

## PRESS RELEASE Istanbul – December 19, 2016

## JCR-Eurasia Rating,

within the scope of periodic review, 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:

 Long Term International Foreign Currency
 : BBB-/(Stable)

 Long Term International Local Currency
 : BBB-/(Stable)

 Long Term National Local Rating
 : BBB (Trk) / (Stable)

 Long Term National Issue Rating
 : BBB (Trk)

 Short Term International Foreign Currency
 : A-3 / (Stable)

 Short Term International Local Currency
 : A-3 / (Stable)

 Short Term National Local Rating
 : A-3 (Trk) / (Stable)

 Short Term National Issue Rating
 : A-3 (Trk)

 Sponsor Support
 : 2

 Stand Alone
 : B

Derimod Konfeksiyon Ayakkabi Deri Sanayi ve Ticaret A.Ş., one of the leading leather clothing, accessories and shoe brand of Turkey undertakes the procurement process of the Group while Derimod Deri Konfeksiyon Paz. San. ve Tic. A.Ş engages in the retail, marketing and distribution businesses. The Company provides its merchandise from domestic and foreign suppliers and the Group company realizes the retail sales through its extensive store network and online stores throughout the country. A minority stake of the Company's shares is traded publicly on Istanbul Stock Exchange. The Derimod Group, owned principally by th Zaim family, serves with over 110 branches throughout the country and is expanding its activities to Russia, Cyprus and Middle East markets with the support of Turquality Program. The group management aims to move the Derimod brand to prominent brands in the region using leather clothing and fashion experience and is growing with franchise or direct ownership models in line with market conditions.

The Derimod Group's business volume remained at a flat level following the volatility of household consumption and confidence indices in 2017 and the difficulties created by political / economic uncertainties, compared to the same quarter of the previous year, when the turnover has increased notably due to increasing store count and subsequent inventory requirements. On the other hand, the company, exclusively selling to Group company Derimod Pazarlama, maintains a certain profit margin due to the related group sales policies. While the Group continues to have a turnover trend of XX in the aggregated sense and maintains flexibility in the cash and receivable management provided by Derimod Pazarlama as the sole buyer of the Company. Even though the Company does not have foreign currency debt, FX exposure stemming from imports of leather products, as well as Group foreign exchange-based lease agreements incur a certain level of exposure. Relatively high-cost factoring debts, though low-share in borrowing pool, and increasing leverage put pressure on the profitability performance of the firm. As a group, an efficiency focused strategy strengthened with brand power to be expand into close geography and diversification of target segments so as to boost revenue are planned. In particular, the high potential of the Russian market and the normalization of relations with the aforementioned country are expected to increase the revenues from overseas operations. It is anticipated that Derimod's long-term financial performance will depend on domestic market conditions as well as investments in Russia, Cyprus and the Middle East, consumer confidence and expenditure trends will depend on the geological and geopolitical risks.

Turkey-based leather apparel, footwear and accessories sector, which also exports at significant levels, is expected to improve following the headwinds incurred in 2016 and strengthening relations with Russia, one of the main markets, and to follow developments in consumption habits and global macroeconomic growth. Derimod Konfeksiyon's strong market position and brand value, efficient distribution channels in favorable locations, long-term leaning resource base and modest profitability, as well as the impact of funding costs on net income underpin the Company's Long Term National Rating as "BBB (Trk) / Stable". JCR-ER will continue to monitor the core debt service indicators along with the Company's domestic and international sales performance and cost structure 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 analyst Mr. Özgür Fuad Engin, CFA.

JCR EURASIA RATING Administrative Board