

## PRESS RELEASE

### Istanbul – December 4, 2015

#### JCR-Eurasia Rating,

has affirmed the credit rating of **Derimod Konfeksiyon Ayakkabı Deri Sanayi ve Ticaret A.Ş.** as **'BBB (Trk)/Stable'** on the Long Term National Scale and **'BBB-/Stable'** on the Long Term International Foreign and Local Currency Scales.

JCR-Eurasia Rating has affirmed the credit rating of Derimod Konfeksiyon Ayakkabı Deri Sanayi ve Ticaret A.Ş. as **'BBB (Trk)'** on the Long Term National Scale with **'Stable'** outlook and **'BBB-'** on the Long Term International Foreign and Local Currency Scales with **'Stable'** outlooks. Other grades are given in the table below:

<b>Long Term International Foreign Currency</b>	: <b>BBB- / (Stable)</b>
<b>Long Term International Local Currency</b>	: <b>BBB- /(Stable)</b>
<b>Long Term National Local Rating</b>	: <b>BBB (Trk) / (Stable)</b>
<b>Short Term International Foreign Currency</b>	: <b>A-3 / (Stable)</b>
<b>Short Term International Local Currency</b>	: <b>A-3 / (Stable)</b>
<b>Short Term National Local Rating</b>	: <b>A-3 (Trk) / (Stable)</b>
<b>Sponsor Support</b>	: <b>2</b>
<b>Stand Alone</b>	: <b>B</b>

Having an operational history exceeding 40 years, **Derimod Konfeksiyon Ayakkabı Deri Sanayi ve Ticaret A.Ş.**, supplies **Deri Konfeksiyon Pazarlama San. ve Tic. A.Ş.ye** (Derimod Pazarlama), who oversees retail operations such as store management, marketing and distribution, with products manufactured in house or procured from domestic and foreign suppliers. Zaim Family is the primary shareholder of the Group companies where 34.40% of Derimod Konfeksiyon's shares were offered to public in 1991 and are traded on the Borsa Istanbul. The Derimod Group, operating more than 90 stores in Turkey, received the support of the Turquality program which facilitates brand building projects and expanded into Russia and Middle East markets. The Group plans to capitalize on their know-how and power in the leather footwear and fashion sector so as to carry the Derimod brand to a wide geographical area. Derimod Group operates its international retail network through leased stores or franchised outlets.

2014 and onwards, Derimod Konfeksiyon started applying a discount to Derimod Pazarlama and it ended the sales & marketing cost-sharing policy with the latter firm which resulted in a fall in net sales even though the operating profitability of Derimod Konfeksiyon is maintained due to limited sales and marketing costs. Owing to the long term weighted funding structure with the 2 year maturity bond issued in 2015, Derimod Konfeksiyon obtained flexibility in liquidity management. Furthermore, Derimod Konfeksiyon has a dynamic support with respect to net working capital management due to the fact that its sole customer and managerially related Derimod Pazarlama is able to determine the collection terms. Derimod Konfeksiyon was exposed to relatively large operating expenses due to additional compliance tests concerning imported leather footwear required by the government coupled with increasing leather apparel acquisition costs on the back of sharp currency movements stemming from the political and economic uncertainties experienced in the current year. On the other hand, the Company management has taken two actions against these challenges such as; performing the required tests of the leather footwear at its source by the manufacturer and updating the existing leather apparel supply contracts such that prices are denominated in TRY for the upcoming periods. In this regard, Derimod Konfeksiyon is expected to preserve its operational profitability, maintain sufficient debt service ratios and ability to generate internal resources which help support the balance of the asset funding structure. Additionally, the Group's ongoing investments in Russia and franchise model market strategy adopted in Middle East, acknowledging the dependency on the macroeconomic outlook, will be continuously monitored with respect to the potential impact of the financial performance.

While the relatively faster growth of the international leather fashion products trade compared to global economic performance is evaluated as a positive factor in terms of the sector outlook, the political and economic risk factors inherent in certain emerging markets coupled with security concerns might induce downward pressures on the sector. Derimod Konfeksiyon's strong market position and brand value, the Group's effective sales and distribution channels, long term resource weighted balance sheet profile and reasonable operating profitability lay the foundations of the Long Term National rating affirmed as **"BBB (Trk)/Stable"**. On the other side, the domestic and export sale performance, reflection to the balance sheet structure of the reduced exposure to foreign currency fluctuations owing to the new acquisition model and sustainability of the diversity of resources will be closely monitored in the following periods.

The willingness of the Company's primary shareholder Ümit Zaim and Zaim Family to support the Company is evaluated by considering the employment opportunities created, current and expected sales performance, growth strategy targeting foreign markets and the Group's brand value and reputation. In this regard, the Sponsor Support Grade is determined as **(2)** denoting an adequate level on JCR-Eurasia Rating's notation scale. Derimod Konfeksiyon's sales and operational performance, 40 years' of sector experience, maturity structure of the receivables and growth potential are evaluated as indicators for its performance to meet its obligations and commitments through its internally generated funds. In this sense, the Stand Alone Grade of the Company is assigned as (B), signifying an adequate level.

For more information related to the rating results you may visit our internet site <http://www.jcrer.com.tr> or contact our analysts **Mr. Şevket GÜLEÇ** and **Mr. Özgür Fuad Engin**.

**JCR EURASIA RATING**  
**Administrative Board**