SAHA
Corporate Governance and Credit Rating Services Inc.

ÇİNİGAZ DOĞALGAZ DAĞITIM SANAYİ VE TİCARET A.Ş.

30 July 2019

Credit Rating

Long-term (National):
(TR) A+

Outlook:
Stable

Short-term (National):
(TR) A1

Outlook:
Stable

Çinigaz Doğalgaz Dağıtım Sanayi ve Ticaret A.Ş.

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Rating Summary

Established in 2003, Çinigaz Doğalgaz Dağıtım ve Sanayi Ticaret A.Ş. ("the Company") has been authorized by the Energy Market Regulatory Authority (EMRA) to conduct natural gas distribution and sales in Kütahya province for 30 years as of 2004 within the framework of the Natural Gas Market Law No. 4646. The Company took over the natural gas distribution and connection systems in Kütahya province from Boru Hatları ile Petrol Taşıma A.Ş. (BOTAŞ) and gave a start to distribution and sales activities.

The Company's headquarters is located in Ankara and has offices in Kütahya and its districts.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, Çinigaz received a long term rating of (TR) A+ and short term rating of (TR) A1.

Strengths and Risks

Strengths

- Predictable cash flow with low volatility
- Financial structure resistant to currency shocks
- Low financial liability ratio
- Increasing penetration rate due to investments and increasing number of subscribers over the years

Risks

- Possible effects of geopolitical risks on energy prices
- The negative impact of macroeconomic slowdown on natural gas demand
- The requirement to keep costs and expenditures within the limits budgeted and approved by EMRA
- Increasing trend in financing costs

Outlook

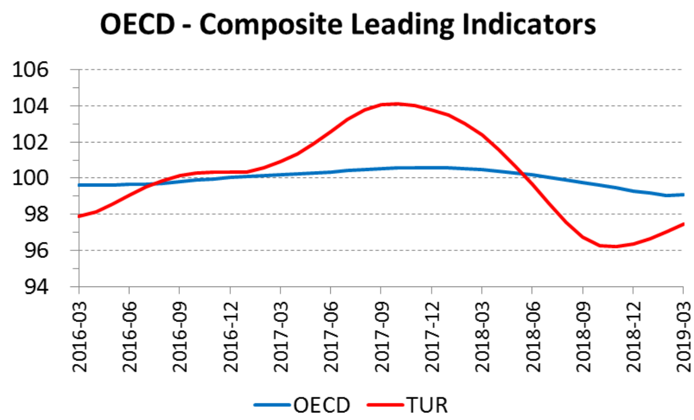
The Company is the only establishment authorized by EMRA to distribute natural gas in the Kütahya province for the next 15 years. It has a predictable cash flow within the scope of natural gas sales tariff designated by the regulatory authority which will be valid between 2018 and 2021. In addition, investments related to the expansion zones are continuing. When these factors are evaluated together with its sustainable financial structure, the Company's outlook is evaluated as “**Stable**”.

Macro-Economic Outlook and Analysis of the Industry

Since the beginning of 2018, downward revisions have been made at various dates on the relatively optimistic 2019 and 2020 global growth forecasts of international organizations such as the International Monetary Fund (IMF), World Bank and Organization for Economic Co-operation and Development (OECD). The table below presents the previous and most recent global growth forecasts of these organizations.

Organization	Source	2019 (Current)	2019 (Previous)	2020 (Current)	2020 (Previous)
IMF	July 2019 World Economic Outlook Report (previous: April 2019)	**3.2% ↓**	**3.3%**	**3.5% ↓**	**3.6%**
World Bank	June 2019 Global Economic Prospects Report (previous: April 2019)	**2.6% ↓**	**2.9%**	**2.7% ↓**	**2.8%**
OECD	May 2019 Economic Outlook Report (previous: March 2019)	**3.2% ↓**	**3.3%**	**3.4% ↔**	**3.4%**

Worries of escalating trade wars between the US and China, the possibility of an Argentina and Turkey originated foreign exchange/debt crisis which might spread to emerging markets, a no-deal Brexit, a higher than anticipated slowdown in China, and increasing geopolitical risks are the main reasons for the downward revisions.



The declining trend of OECD Composite Leading Indicators in both OECD countries and Turkey by mid-2018 seems to have started to recover since the end of the year, but the contraction is still ongoing.

On the other hand, the main elements which will most likely effect the emerging market countries including Turkey in 2019 are financial tightening, risks arising from financial conditions, risks due to increased protectionism and political risks.

In addition to the interest rate policy of the US Federal Reserve (FED), its balance sheet reduction policy led to the strengthening of the dollar index as a result of which the increased borrowing costs deteriorated the risk perception. This led to a significant increase in volatility and capital outflows in emerging markets within the past year. Along with the aforementioned global effects, a significant increase in exchange and interest rate volatility was observed in Turkey's economy, stemming from both international and domestic political dynamics. In light of these developments, the Central Bank of the Republic of Turkey (CBT) intervened by raising the weekly repo rate, which is the policy rate, from 17.75 percent to 24.00 percent at its September 2018 meeting. This interest level remained unchanged for nine months and following the July 2019 monetary policy meeting, the policy rate was reduced by 425 bps to 19.75 percent. The following table shows the IMF, OECD and the World Bank's 2019-2020 growth forecasts for Turkey.

Organization	Source	2019 (Current)	2019 (Previous)	2020 (Current)	2020 (Previous)
IMF	April 2019 World Economic Outlook Report (previous: January 2019)	**-2.5% ↓**	**0.4%**	**2.5% ↓**	**2.6%**
World Bank	June 2019 Global Economic Prospects Report (previous: January 2019)	**-1.0% ↓**	**1.6%**	**3.0% ↔**	**3.0%**
OECD	May 2019 Economic Outlook Report (previous: March 2019)	**-2.6% ↓**	**-1.8%**	**1.6% ↓**	**3.2%**

The FED increased its policy rate by 100 bps in total in March, June, September and finally in December of 2018, bringing it to the 2.25-2.50 percent range. This trend is based on the strengthening of the labor market and compliance criteria for the "symmetric" inflation target of 2 percent. The first meeting of 2019 was held in January. Holding the federal funds rate at 2.25–2.50 percent, the FED has signaled that it will be patient and will follow a data-driven policy. The FED's declaration following the January 2019 meeting; "We do not want the balance sheet reduction plan to lead to turbulence in the market" was also noteworthy. When the FED strengthened its message of being patient about the interest rate hike in January by not changing the interest rate level at the March 2019

Monetary Policy meeting, policy makers reduced the number of interest rate hike forecasts for 2019 from two to zero. Another issue focused on at the Fed meeting was the balance sheet reduction operation. This operation is foreseen to end in 2019 and it is stated that it will slow down as of May. At the FED's May 2019 meeting, it was emphasized that the patient stance should be maintained and the policy rate was left at the current level. The fact that the FED, which did not change interest rates once again at the June meeting and gave up its emphasis on "patient stance" strengthened the expectation on interest rate reduction in 2019.

The main macroeconomic developments in Turkey as of our reporting date can be summarized as follows:

Indicator	Previous Value	Current Value	Summary
Growth (TUIK)	2018-Q4 **-3.0%**	2019-Q1 **-2.6%**	Gross Domestic Product 2019-Q1 initial estimate decreased by 2.6% as a chained volume index (2009=100) measure, compared to the same quarter of the previous year (2018-Q4: 3% decline). On the other hand, seasonally and calendar adjusted GDP chained volume index increased by 1.3% quarter-on-quarter.
Unemployment (TUIK)	2019/03 **14.1%**	2019/04 **13.0%**	The number of unemployed in Turkey aged 15 and over was 4,202,000 in April 2019, an increase of 1,116,000 compared to the same period of 2018. The unemployment rate rose by 3.4 points to 13.0%.Within the same period, the non-farm unemployment rate was estimated at 15.0%, up 3.6 percentage points. While the unemployment rate among the young population (15-24 years) was 23.2% with an increase of 6.3 points, it was 13.3% in the 15-64 age groups corresponding to an increase of 3.5 percentage points.
Inflation **- CPI** **- PPI** (TUIK)	2019/05 **18.71%** **28.71%**	2019/06 **15.72%** **25.04%**	The rise in CPI (2003=100) in June 2019 was 0.03% compared to the previous month, 5.01% compared to December of the previous year and 15.72% compared to the same month of the previous year (May: 18.71%). The twelve-month average was an increase of 19.88%. Rise in the Domestic Producer Price Index (D-PPI) in June 2019 was 0.09% compared to the previous month, 8.09% compared to December of the previous year and 25.04% compared to the same month of the previous year (May: 28.71%). The twelve-month average was an increase of 32.81%.
Budget Balance (TL Billion) (Ministry of Treasury and Finance)	2019/05 **-12.1**	2019/06 **-12.1**	According to the budget execution results of June 2019, Central Administration Budget posted a deficit of TL 12.1 billion in June and TL 78.6 billion in January-June period.
Current Account Balance (USD Million) (CBT)	2019/04 **-1,334**	2019/05 **151**	In May, current account surplus was realized as USD 151 million. In the same month of the previous year, the current account balance posted a deficit of USD 6,172 million. As a result, the 12-month current account deficit was USD 2,370 million.
Industrial Production Index (TUIK)	2019/04 **-4.0%**	2019/05 **-1.3%**	Calendar adjusted Industrial Production Index decreased by 1.3 percent in May 2019 compared to the same month of the previous year (April 2019: 4.0 percent decrease). Compared to previous month, 1.3 percent increase has been recorded within this period.
Turkish PMI (Istanbul Chamber of Industry-IHS Markit)	2019/05 **45.3**	2019/06 **47.9**	Istanbul Chamber of Industry Turkish Manufacturing PMI index which was 45.3 in May rose to 47.9 in June. Even though the index value remained below the threshold value for the 15th consecutive month (all figures measured above the threshold value of 50 indicates improvement in the sector), it was the highest value of the last 11 months.
Consumer Confidence Index (TUIK,CBT)	2019/06 **57.6**	2019/07 **56.5**	Seasonally adjusted consumer confidence index based on the consumer trend survey decreased by 2.0% in July compared to the previous month and the index value which was 57.6 in June was announced as 56.5 in July.

Indicator	Previous Value	Current Value	Summary
Banking Sector NPL Ratio (BRSA)	2019/04 **4.05%**	2019/05 **4.18%**	As of May 2019, the asset size of the Turkish Banking Sector was TL 4,269,772 million. Total assets of the sector increased by TL 402,346 million (10.4%) compared to the end of 2018. Loans, which is the largest asset item, was TL 2,548,020 million and securities were TL 576,964 million in May 2019. Compared to the end of 2018, total asset size of the sector increased by 10.4%, total loans increased by 6.4% and total securities increased by 20.7%. On the other hand, deposits increased by 11.4% compared to end-2018 and reached TL 2,268,835 million.
Banking Capital Adequacy Ratio (BRSA)	2019/04 **16.89%**	2019/05 **17.07%**	In May 2019, the shareholders' equity of the Turkish Banking Sector increased by 4.0% compared to the end of 2018 and reached TL 439,111 million.
Housing Sales (TUIK)	2019/05 **82,252**	2019/06 **61,355**	61,355 residential sales were realized across Turkey in June 2019. Thus, the number of houses sold in June decreased by 48.6% compared to the same month of the previous year. Mortgage sales decreased by 84.6% compared to the same month of the previous year to 7,319 units.
Car and Light Commercial Vehicle Sales (ODD)	2019/05 **33,016**	2019/06 **42,688**	Car and light commercial vehicle sales in Turkey decreased by 16.36% in June compared to the previous year, receding to 42,688 units. Total sales of cars and light commercial vehicles decreased by 44.77% in January-June period to 195,144 units.
Euro Zone PMI (IHS Markit)	2019/06 **47.6**	2019/07 **46.4**	The manufacturing sector indicator stood at 46.4 in July 2019. As a result, PMI data indicated a decline in the sixth consecutive month. In the PMI indicator, below 50 level signals a contraction in the sector and 50 and above indicates a growth.
Euro Zone Growth (Eurostat)	2018-Q4 **1.1%**	2019-Q1 **1.2%**	In the Euro Zone, GDP grew by 1.2% in the first quarter of the year compared to the same period of the previous year (2018-Q4: 1.1%). In the same period, growth was 0.4% compared to the previous quarter. Expectation was 0.3%.

According to EMRA data, in Turkey there are 72 natural gas distributor firms operating at 510 settlement areas in 81 provinces. According to data released by TUIK, population of Turkey increased by 1% compared to 2017 and reached 82 million. According to data obtained from the 2018 industry report of the Natural Gas Distribution Companies Association of Turkey (GAZBIR), in terms of total population, natural gas distribution reached to over 66 million in 2018 with an increase of 4.1 million compared to the previous year. Consequently, penetration rate increased to 80 percent. Furthermore, by the end of 2018 the number of natural gas subscribers in Turkey increased by 9% compared to 2017 and reached 15.4 million. The development of the number of subscribers was in line with the average growth rate of the last 5 years, the 9 percent trend.

m3	2015	2016	2017	2018	% Change
Imports	48,427.08	46,352.17	55,249.95	50,360.58	-8.85
Production	381.37	367.28	354.15	428.17	20.9
Exports	623.94	674.68	630.67	673.29	6.76
Consumption	47,999.26	46,395.06	53,857.14	49,328.93	-8.41
Year-end Inventory	2,126.76	1,700.25	2,948.37	3,167.23	7.42

Source: EMRA

According to the EMRA data, in 2018 the total natural gas consumption in Turkey decreased by 8.8 percent compared to 2017 and was realized as 50.4 billion m^3. The total Turkish natural gas consumption in the last 5 years is 48.5 billion m^3 on average. In 2018, the highest consumption was realized in power plants with a share of 37%, while 26% of the total consumption were realized in homes, 25% in industry and 8% in services. Natural gas consumption in houses decreased by 6% in 2018 compared to 2017 and was realized as 12.7 billion m^3. Although housing consumption has increased every year in the last 10 years, total natural gas consumption in 2018 has decreased due to the fact that temperatures were well above the seasonal average. The residential consumption volume follows a seasonal cycle. Natural gas distribution companies have a higher cash flow in winter and lower cash generation in summer. On the other hand, the amount of natural gas used in electricity generation decreased by 12% compared to 2017 due to the increase in natural gas prices and realized as 18 billion m^3. EMRA announced the total natural gas consumption forecast for 2019 to be 52.1 billion m^3.

99% of Turkish natural gas demand depends on imports. Most of these imports are realized by BOTAŞ. Looking at the sales prices of BOTAŞ, it can be seen that there is a high correlation with Brent oil prices. On the other hand, the increase in exchange rates was the determinant of the increase in natural gas prices in 2018.

In addition to variables such as the course of exchange rates and weather conditions, difficult to foresee risks such as the effect of geopolitical risks to energy prices in general stand out as determinants. Thus, increasing population and penetration rates, urbanization and industrialization are expected to increase the total demand for natural gas in the forthcoming years.

Company Overview

Established in 2003, the Company is engaged in natural gas distribution and sales. The Company has obtained a distribution license from EMRA to distribute and sell natural gas in Kütahya province for a period of 30 years as of January 13, 2004 within the framework of the Natural Gas Market Law no. 4646. The Company took over the natural gas distribution and connection systems in the Kütahya province from BOTAŞ on January 4, 2005 and started gas distribution and sales activities. In the following years, in addition to Kütahya city center, the Company expanded its natural gas distribution and sales rights area to Tavşanlı, Emet, Gediz, Tepecik and Çavdarhisar districts of Kütahya.

The Company is the only distribution company in the region holding license rights. Monopoly market conditions are prevailing under market regulation measures where the Company is subject to expansion and operation commitments by investing in natural gas distribution infrastructure. Accordingly, the Company's strategy is to increase the number of subscribers as it expands its field of activity.

As of the end of 2018, the Company has 60 employees (2017: 48). The current equity structure of the Company is as follows:

Shareholder	Equity (TL)	Share (%)
Abdullah Rasim Akdoğan	46,170,000	81.00
Mayorship of Kütahya (*)	5,700,000	10.00
Gülten Sevin Akdoğan	2,850,000	5.00
Mehmet Yılmaz Akdoğan	1,140,000	2.00
Akın Can Akdoğan	1,140,000	2.00
Total	**57,000,000**	**100.00**

(*)Pursuant to the Natural Gas Market Law no. 4646, natural gas distribution companies are obliged to transfer the shares representing 10 percent of the capital to the local governments in the region where they operate.

Abdullah Rasim Akdoğan, the controlling shareholder of the Company, is in control of the Company. Other companies in the same risk group under the control of Abdullah Rasim Akdoğan and Akdoğan Family are as follows:

Company	Scope of Activity
Setaş İnşaat Ticaret ve San. A.Ş.	Founded in 1975, the company is mainly engaged in infrastructure contracting. Since its establishment, it has been involved in many projects of institutions such as State Hydraulic Works, General Directorate of Eti Mine Works and Ministry of National Defense. The company also undertook the natural gas infrastructure projects of Çinigaz in Kütahya.
Binatom Elektrik Üretim A.Ş.	Established in 2002, the company produces electricity from natural gas in Gediz and Emet districts of Kütahya within the scope of the production licenses it has received from EMRA. The Company purchases natural gas from Çinigaz.
Setel Elektrik İhr. İth. ve Toptan Satış A.Ş.	Established in 2008, the company sells electricity within the scope of EMRA licenses. Depending on the market conditions, purchases are from various suppliers, primarily Enerji Piyasaları İşletmesi A.Ş. and Binatom Elektrik Üretim A.Ş. The company sells to various corporate companies as well as entities within the group.
Setgaz Doğalgaz İth. İhr. ve Toptan Satış A.Ş.	The company was established in 2008 to export and import natural gas within the scope of EMRA license. The company, which is inactive as of the date of this report, is expected to be operational in the coming years.
Set Varlık Kiralama A.Ş.	The company is established to issue lease certificates exclusively in accordance with the CMB's Communiqué on Lease Certificates (III-61.1) published in the Official Gazette dated June 7, 2013 and numbered 28670. Setaş İnşaat A.Ş. owns 100 percent of the company.

Key Financial Indicators

Balance Sheet (000 TL)	2016	2017	2018	Δ 2017		Δ 2018	
Current Assets	**52.745**	**50.746**	**62.705**	(3,8%)	▼	23,6%	▲
Cash and cash equivalents	26.623	31.577	30.669	18,6%	▲	(2,9%)	▼
Trade receivables	19.949	17.844	27.189	(10,6%)	▼	52,4%	▲
Other receivables	721	190	172	(73,6%)	▼	(9,5%)	▼
Inventories	71	73	118	2,8%	▲	61,6%	▲
Other current assets	5.381	1.062	4.557	(80,3%)	▼	329,1%	▲
Assets to be sold	-	-	-		—		—
Fixed assets	**133.496**	**145.669**	**172.918**	9,1%	▲	18,7%	▲
Tangible assets	126.836	138.007	165.487	8,8%	▲	19,9%	▲
Intangible assets	58	556	595	858,6%	▲	7,0%	▲
Financial investments	-	-	-		—		—
Valuation of equity investments	-	-	-		—		—
Deferred tax assets	6.602	7.106	6.836	7,6%	▲	(3,8%)	▼
Other fixed assets	-	-	-		—		—
Total Assets	**186.241**	**196.415**	**235.623**	5,5%	▲	20,0%	▲
Short term liabilities	**92.012**	**96.363**	**112.083**	4,7%	▲	16,3%	▲
Short term financial loans	-	-	-		—		—
Current portion of long term loans	2.897	13.234	109	356,8%	▲	(99,2%)	▼
Trade payables	71.173	65.343	102.708	(8,2%)	▼	57,2%	▲
Other short term liabilities	17.942	17.786	9.266	(0,9%)	▼	(47,9%)	▼
Long term liabilities	**68.666**	**66.983**	**85.198**	(2,5%)	▼	27,2%	▲
Long term financial loans	12.317	-	5.000	(100,0%)	▼		—
Other long term liabilities	56.349	66.983	80.198	18,9%	▲	19,7%	▲
Equity	**25.563**	**33.069**	**38.342**	29,4%	▲	15,9%	▲
Paid-in capital	40.000	48.000	57.000	20,0%	▲	18,8%	▲
Other equity	(9)	(51)	10	466,7%	▲	(119,6%)	▼
Legal capital reserves	1.830	2.539	3.064	38,7%	▲	20,7%	▲
Retained earnings	(26.234)	(24.966)	(26.944)	(4,8%)	▼	7,9%	▲
Net Income	9.976	7.547	5.212	(24,3%)	▼	(30,9%)	▼
Total Liabilities & Equity	**186.241**	**196.415**	**235.623**	5,5%	▲	20,0%	▲

Income Statement (000 TL)	2016	2017	2018	Δ 2017		Δ 2018	
Sales revenue	230.228	230.514	293.264	0,1%	▲	27,2%	▲
COGS	214.335	212.689	277.889	(0,8%)	▼	30,7%	▲
Gross operational profit	**15.893**	**17.825**	**15.375**	12,2%	▲	(13,7%)	▼
Operational costs (R&D+Sales+Admin. Costs)	2.589	4.078	3.882	57,5%	▲	(4,8%)	▼
Net operational profit	**13.304**	**13.747**	**11.493**	3,3%	▲	(16,4%)	▼
Other operational costs	469	321	216	(31,6%)	▼	(32,7%)	▼
Operational profit	**12.835**	**14.068**	**11.709**	9,6%	▲	(16,8%)	▼
Profit/Loss from investments	152	83	309	(45,4%)	▼	272,3%	▲
Net capital gains by equity method	-	-	-		—		—
Profit Before Interest	**12.987**	**14.151**	**12.018**	9,0%	▲	(15,1%)	▼
İnterest income	2.408	3.704	6.957	53,8%	▲	87,8%	▲
Interest expenses	2.916	8.341	12.224	186,0%	▲	46,6%	▲
Net Income before tax	**12.479**	**9.514**	**6.751**	(23,8%)	▼	(29,0%)	▼
Taxes	2.503	1.967	1.539	(21,4%)	▼	(21,8%)	▼
Ongoing operations net income	**9.976**	**7.547**	**5.212**	(24,3%)	▼	(30,9%)	▼
Net income from terminated operations	9.976	7.547	5.212	(24,3%)	▼	(30,9%)	▼
Net Income	**9.976**	**7.547**	**5.212**	(24,3%)	▼	(30,9%)	▼
Depreciation and amortizations	7.550	7.471	8.605	(1,0%)	▼	15,2%	▲

The Company's income consists mainly of sales of natural gas to its subscribers, transport revenues generated by pipelines and connection revenues. In addition to increasing its subscriber base, the Company aims to grow by increasing the penetration rate through infrastructure investments. In 2018, the number of subscribers increased by 11 percent compared to the previous year (2017: 8 percent).

In addition to the increase in the number of subscribers as of end of 2018, revenues increased by 27 percent compared to the previous year due to the increase in natural gas prices. On the other hand, turnover development is also related to the deviation of temperatures from seasonal averages. According to GAZBİR's "consumption sensitivity index", which is used to measure the reaction of consumers' average household consumption to temperature change, sensitivity of Kütahya region in which the Company operates is determined as "medium" (scale: high-medium-low). Another issue that will affect the sales volume of the Company in the coming period will be the course of natural gas demand of the industrial sector, which has the highest share in annual volume. Such demand is closely related to the changes in the price of natural gas. In light of all these factors, considering the increasing population/subscriber numbers, penetration rates and recent developments in industrialization in Kütahya, the Company's revenues are expected to increase in the forthcoming periods.

The Company increased its profitability ratios in general in 2017 compared to the previous year but a relative decrease was observed in the profitability ratios of 2018. The Company is the only establishment authorized by EMRA to distribute natural gas in Kütahya province for 30 years starting from 2004. There is no price competition. According to the Natural Gas Market Tariffs Regulation; retail price to be applied by the distribution company is composed of purchase price per unit of natural gas, system usage fee and tax and similar financial liabilities. This price is the upper limit of the retail price to be applied by the distribution company. The natural gas unit sales price is determined by BOTAŞ and has no direct impact on the profit margins of the Company. On the other hand, the "system usage fee" is determined within the framework of the procedures and principles determined by the regulatory authority in such a way that it is allowed to obtain a reasonable return to meet the fixed and variable costs of the Company and to sustain the investments. In this sense, efficient management of the Company's investment/capital expenditures, operational expenses and working capital costs and remaining within the budget limits approved by the regulatory authority is important for the income statement items.

EMRA has increased the tariff (reasonable rate of return) applied since 2012 from 11.83 percent to 12.85 percent valid between 2018 and 2021. Thereby, the Company's predictable and low volatility cash flow until 2021 is a positive factor in our evaluation.

The Company does not have any foreign currency liabilities and the foreign exchange loss reflected to the income statement of 2018 arises from the realization of the loss incurred on closure of the USD denominated loan used in previous years. As of the end of 2018, the net foreign currency position was TL (+) 1.6 million and the income statement has no negative sensitivity to possible exchange rate shocks.

As of the end of 2018, the Company does not have any short term financial liabilities. The majority of trade payables are due to natural gas purchases from BOTAŞ, and the infrastructure works undertaker Setaş İnşaat, which is under the same risk group as the Company. In addition to the bank loans used for investment purposes, deferred connection revenues and provisionary deposits received from the subscribers for the coming years are included in the long-term debt accounts.

Thanks to the change in operating capital, the Company increased its ability to generate operational cash and reduced its financial liabilities. The Company has no restrictions on access to financing. According to the declaration of the Company officials, the available credit gap (usable limit/total limit) in the banks is 95 percent as of the date of our report.

Financial Ratios

Main Financial Ratios	2016	2017	2018
Liquidity			
Net working capital / Total Assets	-0,21	-0,23	-0,21
Current ratio - Current assets / Short-term liabilities)	0,57	0,53	0,56
Acid-test ratio - (Current assets-Inventories) / Short-term liabilities	0,57	0,53	0,56
Cash ratio - Cash & equivalents / Short-term liabilities	0,29	0,33	0,27
Financial structure			
Leverage ratio - Liabilities / Equity	6,29	4,94	5,15
Debt ratio - Liabilities / Total Assets	0,86	0,83	0,84
Short-term liabilities / Liabilities	0,57	0,59	0,57
Short-term liabilities / Total Assets	0,49	0,49	0,48
Short-term financial liabilities / Short-term liabilities	0,03	0,14	0,00
Financial debt / Total Assets	0,08	0,07	0,02
Operational ratios			
Receivables turnover rate - Revenues / Trade Receivables	11,54	12,92	10,79
Trade payables turnover rate - COGS / Trade payables	3,01	3,25	2,71
Current assets turnover rate - Revenues / Current assets	4,36	4,54	4,68
Working capital turnover rate - Revenues / Net working capital	-5,86	-5,05	-5,94
Tangible assets turnover rate - Revenues / Tangible assets	1,82	1,67	1,77
Equity turnover rate - Revenues / Equity	9,01	6,97	7,65
Asset turnover rate - Revenues / Total Assets	1,24	1,17	1,24
Profitability			
Gross operating profit margin - GOP / Revenues	6,9%	7,7%	5,2%
EBITDA Margin (1) - (Operational profit + Depreciation) / Revenues	8,9%	9,3%	6,9%
EBITDA Margin (2) - (GOP- Operational costs + Depreciation) / Revenues	9,1%	9,2%	6,9%
Operational profit margin - Operational profit / Revenues	5,6%	6,1%	4,0%
Net profit margin - Net Income / Revenues	4,3%	3,3%	1,8%
COGS / Revenues	93,1%	92,3%	94,8%
Operational Costs / Revenues	1,1%	1,8%	1,3%
Asset profitability - Net Income / Total Assets	5,4%	3,8%	2,2%
Equity profitability - Net Income / Equity	39,0%	22,8%	13,6%

Corporate Governance

Examining the corporate governance practices, it was observed that since the Company is not subject to CMB provisions it has not provided exact compliance with the Corporate Governance Principles and has not yet implemented most of the necessary policies and measures. On the other hand, it has been concluded that the rights of shareholders and stakeholders are observed in a fair manner. The public disclosure and transparency activities are found to be sufficient given that the Company is not offered to the public. In general, there are areas for improvement in terms of Corporate Governance practices.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of SAHA Score which measures the Company’s distance from the point of default, its performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Default probability analysis measures a statistical distance to the point of default making use of industry specific significant financial ratios based on industry peer sample companies’ past financial performance and default statistics. Comparative performance analysis determines the relative position of the company as compared with industry peers’ financial performances and industry averages. The financial risk analysis of our methodology covers the evaluation of the Company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis evaluates the Company’s performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency is once again revealed in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long term credit ratings reflects our present opinion regarding the mid to long term period of one year and above; Our short term credit ratings reflects our opinion regarding a period of one year. Our long term credit rating results start from AAA showing the highest quality grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered "investment worthy" by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company level and/or economic and financial conditions may increase investment risk, but not significantly.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer's capacity to fulfill its obligations may weaken in face of adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B1, B2, C categories should be considered "speculative" by the market.

(TR) B1	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may unfold.
(TR) B2	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below investment grade. In considerable danger of default. Fulfillment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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This report, edited by SAHA A.Ş. analysts based on their best intentions, knowledge base and experience, is the product of an in-depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment decisions or other purposes.

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