow.

	<u>Previously Reported</u>	<u>Restatement Effect</u>	<u>Restated</u>
31 December 2015			
Total Assets	2.125.825.194	10.218.851	2.136.044.045
Total Liabilities	1.478.444.225	-	1.478.444.225
Period Profit/(Loss)	192.168.170	5.024.995	197.193.165
Retained Earnings	8.807.392	5.193.856	14.001.248

Profit per share increased by TL 0.015 in the statement of profit or loss statement for the year ended 31 December 2015 (2014: TL 0.016)

2.6 Critical Accounting Judgments, Estimates and Assumptions

Changes in the accounting estimates are applied prospectively only in the period in which the change is made, and in the future periods if the change relates to the current period, if it relates to a future period.

In this scope, after reporting period for 1 January-31 March 2016, the Company has reviewed the estimation for the useful lives of land and land improvements, buildings, machinery and softwares related to machinery and determined the useful lives of the fixed assets as 20 years for land and land improvements, from 15 years to 50 years for buildings, 10 years for machinery and softwares related to machinery instead of 10, 25, 8 and 3 years. In addition, the Company has revised the useful lives of some production machinery as 20 years, which were 10 years between 1 January -30 June 2016 reporting period.

As a result of these two changes in estimation which are made in 2016 for the useful lives of property, plant and equipment; inventories decreased by TL 9.904.206 in the balance sheet and depreciation expense decreased by TL 39.062.818 in the income statement and the deferred tax expense increased by TL 7.812.564, profit for the period increased by TL 31.250.254 and earnings per share increased by TL 0,096 for the period ended 31 December 2016 .

Preparation of the financial statements in accordance with CMB Financial Reporting Standards necessitates the usage of estimations and assumptions that can affect amounts of reported assets and liabilities as of balance sheet date, the explanation for the contingent assets and liabilities and income and expenses reported during the accounting period. Although these estimations and assumptions are based on the best judgement of the Company management related with the current conditions and transactions, actual results may differ from these estimations. Estimations are revised on a regular basis; necessary adjustments and corrections are made; and they are included in the income statement when they accrue. Estimations and assumptions subject to the risk that may lead to corrections in the book value of assets and liabilities in the next financial period are given below:

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(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.6 Critical Accounting Judgments, Estimates and Assumptions(Cont'd)

Useful lives of tangible and intangible assets

Tangible and intangible assets are stated at historical cost less depreciation and net of any impairment, if any. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Useful lives depend on best estimates of management, are reviewed in each financial period and necessary corrections are made (Note 10 - 11).

Provision for doubtful receivables

The Company calculates the provision for impairment of trade receivables to cover the estimated losses resulting from the inability of its customers to make required payments. The estimates used in evaluating the adequacy of the provision for impairment of trade receivables are based on the aging of the trade receivable balances and the trend of collection performance. The provision for doubtful trade receivables is a critical accounting estimate that is formed by past payment performance and financial position of customers (Note 6).

Fair value of derivatives and other financial instruments

The fair value of derivative financial instruments which are not traded in an active market is determined using valuation techniques based on market rates and expected yields. Fair value of non-derivative financial instruments is determined based on the present value of future principal and interest cash flows. These cash flows are calculated based on the discount rate prevailing at the reporting date (Note 5).

Investment incentives

The recognition of deferred income tax assets is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. Deferred income tax assets are recognised to the extent that it is probable that investment incentive will be utilized. As discussed in Note 22, the Company has obtained a foreign investment incentive right amounting to TL 481 million for 5 years period with a certificate taken from Republic of Turkey Prime Ministry Undersecretariat of Treasury dated 1 June 2010 based on the 4875 Act of Direct Foreign Investment Law. Based on the related incentive right, the Company utilized a reduced corporate tax amounting to TL 12.513.682 for the years ended 31 December 2010-2015 and TL 1.084.515 for the year ended 31 December 2016.

The Company utilized a reduced corporate tax of TL 46.286.896 for the secondary manufacturing plant investment to be located in the Aksaray Organized Industrial Zone in year 2013-2015, whereas the Company utilized a reduced corporate tax of TL 8.543.323 for the period 1 January – 31 December 2016 (Note 22).

In accordance with the letter dated 28 March 2016 and 67577454-401.07 - E.36663 of the Ministry of Economy, General Directorate of Incentive Implementation and Foreign Investments, the existing investment incentive certificate of Aksaray Plant Komple New Investment and domestic TL 168.293.500 and \$ 76.143.961 FOB of imported machinery and equipment lists were canceled and replaced with the incentive certificate dated 29 March 2016 and D 113798, Imported machinery and equipment lists of TL 288.115.567 domestic and \$ 99.084.014 FOB have been revised and approved, and for this reason the total investment expenditure figure of Aksaray Plant has been increased from TL 497.385.001 to TL 755.998.847. There has been no change in the supportive elements of the new investment incentive document.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Cont'd)

2.6 Critical Accounting Judgments, Estimates and Assumptions (Cont'd)

Investment incentives (cont'd)

According to the revaluation report no. 2016B171 prepared by TSKB Gayrimenkul Değerleme A.Ş at 7 August 2015, the market value of the land in size of 952.903,31 m2 which was granted by Aksaray Organize Sanayi Bölgesi to the Company is TL 19.058.000 excluding VAT.

According the expansion investment decision in İzmit Plant, the investment incentive certificate application of the Company to the Ministry of Economy, Incentive Application and General Directorate of Foreign Investments is approved and under the large-scale investments starting from 21 May 2015 to 21 May 2020, an investment incentive certificate is arranged at 20 August 2015 and numbered 120314 for the expansion investment amounting to TL 690 million. The Company utilized a reduced corporate tax of TL 448.802 for the year 2015 and TL 339.317 for the period 1 January – 31 December 2016 (Note 22).

The Company estimates to benefit TL 473.918.926 reduction from corporate tax within scope of investment incentive certificates in the next years. In addition to this, since it is not predictable how long the benefit will be utilized, The Company accounted a deferred tax asset of TL 20.189.828 and deferred tax income of TL 6.812.379 for the foreseeable 3 years in terms of the context of prudence.

Other provision

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made (Note 12).

BRİSA BRIDGESTONE SABANCI LASTİK SANAYİ VE TİCARET A.Ş.

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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3. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash	6.444	4.660
Banks	85.729.658	60.708.859
<i>Demand deposits</i>	19.240.837	16.509.651
<i>Credit card slip receivables</i>	66.488.821	44.199.208
	<u>85.736.102</u>	<u>60.713.519</u>

Nature and extent of the risks on cash and cash equivalents are described below the note 25. Demand deposits comprise collections from direct debiting system (DDS) and cheques kept under current accounts based on agreements made with banks.

4. FINANCIAL LIABILITIES

	31 December 2016	31 December 2015
Short-term bank borrowings	459.582.804	537.889.388
Total short-term financial liabilities	459.582.804	537.889.388
Short-term portion of long term bank borrowings(*)	470.430.799	77.139.541
Long-term bank borrowings(*)	1.123.356.000	646.058.000
Total long-term financial liabilities	<u>1.123.356.000</u>	<u>646.058.000</u>
Total financial liabilities	<u>2.053.369.603</u>	<u>1.261.086.929</u>
Short-term bank borrowings	(192.932.000)	
Long-term bank borrowings	(77.172.000)	(160.016.000)
Cumulative foreign currency differences from cross-currency and interest rate swap (*)	<u>(270.104.000)</u>	<u>(160.016.000)</u>
Net financial liabilities	<u>1.783.265.603</u>	<u>1.101.070.929</u>

(*)As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 270.104.000 for 2016 and amounting to TL 160.016.000 for 2015 are offsetted and disclosed under financial liabilities.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

4. FINANCIAL LIABILITIES (Cont'd)

Bank Borrowings

	31 December 2016		31 December 2015	
	Weighted average effective interest rate %	TL	Weighted average effective interest rate %	TL
Short-term bank borrowings				
TL denominated borrowings	10,93	459.582.804	10,47	537.889.388
		459.582.804		537.889.388
Short-term portion of long-term borrowings				
TL denominated borrowings	12,50	2.986.110	12,50	2.986.109
Euro denominated borrowings	0,75	33.524.048	2,05	47.691.143
USD denominated borrowings(*)	1,41	433.920.641	1,17	26.462.289
		470.430.799		77.139.541
Total short-term borrowings		930.013.603		615.028.929
Long-term bank borrowings				
TL denominated borrowings	12,50	50.000.000	12,50	50.000.000
USD denominated borrowings (*)	2,03	1.073.356.000	1,16	596.058.000
Total long-term borrowings		1.123.356.000		646.058.000
Total borrowings		2.053.369.603		1.261.086.929
Short-term bank borrowings		(192.932.000)		-
Long-term bank borrowings		(77.172.000)		(160.016.000)
Cumulative foreign currency differences from cross-currency and interest rate swap(*)		(270.104.000)		(160.016.000)
Net financial borrowings		1.783.265.603		1.101.070.929

*As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 270.104.000 for 2016 and amounting to TL 160.016.000 for 2015 are offsetted and disclosed under financial liabilities. (Note 5).

Redemption schedules of borrowings are summarised below:

	31 December 2016			31 December 2015		
	Bank borrowings	Cumulative foreign currency differences from cross-currency and interest rate swap	Bank borrowings (Net)	Bank borrowings	Cumulative foreign currency differences from cross-currency and interest rate swap	Bank borrowings (Net)
2016	-	-	-	615.028.929	-	615.028.929
2017	930.013.603	(192.932.000)	737.081.603	348.912.000	(119.540.000)	229.372.000
2018	227.705.056	(77.172.000)	150.533.056	188.292.806	(40.476.000)	147.816.806
2019	101.290.611	-	101.290.611	27.673.611	-	27.673.611
2020	217.864.111	-	217.864.111	27.673.611	-	27.673.611
2021	217.864.111	-	217.864.111	27.673.611	-	27.673.611
2022	206.866.611	-	206.866.611	25.832.361	-	25.832.361
2023	151.765.500	-	151.765.500	-	-	-
	2.053.369.603	(270.104.000)	1.783.265.603	1.261.086.929	(160.016.000)	1.101.070.929

Fair value of the Company's borrowings approximates their carrying value.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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4. FINANCIAL LIABILITIES (Cont'd)

Bank Borrowings (Cont'd)

Company's significant bank borrowings are summarized as follows:

a) USD 60 million borrowing has been used on 26 March 2013. Interest payments has started on 26 September 2013 and will continue until the due date which is 26 March 2017. In order to mitigate the floating interest rate and foreign currency risk of the 4 year-term USD 60 million borrowing which has an interest instalment in every 6 months period and has a USLibor+0,625 interest rate, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 109.032.000 and in a six month interest instalment over 7,29% rate while the USD foreign exchange rate is fixed to TL 1,8172.

b) USD 20 million borrowing has been used on 26 September 2013, with a maturity of 4 years and a once in a six month interest installment of USLibor+0,325 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 40 million, once in a six month interest installment over 8,87% rate and the USD exchange rate to TL 2,0000.

c) USD 20 million borrowing has been used on 24 October 2013, with a maturity of 4 years and a once in a six month interest installment of USLibor+0,325 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 40.170.000, once in a three month interest installment over TRLibor+0,40 rate and the USD exchange rate to TL 2,0085.

d) USD 20 million borrowing has been used on 8 November 2013, with a maturity of 4 years and a once in a six month interest installment of USLibor+0,325 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 40.170.000, once in a three month interest installment over TRLibor+0,40 rate and the USD exchange rate to TL 2,0085.

e) USD 40 million borrowing has been used on 24 March 2014 , with a maturity of 4 years and a once in a six month interest installment of USLibor+0,295 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 89.280.000, once in a six month interest installment over 11,9 % rate and the USD exchange rate to TL 2,2320.

f) USD 20 million borrowing has been used on 30 April 2014, with a maturity of 4 years and a once in a six month interest installment of USLibor+0,295 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 44.700.000, once in a six month interest installment over 11,9% rate and the USD exchange rate to TL 2,2350.

g) USD 25 million borrowing has been used on 29 May 2015, with a maturity of 7 years, no principal payment in first three years and a once in a six month interest installment of USLibor+1,000 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 66.250.000, once in a six month interest installment over 11,25% rate and the USD exchange rate to TL 2,6500.

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4. FINANCIAL LIABILITIES (Cont'd)

Bank Borrowings (Cont'd)

h) USD 25 million borrowing has been used on 4 February 2016, with a maturity of 7 years, no principal payment in first three years and a once in a three month interest installment of USLibor+0,8615 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 73.925.000, once in a three month interest installment over 12,70% rate and the USD exchange rate to TL 2,9570.

i) USD 25 million borrowing has been used on 4 March 2016, with a maturity of 7 years, no principal payment in first three years and a once in a three month interest installment of USLibor+0,8692 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 73.925.000, once in a three month interest installment over 12,70% rate and the USD exchange rate to TL 2,9570.

j) USD 80 million borrowing has been used on 26 August 2016, with a maturity of 7 years, no principal payment in first three years and a once in a three month interest installment of USLibor+1,30 rate. In order to mitigate the floating interest rate and foreign currency risk, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the borrowing to TL 237.600.000, once in a three month interest installment over 10,72% rate and the USD exchange rate to TL 2,9700.

k) TL 70 million spot borrowing has been used on 26 January 2016 with a 1 year maturity. Annual interest rate of the borrowing is 11,90 % and once in a six month interest installment.

l) TL 150 million spot borrowing has been used on 25 March 2016 with a 1 year maturity. Annual interest rate of the borrowing is 11,95 % and once in a six month interest installment.

m) TL 50 million borrowing has been used on 4 March 2016 with 6 years and 4 months maturity, no principal payment in 2 years and 4 months and once in a six month interest installment. Annual interest rate of the borrowing is 12,50 %.

n) TL 90 million spot borrowing has been used on 22 July 2016 with 8 months maturity. Annual interest rate of the borrowing is 10,25 %.

o) TL 90 million spot borrowing has been used on 19 August 2016 with 8 months maturity. Annual interest rate of the borrowing is 9,35%.

p) USD 90 million borrowing has been used on 12 December 2016, with a maturity of 7 years, no principal payment in first three years and a once in a six month interest installment of USLibor+1,90 rate.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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5. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Cross-currency and interest rate swaps	3.077.383	1.279.614	-	-
Option	-	-	5.745.497	-
Foreign exchange forward contracts	-	1.295.700	1.319.688	1.589.322
Short-term	3.077.383	2.575.314	7.065.185	1.589.322
Cross-currency and interest rate swaps	100.025.565	4.560.575	7.433.137	-
Long-term	100.025.565	4.560.575	7.433.137	-
	103.102.948	7.135.889	14.498.322	1.589.322

In order to mitigate the foreign currency risks arising from the Euro exports and US Dollar raw material purchases, the Company enters into Euro Selling/ US Dollar Buying and TL selling/Euro Buying and TL selling/US Dollar Buying forward contracts. Transactions in the first group are carried out within the framework of cash flow hedge accounting and unrealized valuation differences are recognized in equity accounts. As for balance sheet exchange rate hedges are accounted in profit and loss accounts.

The Company purchased Euro 25.000.000 and sold USD 27.500.000 as of 31 December 2015 with the parity of 1.10 and the maturities of option contracts were 30 June 2016 and 30 December 2016, respectively. As a result of the American Vanilla style option contracts, the Company has made a loss of TL 3.956.588.

As of 31 December 2016, the Company's various forward contracts' maturities extend to 03 January 2016 with a total TL 80.053.000 selling and US Dollar 15.000.000 and Euro 7.000.000 buying purposes and has an average USD foreign exchange rate of TL 3,5640 and Euro foreign exchange rate of TL 3,7990 causing a liability of TL 1.295.700 (31 December 2015: of TL 432.000 liability).

As of 31 December 2016, the Company's various forward contracts' maturities extend to 17 January 2017 with a total TL 314.352.000 selling and US Dollar 90.000.000 buying (31 December 2015: TL 155.067.100 selling and US Dollar 51.600.000 buying) purposes and has an average USD foreign exchange rate of TL 3,4928 (31 December 2015: TL 3,0052) causing an asset of TL 3.077.383 (31 December 2015: of TL 1.319.688 asset and TL 1.157.332 liability).

In order to mitigate the floating USLibor+0,625 interest rate and foreign currency risk of the 4 year-term USD 60 million amounting borrowing used on 26 March 2013 which has an interest installment in every 6 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 109.032.000 and the interest rate to 7,29% while the USD foreign exchange rate is fixed to TL 1,8172. As of 31 December 2016, Company has a total asset of TL 101.818.144 arising from this swap transaction. (31 December 2015: TL 70.455.981 asset).

**NOTES TO THE AUDITED FINANCIAL STATEMENTS
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(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

5. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

In order to mitigate the floating USLibor+0,325 interest rate and foreign currency risk of the 4 year-term USD 20 million amounting borrowing used on 26 September 2013 which has an interest instalment in every 6 months, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 40.000.000 and the interest rate to 8,87% while the USD foreign exchange rate is fixed TL 2,0000. As of 31 December 2016, Company has a total asset of TL 30.156.385 arising from this swap transaction. (31 December 2015 : TL 19.232.659 asset)

In order to mitigate the floating USLibor+0,325 interest rate and foreign currency risk of the 4 year-term USD 20 million amounting borrowing used on 24 October 2013 which has an interest instalment in every 6 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 40.170.000 and the interest rate to TRLibor+0,40 with a once in a 3 month interest installment while the USD foreign exchange rate is fixed to TL 2,0085. As of 31 December 2016, Company has a total asset of TL 29.746.818 arising from this swap transaction. (31 December 2015 : TL 16.913.583 asset)

In order to mitigate the floating USLibor+0,325 interest rate and foreign currency risk of the 4 year-term USD 20 million amounting borrowing used on 8 November 2013 which has an interest instalment in every 6 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 40.170.000 and the interest rate to TRLibor+0,40 with a once in a 3 month interest installment while the USD foreign exchange rate is fixed to TL 2,0085. As of 31 December 2016, Company has a total asset of TL 29.931.038 arising from this swap transaction. (31 December 2015: TL 17.175.024 asset).

In order to mitigate the floating USLibor+0,295 interest rate and foreign currency risk of the 4 year-term USD 40 million amounting borrowing used on 24 March 2014 which has an interest instalment in every 6 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 89.280.000 and the interest rate to 11,9 % with a once in a 6 month interest installment while the USD foreign exchange rate is fixed to TL 2,2320. As of 31 December 2016, Company has a total asset of TL 48.060.063 arising from this swap transaction (31 December 2015: TL 24.111.293 asset).

In order to mitigate the floating USLibor+0,295 interest rate and foreign currency risk of the 4 year-term USD 20 million amounting borrowing used on 30 April 2014 which has an interest instalment in every 6 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 44.700.000 and the interest rate to 11,9 % with a once in a 6 month interest installment while the USD foreign exchange rate is fixed to TL 2,2350. As of 31 December 2016, Company has a total asset of TL 24.551.362 arising from this swap transaction (31 December 2015: TL 12.387.072 assets).

In order to mitigate the floating USLibor+1,00 interest rate and foreign currency risk of the 7 year-term USD 25 million amounting borrowing used on 29 May 2015 which has an interest instalment in every 6 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 66.250.000 and the interest rate to 11,25 % with a once in a 6 month interest installment while the USD foreign exchange rate is fixed to TL 2,65. As of 31 December 2016, Company has a total asset of TL 22.474.047 arising from this swap transaction (31 December 2015: TL 7.173.525 assets).

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5. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

In order to mitigate the floating USLibor+0,8615 interest rate and foreign currency risk of the 7 year-term USD 25 million amounting borrowing used on 4 February 2016 which has an interest installement in every 3 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 73.925.000 and the interest rate to 12,70 % with a once in a 3 month interest installment while the USD foreign exchange rate is fixed to TL 2,9570. As of 31 December 2016, Company has a total asset of TL 10.006.834 arising from this swap transaction.

In order to mitigate the floating USLibor+0,8692 interest rate and foreign currency risk of the 7 year-term USD 25 million amounting borrowing used on 4 March 2016 which has an interest installement in every 3 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 73.925.000 and the interest rate to 12,70 % with a once in a 3 month interest installment while the USD foreign exchange rate is fixed to TL 2,9570. As of 31 December 2016, Company has a total asset of TL 10.667.212 arising from this swap transaction.

In order to mitigate the floating USLibor+1,30 interest rate and foreign currency risk of the 7 year-term USD 80 million amounting borrowing used on 26 August 2016 which has an interest installement in every 3 months period, the Company entered into cross currency and interest swap contracts. In accordance with the swap contract, the Company fixed the total borrowing to TL 237.600.000 and the interest rate to 10,72 % with a once in a 3 month interest installment while the USD foreign exchange rate is fixed to TL 2,9700. As of 31 December 2016, Company has a total asset of TL 56.877.473 arising from this swap transaction.

As foreign currency denominated borrowings are hedged by cross currency swap transactions, the foreign currency loss amounting to TL 270.104.000 for 2016 and amounting to TL 160.016.000 for 2015 are offsetted and disclosed under financial liabilities (Note 4).

Quoted prices in markets for similar instruments are used as a basis in valuation of derivative instruments.

During the current period, TL 4.686.835 (2015: TL 44.094.512 income) income has been accounted for relating with the derivative financial instruments that are due.

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6. TRADE RECEIVABLES AND PAYABLES

Trade Receivables

As of the balance sheet date, the Company's trade receivables are as follows:

	31 December 2016	31 December 2015
<u>Short-term trade receivables</u>		
Trade receivables	821.847.225	728.233.938
Notes receivables	12.098.698	17.609.792
Trade receivables from related parties (Note 24)	41.924.144	34.509.332
Unearned credit finance income	(11.750.414)	(8.696.551)
Doubtful receivables provision (-)	(38.242.577)	(9.046.007)
	<u>825.877.076</u>	<u>762.610.504</u>
	31 December 2016	31 December 2015
<u>Long-term trade receivables</u>		
Trade receivables	46.717.535	29.523.216
	<u>46.717.535</u>	<u>29.523.216</u>

As of 31 December 2016, the maturities of trade receivables are 111 days (2015: 90 days) on average and they are discounted with average annual interest rates of 10,39% (2015: 9,97%).

As of 31 December 2016, the receivables amounting to TL 199.983.335 (2015: TL 99.159.980) were past due but nor impaired.

The aging of these receivables as of 31 December 2016 and 2015 is as follows:

	31 December 2016	31 December 2015
Between 0 - 1 months	45.026.152	36.028.327
Between 1 - 3 months	53.436.120	34.712.713
Between 3 - 12 months	101.521.063	28.418.940
	<u>199.983.335</u>	<u>99.159.980</u>

As of 31 December 2016, the trade receivables amounting to TL 38.242.577 (2015: TL 9.046.007) were impaired and provided for.

Most of doubtful receivables are resulted from the dealers / customers that have economic difficulties unexpectedly. It is expected to collect some portion of doubtful receivables.

The allowance for doubtful receivables is determined based on past experiences of collection of receivables.

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6. TRADE RECEIVABLES AND PAYABLES (Cont'd)

Trade Receivables (Cont'd)

Movements in provision for doubtful receivables as of 31 December 2016 and 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Opening balance	9.046.007	7.778.606
Period charge (*)	31.442.572	1.267.401
Write-Off Provisions	(1.804.556)	-
Collections	(441.446)	-
Closing balance	38.242.577	9.046.007

(*) As of 31 Decemer 2016, the foreign currency exchange differences amounting to TL 347.270 arise from the doubtful receivables in foreign currency (2015: TL 402.821).

Trade Payables

As of the balance sheet date, the Company's trade payables detail is as follows:

	31 December 2016	31 December 2015
<u>Short-term trade payables</u>		
Trade payables	219.989.907	159.782.025
Trade payables to related parties (Note 24)	141.026.215	111.088.885
Unrealised credit finance expense	(1.266.415)	(732.229)
	359.749.707	270.138.681
<u>Long-term trade payables</u>		
Trade Payables	28.456	-
Trade payables to related parties (Note 24)	-	518.903
	28.456	518.903

As of 31 December 2016 and 2015, the maturities of trade payables are 52 days on average and they are discounted with average annual interest rates of 10,39% and 9,97% respectively. The Company has financial risk management policy in order to manage the maturity structure of liabilities.

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7. OTHER RECEIVABLES AND PAYABLES

Other Receivables

	31 December 2016	31 December 2015
<u>Other Short-term Receivables</u>		
Other receivables from related parties (Note 24)	92.099	587.407
Receivables from tax office	4.204.206	5.431.832
Due from personnel	5.019.899	2.067.520
Other	1.511.622	1.084.963
	<u>10.827.826</u>	<u>9.171.722</u>
<u>Other Long-term Receivables</u>	31 December 2016	31 December 2015
Deposits and guarantees given	131.280	121.191
	<u>131.280</u>	<u>121.191</u>

Other Payables

	31 December 2016	31 December 2015
<u>Other Payables</u>		
Other payables to public authorities	5.220.923	5.181.949
Other payables to related parties (Note 24)	700.557	443.694
	<u>5.921.480</u>	<u>5.625.643</u>

8. INVENTORIES

	31 December 2016	31 December 2015
Raw materials	50.953.519	53.497.669
Materials and supplies	55.447.998	52.970.844
Semi-finished goods	17.682.814	17.637.254
Finished goods	96.091.716	105.997.149
Trade goods	100.737.706	73.657.297
Goods in transit	49.279.221	54.484.955
Impairment on inventories	(6.125.065)	(612.897)
	<u>364.067.909</u>	<u>357.632.271</u>

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9. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2016	31 December 2015
<u>Short-term Prepaid Expenses</u>		
Advances given to dealers (*)	16.527.551	17.705.126
Prepaid expenses	9.046.435	10.643.676
Prepaid loan commission	2.165.073	-
Advances given to suppliers	3.491.487	3.152.581
	<u>31.230.546</u>	<u>31.501.383</u>

	31 December 2016	31 December 2015
<u>Long-term Prepaid Expenses</u>		
Advances given for fixed assets(**)	142.452.846	74.933.507
Prepaid loan commission	13.281.556	-
Advances given to dealers (*)	26.562.815	43.401.307
Prepaid expenses	2.032.214	2.738.914
	<u>184.329.431</u>	<u>121.073.728</u>

(*) Consists of advances given to dealers which are to be offset with sales premiums.

(**) TL 132.787.547 of advance is mainly given to construction companies as the part of investment for Aksaray Factory (31 December 2015: 65.824.195).

	31 December 2016	31 December 2015
<u>Short-term Deferred Income</u>		
Advances received	9.982.194	12.353.044
Deferred income	4.628.292	3.302.772
Other	-	15.799
	<u>14.610.486</u>	<u>15.671.615</u>

	31 December 2016	31 December 2015
<u>Long-term Deferred Income</u>		
Deferred Income	6.750.733	1.429.510
	<u>6.750.733</u>	<u>1.429.510</u>

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NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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10. PROPERTY, PLANT AND EQUIPMENT

	1 January 2016	Additions	Transfers	Disposals	31 December 2016
Cost					
Land and land improvements	16.504.173	10.500	10.070	-	16.524.743
Buildings	242.964.402	77.204	10.937.196	-	253.978.802
Machinery and equipment	1.458.025.673	53.712	113.338.153	(775.278)	1.570.642.260
Motor vehicles	6.060.228	1.051.563	225.630	(3.300)	7.334.121
Furniture and fixtures	67.684.359	4.669.066	15.086.134	(23.891)	87.415.668
Other fixed assets	69.577.144	13.952.275	894.729	(161.831)	84.262.317
Construction in progress	126.218.541	475.248.767	(147.661.033)	-	453.806.275
	1.987.034.520	495.063.087	(7.169.121)	(964.300)	2.473.964.186
Accumulated depreciation					
Land and land improvements	10.737.566	40.808	-	-	10.778.374
Buildings	148.394.984	3.452.715	-	-	151.847.699
Machinery and equipment	1.098.346.947	56.054.568	-	(363.414)	1.154.038.101
Motor vehicles	3.425.306	645.355	-	(3.300)	4.067.361
Furniture and fixtures	27.678.265	6.827.396	-	(4.850)	34.500.811
Other fixed assets	22.304.493	7.039.047	-	(134.668)	29.208.872
	1.310.887.561	74.059.889	-	(506.232)	1.384.441.218
Net book value	676.146.959	421.003.198	(7.169.121)	(458.068)	1.089.522.968

In the year ended 31 December 2016, TL 44.652.940 of the depreciation expense is charged to "cost of goods sold", TL 298.586 is charged to "research and development expenses", TL 12.376.769 is charged to "selling and marketing costs", TL 2.480.058 charged to general administrative expenses", TL 12.740.024 of the depreciation expense is charged to "inventories", TL 1.511.512 of the depreciation expense is charged to "capitalized development costs",

As of 31 December 2016 there are no mortgages on property, plant and equipment and intangible assets (2015: None).

The capitalized borrowing cost is TL 27.742.226 for the year ended 2016 (2015: 4.982.928).

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10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	1 January 2015	Additions	Transfers	Disposals	31 December 2015
Cost					
Land and land improvements	16.290.188	95.672	118.313	-	16.504.173
Buildings	234.545.921	9.768	8.408.713	-	242.964.402
Machinery and equipment	1.363.236.697	98.385	100.881.870	(6.191.279)	1.458.025.673
Motor vehicles	4.537.478	174.344	1.591.632	(243.226)	6.060.228
Furniture and fixtures	55.376.984	3.998.567	8.373.815	(65.007)	67.684.359
Other fixed assets	47.560.030	11.655.501	10.593.262	(231.649)	69.577.144
Construction in progress	57.927.375	201.299.008	(133.007.842)	-	126.218.541
	1.779.474.673	217.331.245	(3.040.237)	(6.731.161)	1.987.034.520
Accumulated depreciation					
Land and land improvements	10.557.273	180.293	-	-	10.737.566
Buildings	140.641.552	7.753.432	-	-	148.394.984
Machinery and equipment	1.019.688.581	84.461.663	-	(5.803.297)	1.098.346.947
Motor vehicles	3.061.953	528.366	-	(165.013)	3.425.306
Furniture and fixtures	22.145.832	5.561.890	-	(29.457)	27.678.265
Other fixed assets	16.180.000	6.199.882	-	(75.389)	22.304.493
	1.212.275.191	104.685.526	-	(6.073.156)	1.310.887.561
Net book value	567.199.482	112.645.719	(3.040.237)	(658.005)	676.146.959

In the year ended 31 December 2015, TL 79.779.415 of the depreciation expense is charged to "cost of goods sold", TL 720.698 is charged to "research and development expenses", TL 12.122.189 is charged to "selling and marketing costs", TL 2.576.810 charged to general administrative expenses", TL 8.652.587 of the depreciation expense is charged to "inventories", TL 833.827 of the depreciation expense is charged to "capitalized development costs"

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11. INTANGIBLE ASSETS

	1 January 2016	Additions	Transfers	Disposals	31 December 2016
Cost					
Capitalized development costs	11.164.984	12.797.594	-	-	23.962.578
Rights	80.333.073	11.765.412	-	-	92.098.485
Other intangible assets	45.343.322	2.835.500	7.169.121	(402.087)	54.945.856
	136.841.379	27.398.506	7.169.121	(402.087)	171.006.919
Accumulated depreciation					
Capitalized development costs	2.001.484	3.360.346	-	-	5.361.830
Rights	48.542.630	10.441.812	-	-	58.984.442
Other intangible assets	28.781.468	7.301.683	-	(339.712)	35.743.439
	79.325.582	21.103.841	-	(339.712)	100.089.711
Net book value	57.515.797	6.294.665	7.169.121	(62.375)	70.917.208

In the year ended 31 December 2016, TL 1.485.116 of the amortisation expense is charged to "cost of goods sold", TL 3.367.536 is charged to "research and development expenses", TL 10.806.842 is charged to "selling and marketing costs", TL 5.002.393 expense is charged to "general administrative expenses", TL 423.721 is included in "inventories", TL 18.233 of the depreciation expense is charged to "capitalized development costs".

	1 January 2015	Additions	Transfers	Disposals	31 December 2015
Cost					
Capitalized development costs	4.902.682	6.262.302	-	-	11.164.984
Rights	63.520.591	16.812.482	-	-	80.333.073
Other intangible assets	39.983.297	2.348.730	3.040.237	(28.942)	45.343.322
	108.406.570	25.423.514	3.040.237	(28.942)	136.841.379
Accumulated depreciation					
Capitalized development costs	376.841	1.624.643	-	-	2.001.484
Rights	40.086.736	8.455.894	-	-	48.542.630
Other intangible assets	23.067.313	5.743.097	-	(28.942)	28.781.468
	63.530.890	15.823.634	-	(28.942)	79.325.582
Net book value	44.875.680	9.599.880	3.040.237	-	57.515.797

In the year ended 31 December 2016, TL 1.579.101 of the amortisation expense is charged to "cost of goods sold", TL 1.640.036 is charged to "research and development expenses", TL 9.315.143 is charged to "selling and marketing costs", TL 3.100.313 expense is charged to "general administrative expenses", TL 171.264 is included in "inventories", TL 17.777 of the depreciation expense is charged to "capitalized development costs".

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12. PROVISIONS, CONTINGENT AND LIABILITIES

Provisions

	31 December 2016	31 December 2015
<u>Short-term provisions</u>		
Provision for lawsuits (i)	2.310.762	1.863.359
provision for warranty claims (ii)	447.488	866.717
Other	879.484	5.048.562
	<u>3.637.734</u>	<u>7.778.638</u>

- (i) Provision for lawsuits consists of reemployment and occupational accident lawsuits against Company.
- (ii) The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's 24-month warranty program for tires. The estimate has been made on the basis of historical warranty expenses.
- (ii) The other provisions consist mainly of advertising and publicity fees to be billed in next years.

Movements of provisions during the period are as follows:

	Lawsuits	Warranty claims	Other	Total
1 January 2016	1.863.359	866.717	5.048.562	7.778.638
Additions	860.332	426.850	393.892	1.681.074
Payments/ reversals	(412.929)	(846.079)	(4.562.970)	(5.821.978)
31 December 2016	<u>2.310.762</u>	<u>447.488</u>	<u>879.484</u>	<u>3.637.734</u>
	Lawsuits	Warranty claims	Other	Total
1 January 2015	2.356.947	487.633	466.409	3.310.989
Additions	1.051.242	656.382	4.626.856	6.334.480
Payments/ reversals	(1.544.830)	(277.298)	(44.703)	(1.866.831)
31 December 2015	<u>1.863.359</u>	<u>866.717</u>	<u>5.048.562</u>	<u>7.778.638</u>

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13. COMMITMENTS

	31 December 2016	31 December 2015
<u>Guarantees Received</u>		
Direct debiting system limits	209.784.260	233.335.685
Letter of guarantees received	292.580.807	285.543.460
Export insurance	63.365.092	46.103.798
Mortgages	83.548.052	71.235.749
Cheques and notes receivables received as guarantee	30.372.750	14.378.738
Letter of credit	6.717.079	26.568.064
Payment guarantees obtained from banks	6.128.330	9.354.261
Foreign currency blockage received as guarantee	4.875.121	4.782.360
	697.371.491	691.302.115

The Company has obtained bank collaterals and guarantee cheques and notes from its suppliers due to advances given to suppliers for purchases of goods and services.

In addition, the Company has guarantees comprising letters of guarantee received to minimise customer credit risk in forward sales made to domestic customers, encumbrances, debentures and limits for government debt securities allocated to customers through banks and export insurance, bank letters of guarantee, letters of credit, cash blockage and export factoring for trade receivables due from foreign customers on the basis of credit risk management.

Company's total guarantees received from international export insurance company in order to carry out open account transactions with overseas customers have been disclosed as export insurance while the guarantees taken from factoring companies have been accounted for as factoring amount.

The Company benefited from tax Law No. 6736 "Law Regarding the Restructring of Certain Receivables" and paid to tax office the tax principal and default interest total amounting to TL 2.391.526,20 with respect to corporate tax principal amounting to TL 4.232.081 and loss of tax amounting to 7.481.370,99 related to taxation period of year 2011 which was declared in notifications on 27 October 2016. The tax dispute is terminated as a result of payment to tax office.

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13. COMMITMENTS (Cont'd)

Collaterals, Pledges and Mortgages given by the Company:

As of 31 December 2016 and 2015 collaterals, pledges and mortgages ("CPM") given by the Company is as follows:

CPM given by the Company	2016			2016		
	Currency	Amount	TL Equivalent	Currency	Amount	TL Equivalent
A. Total of CPMs given on behalf of own legal personality	TL	7.276.268	7.276.268	TL	5.106.148	5.106.148
	USD	729.951	2.568.844	USD	525.486	1.527.903
	EURO	2.295.936	8.517.693	EURO	2.149.472	6.830.162
B. Total of CPMs given on behalf of subsidiaries consolidated in full	-	-	-	-	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-	-	-	-	-
D. Total amount of other CPM						
i) Total amount of CPM given on behalf of the majority shareholder	-	-	-	-	-	-
ii) Total amount of CPM given to on behalf of other Group companies which are not in scope of B and C	-	-	-	-	-	-
iii) Total amount of CPM given on behalf of third parties which are not in scope of C	-	-	-	-	-	-
			18.362.805			13.464.213

The ratio of other CPM to equity is 0% (2015: 0%)

There are no CPMs given by the Company on behalf of third parties, other than those given on behalf of the Company itself. The guarantees given by the Company comprise guarantees to customs office for import transactions made under the inward processing certificate, guarantees to executive offices for labour matters, guarantees to several governmental institutions to participate in several tenders and guarantee letters to Eximbank A.Ş. for borrowings.

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14. EMPLOYEE BENEFITS

Payables related to employee benefits

	31 December 2016	31 December 2015
Accrued salaries and wages	3.042.168	2.846.885
Accrued social security premiums	12.355.799	6.196.774
Withholding personnel income tax	6.682.149	5.930.439
	22.080.116	14.974.098

Short-term provisions for employee benefits

	31 December 2016	31 December 2015
Bonus accruals	4.650.000	7.045.292
Unused vacation pay provision	4.196.095	3.785.422
	8.846.095	10.830.714

Movements of provisions during the period are as follows:

	Bonus accruals	Unused vacation pay	Total
1 January 2016	7.045.292	3.785.422	10.830.714
Additions	4.650.000	10.660.884	15.310.884
Payments/ Cancellations	(7.045.292)	(10.250.211)	(17.295.503)
31 December 2016	4.650.000	4.196.095	8.846.095
	Bonus accruals	Unused vacation pay	Total
1 January 2015	9.572.668	3.087.263	12.659.931
Additions	7.045.292	8.485.307	15.530.599
Payments/ Cancellations	(9.572.668)	(7.787.148)	(17.359.816)
31 December 2015	7.045.292	3.785.422	10.830.714

Provision for retirement pay liability:

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, is called up for military service, dies or achieves the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 4.297,21 for each period of service at 31 December 2016 (31 December 2015: TL 3.828,37).

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14. EMPLOYEE BENEFITS (Cont'd)

Provision for retirement pay liability (cont'd)

The liability is not funded, as there is no funding requirement. The reserve has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company's defined benefit plan and legal framework in which those companies operate.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees.

TAS 19 "Employee Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly actuarial assumptions used in the calculation of the total liability as these actuarial assumptions are detailed below:

	<u>31 December 2016</u>	<u>31 December 2016</u>
Discount rate (%)	3,30	3,30
Retirement probability (%)	100,00	100,00

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi - annually, the maximum amount of TL 4.426,16 effective from 1 January 2016 (1 January 2015: TL 4.092,53) has been taken into consideration in calculation of provision from employee termination benefits.

The movement of employee termination benefits is as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
As of 1st January	46.586.111	38.391.281
Service cost	9.671.138	11.091.499
Interest cost	1.541.554	1.266.912
Payments during the year	(4.385.444)	(4.163.581)
As of 31st December	<u>53.413.359</u>	<u>46.586.111</u>

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15. OTHER ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
<u>Other Current Assets</u>		
Deferred VAT	11.860.772	6.316.582
Other current assets	49.173	11.308
	11.909.945	6.327.890

16. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

Paid-in capital

The Company's authorised and issued capital consists of 30.511.687.500 shares at Kr 1 nominal value each (2015: 30.511.687.500 shares). All shares are paid and there is no preferred stock. The Company's shareholders and their shareholdings at 31 December 2016 and 2015 are as follows:

<u>Shareholders</u>	<u>(%)</u>	<u>2016</u>	<u>(%)</u>	<u>2016</u>
H.Ö. Sabancı Holding A.Ş.	43,63	133.111.388	43,63	133.111.388
Bridgestone Corporation	43,63	133.111.388	43,63	133.111.388
Other	12,74	38.894.099	12,74	38.894.099
Total paid-in share capital	100,00	305.116.875	100,00	305.116.875

Restricted reserves and retained earnings

As of 31 December 2016 profit reserves comprise the legal reserves amounting to TL 114.135.542 (2015: TL 88.919.684).

The Company's equity table to be considered as a basis for profit distribution is as follows:

	31 December 2016	31 December 2015
Restricted reserves	114.135.542	88.919.684
Net income for the period	80.112.628	197.193.165
Retained earnings	19.049.069	14.001.248
Total equity	213.297.239	300.114.097

Dividend Distribution:

Public companies distribute profit in accordance with Profit Share Communique no II-19.1 issued by CMB effective from 1 February 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of associations.

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17. SALES AND COST OF GOODS SOLD

	1 January- 31 December 2016	1 January- 31 December 2015
Revenue		
Sales	1.973.955.733	2.076.081.823
Sales returns (-)	(25.394.690)	(20.823.311)
Sales discounts (-)	(133.082.431)	(207.294.504)
Other sales discounts (-)	(49.005.621)	(46.088.065)
Net Sales	1.766.472.991	1.801.875.943
Cost of sales	(1.247.912.326)	(1.240.495.578)
Gross profit	518.560.665	561.380.365

18. EXPENSES BY NATURE

	1 January- 31 December 2016	1 January- 31 December 2015
Raw materials used	669.541.944	692.778.298
Personnel expenses	298.971.149	286.650.119
Cost of trade goods sold	191.511.182	189.882.537
Depreciation and amortization	80.470.240	110.833.705
Production overheads	97.942.626	91.902.521
Advertisement expenses	75.236.425	72.851.202
Royalty expenses	31.068.768	28.088.090
Warehouse and office rent expenses	13.503.078	13.516.498
Communication and information technology expenses	11.291.208	9.939.987
ELT (end of life-tire) management service	4.146.999	6.502.408
Service, maintenance expenses	5.770.347	5.486.763
Real estate and stamp tax expenses	5.148.339	3.874.207
Transportation and storage expenses	8.649.803	1.903.319
Energy expenses	1.813.706	2.079.580
Claims for defective tires	1.582.334	1.967.025
Insurance expenses	2.650.496	2.644.395
Change in work in progress	(77.980)	(1.128.723)
Change in finished goods	26.774.279	(14.856.761)
Other	73.958.766	48.009.319
	1.599.953.709	1.552.924.489

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18. EXPENSES BY NATURE (Cont'd)

The functional breakdown of depreciation, amortisation and personnel expenses is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Depreciation and amortization expenses		
Cost of sales	46.138.056	81.358.516
Marketing, selling and distribution expenses	23.183.611	21.437.332
General administrative expenses	7.482.451	5.677.123
Research and development expenses	3.666.122	2.360.734
	80.470.240	110.833.705

	1 January- 31 December 2016	1 January- 31 December 2015
Personnel expenses		
Cost of sales	215.791.729	200.559.190
General administrative expenses	37.574.428	37.678.643
Marketing, selling and distribution expenses	44.281.280	43.145.620
Research and development expenses	1.323.712	5.266.666
	298.971.149	286.650.119

19. OTHER OPERATING INCOME AND EXPENSES

Details of other operating income for years ended 31 December 2016 ve 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Finance income on credit sales	50.057.341	36.179.841
Interest income on credit sales	25.240.074	13.548.333
Foreign exchange gains on operations, net (*)	-	4.849.117
Income from derivative financial instruments, net	-	1.810.328
Interest income	451.064	46.068
Other income	3.484.513	5.084.307
	79.232.992	61.517.994

(*) The amount consists of the foreign exchange gains and losses resulting from trade receivables and payables.

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19. OTHER OPERATING INCOME AND EXPENSES (Cont'd)

Details of other operating expenses for years ended 31 December 2016 ve 2015 are as follows:

	1 January- 31 December 2015	1 January- 31 December 2015
Due date expenses on trade payables	12.517.977	10.320.425
Foreign exchange losses on operations, net (*)	3.158.575	-
Loss from derivative financial instruments, net	2.670.949	-
Other expenses	8.818.451	3.355.421
	27.165.952	13.675.846

(*) The amount consists of the foreign exchange gains and losses resulting from trade receivables and payables.

20. INCOME AND EXPENSES FROM INVESTING ACTIVITIES

	1 January- 31 December 2016	1 January- 31 December 2015
Income from Investing Activities		
Gain on sale of property, plant and equipment	357.307	135.028
	357.307	135.028
Expenses from Investing Activities		
Loss on sale of property, plant and equipment	17.866	415.562
	17.866	415.562

21. FINANCIAL EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Interest expenses on borrowings	151.675.973	88.001.811
Foreign currency (gains) / losses on borrowings, net	15.046.500	8.885.700
Total interest expense	166.722.473	96.887.511
Interest expense included in cost of fixed assets	(27.742.226)	(4.982.928)
	138.980.247	91.904.583
Interest expenses of financial leasing	400	386
	138.980.647	91.904.969

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22. TAXATION ON INCOME

Corporate tax

	31 December 2016	31 December 2015
Corporate tax payable	2.373.090	8.229.172
Less: Prepaid taxes (*)	(1.730.663)	(5.999.111)
	642.427	2.230.061

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the years and periods.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rate in 2016 is 20% (2015: 20%) for the Company.

	1 January- 31 December 2016	1 January- 31 December 2015
Current period corporate tax expense	2.373.090	8.229.172
Deferred tax (income) / expense	(2.540.602)	(814.238)
	(167.512)	7.414.934

Current period tax reconciliation for the years ended 31 December 2016 and 2015 is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
<u>Current tax provision reconciliation:</u>		
Profit before taxation on income	79.945.116	204.608.099
Income tax rate %20 (2015: %20)	(15.989.023)	(40.921.620)
Tax effect:		
- non-taxable income	486.310	474.967
- non-deductible expenses	(1.109.309)	(327.650)
- reduced corporate tax (Note 2)	16.779.534	33.359.369
Tax expense	167.512	(7.414.934)

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22. TAXATION ON INCOME (Cont'd)

Deferred tax

Deferred tax:

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and they are given below.

Tax rates used for deferred income tax assets and liabilities calculated on temporary differences that are expected to be realised or settled based on the taxable income under the liability method are 20% in Turkey (2015: 20%).

The composition of cumulative temporary differences and the related deferred income tax assets and liabilities in respect of items for which deferred income tax has been provided at 31 December 2016 and 2015 using the enacted tax rates are as follows:

	Cumulative temporary differences		Deferred income tax assets/ liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Deferred tax assets				
Provision for employment termination benefits	53.413.359	46.586.111	10.682.672	9.317.222
Allowance for doubtful receivables	29.594.900	4.966.215	5.918.980	993.243
Trade receivables	11.504.482	7.733.355	2.300.896	1.546.671
Derivative instruments	99.616.189	168.045.322	19.923.238	33.609.064
Provision for unused vacation liability	4.196.095	3.785.423	839.219	757.085
Provision for bonus premium	4.650.000	7.045.292	930.000	1.409.058
Provision for lawsuits	2.310.762	1.863.358	462.152	372.672
Provision for warranty claims	447.488	866.717	89.498	173.343
Inventories	10.764.549	14.596.546	2.152.910	2.919.309
Investment incentive (Note 2)	-	-	20.189.828	13.377.449
Other	-	250.000	-	50.000
	216.497.824	255.738.339	63.489.393	64.525.116
Deferred tax liabilities				
Property, plant and equipment	154.412.401	106.774.826	30.882.480	21.354.965
Inventories	1.266.415	732.229	253.283	146.446
Trade payables	101.807.248	169.080.810	20.361.450	33.816.162
Derivative instruments	474.045	-	94.809	-
	257.960.109	276.587.865	51.592.022	55.317.573
Deferred tax assets, net			11.897.371	9.207.543

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22. TAXATION ON INCOME (Cont'd)

Deferred Tax (cont'd)

The movements in deferred income tax assets / (liabilities) for the years ended 31 December 2016 and 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Opening as of 1 January	9.207.543	11.376.382
Recognised in profit or loss statement	2.540.602	814.238
Recognised in equity	149.226	(2.983.077)
Closing as of 31 December	11.897.371	9.207.543

Investment incentive certificate:

In accordance with the 40613 No. Letter on 10 June 2013 from T. C. Ministry of Economy Promoting Implementation and Foreign Investment General Directorate, within the scope of No: 5534 Regional Incentive Applications dated 1 June 2010, in place of existing Investment Incentive Certificate amounting to TL 366.623.571, as a part of Large Scale Investments; Investment Incentive Certificate No. 5534/B amounting to TL 481.014.717 has been arranged. With the amendment mentioned above, the investment amount rose by TL 114.391.146, thus increasing the investment contribution rate from 20% to 30%. Tax deduction rate is 50%.

The duration of certificate was expired on 20 May 2015 and the Company made application to T.C. Ministry of Economy Promoting Implementation and Foreign Investment General Directorate for the closure of the certificate.

The Company utilized reduced corporate tax amounting to TL 12.513.682 for the years ended between the years 2010-2015 and TL 1.084.515 for the period 1 January – 31 December 2016.

The Company's application to T.C. Ministry of Economy Incentive Implementation and Foreign Capital Department for investment incentive in accordance with the investment decision of a second production plant construction in Aksaray Organized Industrial Zone has been approved and as of 13 February 2014, 113798 No. of Investment Incentive Certificate has been drawn up for the plant construction amounting to TL 495.000.000 that had started on 9 October 2013. Provided investment contribution rate is 60% while the tax deduction rate is 90%. In accordance with the incentive mentioned above, Company utilized a reduced corporate tax of TL 46.286.896 in 2013 and 2015 for the secondary manufacturing plant investment to be located in the Aksaray Organized Industrial Zone. The Company utilized reduced corporate tax amounting to TL 8.543.323 for the year ended 31 December 2016.

According the expansion investment decision in İzmit Plant, the investment incentive certificate application of the Company to the Ministry of Economy, Incentive Application and General Directorate of Foreign Investments is approved and under the large-scale investments starting from 21 May 2015 to 21 May 2020, an investment incentive certificate is arranged at 20 August 2015 and numbered 120314 for the expansion investment amounting to TL 690 million. Investment investment incentive certificates provided by the contribution rate of 25%, the tax deduction rate is 50%. The Company utilized a reduced corporate tax of TL 448.802 in 2015 and TL 339.317 for the period 1 January – 31 December 2016.

The Company estimates to utilize TL 473.918.926 reduced corporate tax in the future. In addition to this, since it is not predictable how long the benefit will be utilized, for the foreseeable 3 years a deferred tax asset of TL 20.189.828 and deferred tax income of TL 6.812.379 has been accounted for in the context of prudence.

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23. EARNINGS PER SHARE

Earnings per share for each class of share disclosed in the statements of income is determined by dividing the net income attributable to that class of share by the weighted average number of shares of that class outstanding during the year.

	31 December 2016	31 December 2015
Total number of ordinary shares	30.511.687.500	30.511.687.500
Net profit	80.112.628	197.193.165
Legal reserves	3.067.390	10.048.493
Earnings per usufruct shares (TL)	39.973	102.304
Earnings per ordinary shares (TL)	0,240	0,580

24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Due from related parties as of 31 December 2016 mostly consist of sales transactions and have average maturity of 11 days (2015: 23).

Due to related parties as of 31 December 2016 mostly consist of purchase transactions and have average maturity of 82 days (2015: 86). No interest is charged for payables.

Balances with related parties	31 December 2016			
	Receivables		Payables	
	Short-term		Short-term	
	Trade	Non-trade	Trade	Non-trade
<u>Shareholders</u>				
H. Ö. Sabancı Holding A.Ş.	-	-	10.829	-
Bridgestone Corporation	1.684.855	21.150	26.249.897	687.623
<u>Other related parties</u>				
Bridgestone Singapore Pte. Ltd.	-	-	69.640.848	-
Bridgestone (Shenyang) Steel Cord	-	-	6.182.167	-
Kordsa Global End.İpk Kord Bezi San.Tic.A.Ş.	-	-	20.249.138	-
Enerjisa Enerji Üretim A.Ş.	-	-	4.199.239	-
Bridgestone Europe S.A/N.V.	11.079.662	70.076	5.955.202	-
Temsa Global San.ve Tic. A.Ş.	2.126.111	-	99.050	-
Akbank T.A.Ş (*)	26.048.831	-	-	-
Other	984.685	873	8.439.845	12.934
	<u>41.924.144</u>	<u>92.099</u>	<u>141.026.215</u>	<u>700.557</u>

(*) Due from Akbank T.A.Ş. consists of credit card receivables.

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24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

Balances with related parties	31 December 2015			
	Receivables		Payables	
	Short-term		Short/Long-term	
	Trade	Non-trade	Trade	Non-trade
<u>Shareholders</u>				
Bridgestone Corporation	185.902	513.179	7.544.267	407.013
<u>Other related parties</u>				
Bridgestone Singapore Pte. Ltd.(**)	-	-	68.073.634	-
Bridgestone (Shenyang) Steel Cord	-	-	5.395.285	-
Kordsa Global End.İpk Kord Bezi San.Tic.A.Ş.	-	-	13.550.716	26.754
Enerjisa Enerji Üretim A.Ş.	-	-	5.694.884	-
Bridgestone Europe S.A/N.V.	13.883.594	73.480	4.768.043	-
Temsa Global San.ve Tic. A.Ş.	4.067.157	-	66.392	-
Akbank T.A.Ş (*)	15.689.364	-	-	-
Other	683.315	748	6.514.567	9.927
	<u>34.509.332</u>	<u>587.407</u>	<u>111.607.788</u>	<u>443.694</u>

(**) The Company has long-term trade payables TL 518.903 to Bridgestone Singapore Pte Ltd.

Sales of finished goods and commercial goods	1 January- 31 December 2016	1 January- 31 December 2015
Shareholders		
Bridgestone Corporation	4.897.690	11.422.900
Other related parties		
Bridgestone Europe SA./N.V.	104.898.339	99.220.898
Temsa Global San.ve Tic. A.Ş.	6.229.900	10.534.996
Other	1.722.228	1.354.710
	<u>117.748.157</u>	<u>122.533.504</u>
	1 January- 31 December 2016	1 January- 31 December 2015
Other sales		
Shareholders		
Bridgestone Corporation	641.960	1.205.238
Other related parties		
Other	211.726	233.341
	<u>853.686</u>	<u>1.438.579</u>

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24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

	1 January- 31 December 2016	1 January- 31 December 2015
Purchases of Raw Materials, Semi Finished Goods and Consumables		
Shareholders		
Bridgestone Corporation	1.973.886	1.849.002
Other related parties		
Bridgestone Singapore Pte. Ltd.	157.819.014	183.243.268
Kordsa Glb End. İpl. Kordbezi San. Tic. A.Ş.	57.960.172	58.346.622
Bridgestone (Shenyang) Steel Cord Co.	16.977.822	22.490.793
Bridgestone (Huizhou) Synthetic Rubco. Ltd.	3.683.007	10.732.152
Firestone Polymers, LLC.	5.097.268	6.597.476
Bridgestone Carbon Black Co. Ltd.	2.138.013	2.766.045
Other	1.493.238	2.040.528
	247.142.420	288.065.886
	1 January- 31 December 2016	1 January- 31 December 2015
Purchases of finished goods and commercial goods		
Shareholders		
Bridgestone Corporation	86.122.707	91.554.239
Other related parties		
Bridgestone Europe SA./N.V.	99.630.907	76.703.067
Enerjisa Enerji Üretim A.Ş.	47.232.046	48.575.817
Other	4.032.237	168.205
	237.017.897	217.001.328
	1 January- 31 December 2016	1 January- 31 December 2015
Purchases of services		
Shareholders		
Bridgestone Corporation	-	46.865
H. Ö. Sabancı Holding A.Ş.	114.390	219.470
Other related parties		
Aksigorta A.Ş.	9.252.408	11.067.121
Vista Turizm ve Seyahat A.Ş.	6.364.529	8.029.245
Bimsa Uluslararası İş. Bilgi ve Yön. Sis. A.Ş.	10.050.737	8.749.324
Lasder Lastik San. Derneği İktisadi İşletmesi	7.598.434	6.502.408
Other	1.384.055	2.970.898
	34.764.553	37.585.331

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24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

	1 January- 31 December 2016	1 January- 31 December 2015
Rent expense		
Shareholders		
H. Ö. Sabancı Holding A.Ş.	321.421	325.524
Other related parties		
Exsa Export Sanayi Mamulleri A.Ş.	503.832	387.492
Teknosa İç ve Dış Ticaret A.Ş.	37.700	35.142
	862.953	748.158
Purchase of fixed assets		
Shareholders		
Bridgestone Corporation	97.590.766	4.469.318
Other related parties		
Bimsa Uluslararası İş. Bilgi ve Yön. Sis. A.Ş.	10.022.206	10.903.919
Bridgestone Plant Eng.	3.964.150	2.263.990
Bridgestone Logistics Co.	2.483.293	2.335.388
Other	2.665.769	1.416.776
	116.726.184	21.389.391
Commission expense (Sales premium and Royalty)		
Shareholders		
Bridgestone Corporation	31.068.768	28.088.090
Other related parties		
Other	-	1.408
	31.068.768	28.089.498
Commision income (Sales premium)		
Shareholders		
Bridgestone Corporation	70.476	494.190
	70.476	494.190

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24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

	31 December 2016	31 December 2015
Demand deposits		
Akbank T.A.Ş.	25.746.150	11.802.842
	25.746.150	11.802.842
Credit card slip receivables		
Akbank T.A.Ş.	26.048.831	15.890.455
	26.048.831	15.890.455
Financial liabilities		
Akbank T.A.Ş.	-	4.860.969
	-	4.860.969
Advances given		
Vista Turizm ve Seyahat A.Ş.	-	763.045
Bridgestone Plant Engineering (Thailand) Co.Ltd.	-	813.377
	-	1.576.422
Advances received		
Bridgestone Europe SA./N.V.	384.380	844.388
	384.380	844.388
	1 January- 31 December 2016	1 January- 31 December 2015
Finance income		
Akbank T.A.Ş.	60.569	46.068
	60.569	46.068
Finance expenses		
Akbank T.A.Ş.	61.479	5.315.584
	61.479	5.315.584

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24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Cont'd)

Key management personnel include members of the board of directors, executive board members. The compensation of key management are as follows; Salary, pensions, insurances, termination indemnity, rent and relocation expenses, vehicle rents, fuel and cell phones, provisions etc. The remuneration of key managements for the year ended 31 December 2016 and 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Key management compensation:		
Salaries and other short-term benefits	4.210.371	4.434.380
Employment termination benefits	129.719	152.282
Other long-term benefits	104.980	71.728
	4.445.070	4.658.390

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by Chief Financial Officer of Brisa under policies approved by the board of directors. Chief Financial Officer identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

(a) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below depicts the cash outflows the Company will pay for the financial liabilities in the balance sheet in accordance with the remaining maturities. The amounts in the table are contractual and non-discounted. The Company performs its liquidity risk management by considering expected non-discounted cash flows.

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Liquidity risk (Cont'd)

As of 31 December 2016 and 2015, liquidity risk analysis of the financial liabilities of the Company is as follows:

31 December 2016

	<u>Carrying value</u>	<u>Contractual cash flows</u>	<u>Less than 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>
Contractual maturities						
Non-derivative financial liabilities						
Financial liabilities	2.053.369.603	2.325.472.456	521.074.571	326.311.453	1.276.521.857	201.564.575
Trade payables	359.778.163	361.044.578	361.016.122	-	28.456	-
Other payables	115.260.003	115.260.003	50.899.816	4.196.095	60.164.092	-
Total liabilities	2.528.407.769	2.801.777.037	932.990.509	330.507.548	1.336.714.405	201.564.575

31 December 2015

	<u>Carrying value</u>	<u>Contractual cash flows</u>	<u>Less than 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>
Contractual maturities						
Non-derivative financial liabilities						
Financial liabilities	1.261.086.929	1.417.729.121	263.392.682	411.819.480	715.101.623	27.415.336
Trade payables	270.657.584	271.389.813	270.870.910	-	518.903	-
Other payables	102.896.329	102.896.329	51.095.286	3.785.422	48.015.621	-
Total liabilities	1.634.640.842	1.792.015.263	392.731.133	415.604.902	763.636.147	27.415.336

(b) Market Risk

Interest rate risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. To keep these exposures at a minimum level, the Company tries to borrow at the most suitable rates.

Interest rate risk table of the Company as of 31 December 2016 and 2015 is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Financial instruments with fixed interest rate		
Financial liabilities	1.972.017.822	1.179.140.129
Financial instruments with floating interest rate		
Financial liabilities	81.351.781	81.946.800

At 31 December 2016, if interest rates on TL denominated borrowings had been 5% higher/lower with all other variables held constant, post-tax profit for the year would have been TL 382.384 (2015: TL 472.925) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Market Risk (cont'd)

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Turkish Lira. Foreign Exchange risk is monitored with an analysis of foreign exchange positions. In addition, the company aims to reduce foreign exchange risk arising from assets and liabilities by using currency forward instruments.

The Company has documented officially its currency risk policy practices and derivative transactions under its "Currency Risk Hedge Policy", and performs this practice according to the rules and limits stated in the document and approved by senior management.

Derivative financial instruments

The derivative financial instruments of the Company consist of foreign exchange forward contracts. Such contracts while providing effective economic hedges for the associated risks also qualify for hedge accounting under the requirements of TAS 39 "Financial Instruments: Recognition and Measurement" thus they are accounted for as hedging derivatives financial instruments in the financial statements.

The Company presents the gains and losses relating to the hedging transactions under equity as "hedge reserves".

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Foreign Currency Position

The Company's assets and liabilities denominated in foreign currencies at 31 December 2016 and 2015 are as follows:

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Market Risk (cont'd)

Foreign currency position table

	31 December 2016				
	TL Equivalent (Functional currency)	US Dollar	Euro	JPY	GBP
Cash and cash equivalents	7.972.479	682.966	1.491.639	937.363	1.623
Trade receivables	71.545.443	6.633.780	11.802.031	200.000	1.020.974
Trade receivables from related parties	12.764.516	166.857	3.282.383	-	-
Other receivables from related parties	92.099	4.800	20.272	-	-
Prepaid expenses	1.714.218	204.043	261.383	-	6.123
Current Assets	94.088.755	7.692.446	16.857.708	1.137.363	1.028.720
Trade receivables	23.649	5.845	-	-	713
Prepaid expenses	22.969.502	4.798	6.186.856	-	-
Non-Current Assets	22.993.151	10.643	6.186.856	-	713
Total Assets	117.081.906	7.703.089	23.044.564	1.137.363	1.029.433
Trade payables	75.881.055	7.642.009	12.818.220	39.523.788	57.024
Trade payables to related parties	75.726.425	18.267.594	75.387	371.671.285	-
Other payables to related parties	687.775	43	-	22.901.694	-
Deferred income	8.120.783	666.473	1.556.735	-	-
Short-term portion of long-term bank borrowings	467.444.689	123.300.932	9.036.375	-	-
Current Liabilities	627.860.727	149.877.051	23.486.717	434.096.767	57.024
Long-term bank borrowings	1.073.356.000	305.000.000	-	-	-
Non-Current Liabilities	1.073.356.000	305.000.000	-	-	-
Total Liabilities	1.701.216.727	454.877.051	23.486.717	434.096.767	57.024
Net Foreign Currency Position	(1.584.134.821)	(447.173.962)	(442.153)	(432.959.404)	972.409
Total foreign currency amount of off-balance sheet derivative financial assets (*)	1.585.546.038	443.162.292	7.000.000	-	-
Total foreign currency amount of off-balance sheet derivative financial liabilities(*)	-	-	-	-	-
Net foreign currency position of derivative financial instruments	1.585.546.038	443.162.292	7.000.000	-	-
Net foreign currency asset/ (liability) position	1.411.217	(4.011.670)	6.557.847	(432.959.404)	972.409

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Market Risk (cont'd)

Foreign currency position table

	31 December 2015				
	TL Equivalent (Functional currency)	US Dollar	Euro	JPY	GBP
Cash and cash equivalents	11.316.462	2.179.989	1.513.821	386.043	36.811
Trade receivables	65.035.046	10.510.766	10.010.805	-	619.343
Trade receivables from related parties	14.057.388	-	4.423.901	-	-
Other receivables from related parties	587.468	166.516	32.511	-	-
Prepaid expenses	2.552.476	74.175	734.763	-	470
Current Assets	93.548.840	12.931.446	16.715.801	386.043	656.624
Trade receivables	25.877	7.845	-	-	713
Prepaid expenses	4.393.937	419.295	999.117	-	-
Non-Current Assets	4.419.814	427.140	999.117	-	713
Total Assets	97.968.654	13.358.586	17.714.918	386.043	657.337
Trade payables	42.603.383	5.777.792	8.000.016	8.401.488	42.024
Trade payables to related parties	61.992.327	21.014.992	240.576	5.178.266	-
Other payables to related parties	407.138	43	-	16.903.947	-
Deferred income	11.266.352	2.128.564	1.564.180	-	24.880
Short-term portion of long-term bank borrowings	74.153.432	9.101.076	15.008.542	-	-
Current Liabilities	190.422.632	38.022.467	24.813.314	30.483.701	66.904
Long-term bank borrowings	596.058.000	205.000.000	-	-	-
Long-term payables to related parties	518.903	178.464	-	-	-
Non-Current Liabilities	596.576.903	205.178.464	-	-	-
Total Liabilities	786.999.535	243.200.931	24.813.314	30.483.701	66.904
Net Foreign Currency Position	(689.030.881)	(229.842.345)	(7.098.396)	(30.097.658)	590.433
Total foreign currency amount of off-balance sheet derivative financial assets (*)	702.419.716	224.094.826	16.000.000	-	-
Total foreign currency amount of off-balance sheet derivative financial liabilities(*)	-	-	-	-	-
Net foreign currency position of derivative financial instruments	702.419.716	224.094.826	16.000.000	-	-
Net foreign currency asset/ (liability) position	13.388.835	(5.747.519)	8.901.604	(30.097.658)	590.433

(*) As of 31 December 2015, the Company entered into a number of foreign exchange forwards contracts with banks in order to hedge its exchange rate risk associated with the import and export transactions amounting to USD 51.600.000 USD buying/TL selling.

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Market Risk (cont'd)

The Company is exposed to foreign exchange risk arising primarily with respect to transactions denominated in USD, Euro, GBP and JPY.

The following table details the Company's sensitivity to a 10% increase and decrease in the TL against USD, Euro, GBP and JPY. 10% is used in the reporting of currency risk to the key management and it represents the management's expectation on the potential exchange rate fluctuations. Sensitivity analysis can only be made on the year-end outstanding foreign currency denominated monetary items and it shows the year-end effects of the 10% of exchange currency fluctuation on the related items. The analysis includes foreign loans as well as loans that are denominated other than the creditors' functional currency and used for the Company's foreign transactions. Positive value represents an increase in profit/loss and other equity items.

Foreign currency sensitivity analyze table

	31 December 2016	
	Appreciation of foreign currency	Depreciation of foreign currency
Change in USD against TL by 10%		
1- USD net asset / liability	(157.369.461)	157.369.461
2- Hedged USD (-)	155.957.674	(155.957.674)
3- USD net effect (1 +2)	(1.411.787)	1.411.787
Change in Euro against TL by 10%		
4- Euro net asset / liability	(164.034)	164.034
5- Hedged Euro (-)	2.596.930	(2.596.930)
6- Euro net effect (4+5)	2.432.896	(2.432.896)
Change in other currencies against TL by 10%		
7- Other currencies net asset / liability	(879.987)	879.987
8- Hedged other currencies (-)	-	-
9- Other currencies net effect (7+8)	(879.987)	879.987
TOTAL (3 + 6 +9)	141.122	(141.122)

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)**(b) Market Risk (cont'd)**

	31 December 2015	
	<u>Profit / Loss</u>	
	<u>Appreciation of foreign currency</u>	<u>Depreciation of foreign currency</u>
Change in USD against TL by 10%		
1- USD net asset / liability	(66.828.960)	66.828.960
2- Hedged USD (-)	<u>65.157.811</u>	<u>(65.157.811)</u>
3- USD net effect (1 +2)	<u>(1.671.149)</u>	<u>1.671.149</u>
Change in Euro against TL by 10%		
4- Euro net asset / liability	(2.255.586)	2.255.586
5- Hedged Euro (-)	<u>5.084.160</u>	<u>(5.084.160)</u>
6- Euro net effect (4+5)	<u>2.828.574</u>	<u>(2.828.574)</u>
Change in other currencies against TL by 10%		
7- Other currencies net asset / liability	181.459	(181.459)
8- Hedged other currencies (-)	<u>-</u>	<u>-</u>
9- Other currencies net effect (7+8)	<u>181.459</u>	<u>(181.459)</u>
TOTAL (3 + 6 +9)	<u>1.338.884</u>	<u>(1.338.884)</u>

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Market Risk (cont'd)

Forward contracts

	Parity		Foreign currency		Contract value		Fair value	
	2016	2015	2016	2015	2016	2015	2016	2015
Outstanding forward contracts	TL		Euro / US Dollar		TL		TL	
TL Selling /USD Buying								
Less than 3 months	3,4791	2,9134	105.000.000	36.400.000	367.812.000	106.048.040	2.405.383	921.288
Between 3 - 6 months	-	3,0750	-	31.200.000	-	95.939.060	-	(1.157.322)
More than 6 months	-	-	-	-	-	-	-	-
TL Selling /Euro Buying								
Less than 3 months	3,7990	3,1797	7.000.000	16.000.000	26.593.000	19.887.704	(623.700)	(33.600)
							1.781.683	(269.634)
	Parity		Foreign currency		Contract value		Fair value	
	2016	2015	2016	2015	2016	2015	2016	2015
Outstanding forward contracts	Euro / US Dollar		Euro		USD		TL	
Option								
Euro Selling / USD Buying								
Between 3 - 6 months	-	1,1000	-	25.000.000	-	27.500.000	-	2.518.231
More than 6 months	-	1,1000	-	25.000.000	-	27.500.000	-	3.227.266
							-	5.745.497

The detail information on foreign currency denominated borrowings and cross currency swap transactions is given in disclosures of derivative financial instruments (Note-5).

(c) Funding Risk

The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. The borrowings of the Company are from financially strong various financial institutions.

(d) Credit Risk

Credit risk arises from deposits with banks, as well as credit exposures to customers, including outstanding receivables. Ownership of financial assets involves the risk that counter parties may be unable to meet the terms of their agreements. The Company management covers these risks by limiting the aggregate risk from any individual counter party and if necessary by obtaining guarantee.

The Company uses internal credit control procedure, credit rating system and internal control policy for the credit risk management of receivables from customers. According to these procedures, the Company approves, increases or decreases individual customer credit limits for high balanced customers (excluding related parties). The credit limits are set by taking into account the financial position, past payment performance, the position of trade relations, growth potential and management style of the customers. These limits are annually revised and letter of guarantees, mortgages and other guarantees are received for the high risk customers.

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(d) Credit Risk (cont'd)

As of 31 December 2016, the credit risk regarding the financial instruments is as follows:

Credit risk regarding the financial instruments	Receivables					Derivative Financial Instruments	Other
	Trade Receivables		Other Receivables				
31 December 2016	Related Parties	Third Parties	Related Parties	Third Parties	Bank Deposits		
Maximum credit risk based on financial instruments as of reporting date	41.924.144	783.952.932	92.099	6.531.521	85.729.658	103.102.948	-
- Collateralized or secured with guarantees part of maximum credit risk		530.539.433	-	-	-	-	-
A. Net book value of not due or not impaired financial assets	37.301.753	583.969.597	92.099	6.531.521	85.729.658	103.102.948	-
B. Net book value of past due but not impaired financial assets	4.622.391	199.983.335	-	-	-	-	-
- Collateralized or guaranteed part		57.914.773	-	-	-	-	-
C. Net book value of impaired financial assets							
- Gross amount of overdue part	-	38.242.577	-	-	-	-	-
- Impairment (-)	-	(38.242.577)	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	-	-	-	-	-	-
- Gross amount of not due part	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	-	-	-	-	-	-
D. Off-balance sheet items comprising credit risk							

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(d) Credit Risk (cont'd)

As of 31 December 2015, the credit risk regarding the financial instruments is as follows:

Credit risk regarding the financial instruments	Receivables					
	Trade Receivables		Other Receivables		Bank Deposits	Derivative Financial Instruments
31 December 2015	Related Parties	Third Parties	Related Parties	Third Parties		
Maximum credit risk based on financial instruments as of reporting date	34,509,332	728,101,172	587,407	3,152,483	60,708,859	1,319,688
- Collateralized or secured with guarantees part of maximum credit risk	-	563,544,916	-	-	-	-
A. Net book value of not due or not impaired financial assets	29,886,941	628,941,192	587,407	3,152,483	60,708,859	1,319,688
B. Net book value of past due but not impaired financial assets	4,622,391	99,159,980	-	-	-	-
- Collateralized or guaranteed part	-	23,313,355	-	-	-	-
C. Net book value of impaired financial assets	-	9,046,007	-	-	-	-
- Gross amount of overdue part	-	(9,046,007)	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	-	-	-	-	-
- Gross amount of not due part	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Collateralized or guaranteed part of net value	-	-	-	-	-	-
D. Off-balance sheet items comprising credit risk	-	-	-	-	-	-

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25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(d) *Credit Risk (cont'd)*

The Company assumes that its receivables from the related parties including the ones which are overdue bear no risk of collection since it takes into account that such receivables are to be collected from the companies and that all of such receivables had been collected in the previous periods.

The Company did not make any provisions for doubtful receivables since the overdue receivables are to be collected from the corporate customers who did not delay any collections in the previous periods, and even if they delayed, eventually managed to pay their debts. In addition, when the maturity composition of the receivables which are not impaired are analyzed, it is seen that a little time longer than three months has passed since the maturity date of most of them.

The aging table of the Company's overdue but not impaired trade receivables including due from related parties which takes into account the overdue terms is as follows:

	<u>31 December</u> <u>2016</u>	<u>31 December</u> <u>2015</u>
Between 0 - 1 months	49.303.098	39.389.019
Between 1 - 3 months	53.436.120	35.445.793
Between 3 - 12 months	101.866.508	28.947.559
	<u>204.605.726</u>	<u>103.782.371</u>

(e) *Capital Risk Management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the debt/(total capital+net debt+non-controlling interest) ratio. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents.

As of 31 December 2016 and 2015 Net debt/equity+net debt rates are as follows:

	<u>31 December</u> <u>2016</u>	<u>31 December</u> <u>2015</u>
Capital risk management		
Total liabilities	2.266.082.085	1.478.444.225
Cash and cash equivalents	85.736.102	60.713.519
Net debt	2.180.345.983	1.417.730.706
Equity	570.186.060	657.599.820
Equity+Net debt	<u>2.750.532.043</u>	<u>2.075.330.526</u>
Net debt / (Equity+Net debt)	0,79	0,68

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26.

FINANCIAL INSTRUMENTS

Fair value of financial instruments

	Loans and receivables (including cash and cash equivalents)	Available for sale investments	Financial liabilities at amortized cost	Carrying value	Note
31 December 2016					
<u>Financial assets</u>					
Cash and cash equivalents	85.736.102	-	-	85.736.102	3
Trade receivables	830.670.467	-	-	830.670.467	6
Receivables from related parties	42.016.243	-	-	42.016.243	6
Other receivables	6.531.521	-	-	6.531.521	7
Derivative financial assets	-	-	103.102.948	103.102.948	5
	964.954.333		103.102.948	1.068.057.281	
<u>Financial liabilities</u>					
Financial liabilities	-	2.053.369.603	-	2.053.369.603	4
Trade payables	-	218.723.492	-	218.723.492	6
Payables to related parties	-	141.726.772	-	141.726.772	6
Derivative financial liabilities	-	-	7.135.889	7.135.889	5
		2.413.819.867	7.135.889	2.420.955.756	
31 December 2015					
<u>Financial assets</u>					
Cash and cash equivalents	60.713.519	-	-	60.713.519	3
Trade receivables	757.624.388	-	-	757.624.388	6
Receivables from related parties	35.096.739	-	-	35.096.739	6
Other receivables	3.152.483	-	-	3.152.483	7
Derivative financial assets	-	-	14.498.322	14.498.322	5
	856.587.129		14.498.322	871.085.451	
<u>Financial liabilities</u>					
Financial liabilities	-	1.261.086.929	-	1.261.086.929	4
Trade payables	-	159.049.796	-	159.049.796	6
Payables to related parties	-	111.532.579	-	111.532.579	6
Derivative financial liabilities	-	-	1.589.322	1.589.322	5
		1.531.669.304	1.589.322	1.533.258.626	

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26. FINANCIAL INSTRUMENTS (Cont'd)

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company can realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Monetary assets

The fair values of bank borrowings and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

The fair values of certain financial assets carried at cost, including cash and amounts due from banks, are considered to approximate their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for uncollectibility are estimated to be their fair values.

Monetary liabilities

The fair values of bank borrowings and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Since, long term foreign currency loans generally have floating rate, fair value is close to their book value. Fair value of long term bank loans are discounted amounts of contractual cash flows with the market interest rate (Note 4)

Fair value estimation:

Financial instruments measured at fair value in the balance sheet reclassified as follows:

Level 1: Quoted prices in markets for assets and liabilities

Level 2: Direct or indirect observable inputs for the assets or liabilities other than quoted prices in Market

Level 3: Inputs for the assets and liabilities where observable market data cannot be determined.

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26. FINANCIAL INSTRUMENTS (Cont'd)

Derivative financial instruments

Financial Assets / Financial Liabilities	Fair Value		Fair value hierarchy	Valuation Technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December 2016	31 December 2015				
Forward contracts	(1.295.700)	(269.634)	2	Discounted cash flow method : The future cash flows, predicted by forward foreign currency rate(observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties credit risk.	-	-
Cross-currency swap	97.262.759	7.433.137	2	Discounted cash flow method : The future cash flows, predicted by forward foreign currency rate(observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties credit risk.	-	-
Option	-	5.745.497	2	Discounted cash flow method : The future cash flows, predicted by forward foreign currency rate(observable forward foreign currency rates at reporting date) and the contracted rates, are discounted by a discount rate which indicates other parties credit risk.	-	-

27. EVENTS AFTER THE REPORTING PERIOD

As of 31 January 2017, the Company entered into cross currency and interest swap contracts in order to mitigate the floating interest rate and foreign currency risk of the USD 90 million borrowing which has been used on 12 December 2016 with a maturity of 7 years, no principal payment in first three years, and once in a six month interest instalment of USLibor+1,90 rate. In accordance with the swap contract, the Company fixed the borrowing to TL 347.535.000, once in a six month interest instalment over 13,9650% rate and the USD exchange rate to TL 3,8615.