

PRESS RELEASE Istanbul – December 7, 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 Ayakkabı Deri Sanayi ve Ticaret A.Ş. operates for more than 40 years, along with its sister company Derimod Deri Konfeksiyon Paz. San. ve Tic. A.Ş. which undertakes retail operations such as merchandising, marketing and distribution of Derimod Group's products. Merchandise are mostly procured by domestic and foreign suppliers. In 1991, a part of the shares of Derimod Konfeksiyon was offered to the public and are traded on Borsa Istanbul Stock Exchange. Derimod Group, owned by the Zaim Family, has more than 90 stores throughout the country and has been opened to Russia and Middle East markets abroad with the support of Turquality program, which contributes to international branding activities. The group aims to promote Derimod brand to a wide geographical area by using its knowledge and strength in the leather footwear and fashion sector and enlarge its retail network with stores managed by its own management or franchise system in accordance with market conditions.

Revenues of Derimod Konfeksiyon increased notably in 2016, despite headwinds in the domestic economy arising from political and economic difficulties. In the light of the third quarter results, Derimod's year-end performance is expected to be positive with respect to profitability. The Company has been flexible in liquidity management with the help of the 2-year maturity bond issued in 2015 which is expected to be rolled over in 2017. The fact that sister company Derimod Pazarlama is the only buyer of the Company continues support the receivable management process and ease cash management. Additional costs and taxes levied upon the imported leather products induced the Group to procure mostly from domestic suppliers and in local currency which limited the impact of the volatile foreign currency markets on the balance sheet on the balance sheet due to decreasing share of imports. At the group level, the expenditures determined on the foreign exchange, especially the store rentals, constitute a pressure element. In 2016, Derimod Group expanded its domestic branch network, increasing the cash requirements to a certain extent. The current profitability of the Company are expected to be preserved at moderate net debt to EBITDA multiples. In 2016, regional tensions and issues arising from foreign developments pressurized the international growth prospects. The Group continued to monitor the potential impacts of the external developments on the ongoing foreign expansion in the current year. In this regard, we believe Derimod's financial performance in the long run will, in addition to strong domestic presence, take into account the ongoing cross-border investments in Russia and the franchise model and continued market strategy in the Middle East, as well as its dependence on cyclical macroeconomic outlook and geopolitical risks.

The long-term outlook of the global leather apparel, footwear and accessories sector is limited by economic macro and political risks while regional macroeconomic growth might be supported by consumption habits and rising middle class of leading developing countries. In this sense, the sector outlook might become more favorable than that of the global macroeconomic prospects. Derimod Konfeksiyon's strong market position and brand value, effective distribution channels of the Group, the balance sheet structure and the reasonable profitability level and expected preservation of the weight of long term resources constitute the main elements of the Company's Long Term National Rating confirmed as "BBB (Trk) / Stable". Nevertheless, JCR-ER will continue to monitor domestic and international revenue generating power, sales cost trend and key debt service indicators 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**.

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Administrative Board