Rating Summary

ÇİNİGAZ DOĞALGAZ DAĞITIM SANAYİ VE TİCARET A.Ş.

21 September 2022

Credit Rating

Long-term (National):

(TR) A+

Outlook:

Stable

Short-term (National):

(TR) A1

Outlook:

Stable

Expiry Date:

21 September 2023

Çinigaz Doğalgaz Dağıtım Sanayi ve Ticaret A.Ş.
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Established in 2003, Çinigaz Doğalgaz Dağıtım ve Sanayi Ticaret A.Ş. ("the Company" or "Çinigaz") 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. Çinigaz took over the distribution and connection systems in the Kütahya Region from Boru Hatları ile Petrol Taşıma A.Ş. ("BOTAŞ") in 2005 and gave a start to gas distribution and sales activities. The Company's headquarters is located in Ankara with 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's long term-rating of (TR) A+ and its short-term rating of (TR) A1 is hereby reconfirmed.

Previous Rating (September 21, 2021)

Long Term: (TR) A+

Short Term: (TR) A1

Outlook

Çinigaz is the only company authorized by EMRA to distribute natural gas in the Kütahya region for 30 years, effective from 2004.

According to the Company's 2021 year-end financial results, sales revenues increased by 50.2% to TL 657.9 million (2020: TL 438.1 million). Within the same period, the gross profit increased by 53.7% and reached TL 34.3 million (2020: TL 22.3 million). The EBITDA ratio on the other hand, increased to 6% (2020: 5.6%) due to the increased revenues.

As of December 31, 2021, the Company has no foreign currency liability and does not hold a net foreign currency position. In this sense, the income statement is not sensitive to possible exchange rate fluctuations.

As of 2021, the total financial liabilities are TL 24 million, while current cash and cash equivalents are around TL 41 million.

Natural gas demand of the industrial sector, which is closely related to the level of macroeconomic activity and the course of energy prices, continues to be one of the determining factors in the business volume of the Company. On the other hand, evaluating the increasing population/subscriber number and penetration rates, regulated monopoly position in the local market, low net financial obligation along with the ability of Çinigaz to access finance, the Company's outlook has been determined as **"Stable"**. On the other hand, the economic consequences of recent extraordinary developments in the global money and capital markets are closely monitored by us and their possible effects on the Company will be evaluated during the surveillance period.

Macroeconomic Outlook and Industry Data

The most current and previous global growth projections of international organizations such as the International Monetary Fund (IMF), the World Bank and the Organization for Economic Development and Cooperation (OECD) for 2022 and 2023 are given below:

Organization	Source	2022		2023	
		(Current)	(Previous)	(Current)	(Previous)
IMF	July 2022 World Economic Outlook Report (prev.: April 2022)	**3.2% ↓**	**3.6%**	**2.9% ↓**	**3.6%**
World Bank	June 2022 World Economic Prospects Report (prev.: January 2022)	**%2.9↓**	**4.1%**	**%3.0↓**	**3.2%**
OECD	June 2022 Interim Economic Outlook Report (prev.: March 2022 Economic Outlook Report)	**%3.0↓**	**3.4%**	**%2.8↓**	**3.2%**

OECD's June 2022 Interim Economic Outlook report recalling that the world economy entered a period of strong growth after the outbreak before the war, stressed that the situation in Ukraine and supply chain disruptions adversely affected the economic recovery. The report, which stated that "Countries around the world are affected by high commodity prices, which increase inflationary pressures, restrict real incomes and spending, and further slow the recovery", added that the slowdown in growth is the price of war. The report noted that the impact of a weakening supply chain, commodity price pressures and rising interest rates will be felt throughout 2023, and that core inflation will be close to or above central bank targets in many major economies by the end of the year.

The IMF Global Economic Outlook report published in July this year, stated that in view of current risks, the outlook remains on the downside. According to the report, due to the war in the Ukraine, European gas imports from Russia may experience a sudden cutback, curbing down inflation may prove to be more difficult than expected, tighter global financial conditions in emerging economies may cause debt distress, the Covid-19 quarantine in China may escalate the real estate crisis and suppress growth even further, while the deepening geopolitical divide may hinder global trade and cooperation. The report also stated that increasing prices continue to squeeze the living standards around the world, adding that controlling inflation should be the first priority for policymakers.

The international credit rating agency Fitch Ratings, has reduced its 2022 global economic growth forecast from 2.9% to 2.4%. The Fitch report stated that inflation and tightening monetary policy will reduce the growth rate of the world economy, while global inflation pressures continue to intensify with increasingly negative effects on the growth outlook. The report noted that recent quarantine measures in China have contributed to global manufacturing supply chain pressures. The cuts in energy and food supplies caused by the Russia-Ukraine war have also affected European inflation faster than expected, the report said.

The US inflation rate, which started the past year with 1.5%, rose to 5.0% by May and continued with an increasing pace scoring a monthly 1.3% in June 2022, while the annual increase of 9.1% showed the highest rate recorded since November 1981. The inflation rate slowed down in July and was realized as 8.1% below expectations. The FED which increased its policy rate to the %0,25-0,50 range in its FOMC March meeting, for the first time since November 2018, further increased the policy rate by 50 basis points at the May meeting, and consecutively 75 basis points at the June and July meetings, totaling 225 basis points. Thus, the funding interest was raised to the range of 2.25%-2.50%. In the meeting minutes published by the FOMC, it was stated that continuing to raise the policy rate would be appropriate in order to reach the maximum employment and the inflation target of 2% in the long run, as Russia's war against Ukraine creates additional upward pressures on inflation. According to projections, the median Fed policymaker expects to further raise interest rates to roughly 3.4% by the end of the year.

The US gross domestic product grew by 6.9% in the last quarter of 2021, while it recorded the strongest growth since 1984 with 5.7% last year due to the impact of the post-epidemic recovery. In the first quarter of 2022, it has contracted by 1.5%.

In the European Economic Forecast's Spring 2022 Report published by the European Union Commission, the EU and the Eurozone economy is projected to grow by 2.7% this year and 2.3% in 2023, and this year's growth expectations have been revised downwards. The EU Commission has increased its inflation expectation for the Eurozone from 3.5% to 6.1% for 2022 and from 1.7% to 2.7% for 2023. The inflation forecast for the EU has also been increased from 3.9% to 6.8% for 2022 and from 1.9% to 3.2% for 2023.

The International Monetary Fund (IMF) Executive Board warned in a briefing about the effects of the Russian-Ukrainian war and the potential financial aids for the affected countries, that inflationary pressures on wheat and other grains, including energy and commodity prices, will be rising. According to the statement, as the world is trying to recover from supply chain disruptions caused by the Covid-19 pandemic, the recent developments have further increased uncertainties. It was also stated that with the sanctions imposed on the Russian Federation, the ability to pay for imports 3 and engage in cross-border financial transactions was impaired significantly. As a result, the ongoing war and related sanctions is expected to have serious contractional effects on the global economy.

The table below gives the last official growth forecasts of the IMF, OECD and World Bank for 2022-2023 for Turkey, which grew by 11% in 2021. The World Bank stated in its Global Economic Prospects report that the that the 2022 growth forecast for Turkey is 2.3%, 3.2% for 2023 and 4.0% for 2024. In the OECD Economic Outlook report, the GDP growth forecast for Turkey for 2022 was increased from 3.3% to 3.7% and reduced from 3.9% to 3.0% for 2023. In the assessment, it was stated that growth will remain moderate during the projection period after a strong recovery in 2021. In its World Economic Outlook report for July, the IMF revised Turkey's growth forecast for 2022 from 2.7% to 4.0%. The forecast for 2023 was increased from 3.0% to 3.5%.

Organization	Source	2022		2023	
		(Current)	(Previous)	(Current)	(Previous)
IMF	July 2022 World Economic Outlook Report (prev.: April 2022)	**4.0% ↑**	**2.7%**	**3.5% ↑**	**3.0%**
World Bank	June 2022 Economic Update Spring Report (prev.: April 2022)	**2.3%↑**	**1.4%**	**3.2%↔**	**3.2%**
OECD	June 2022 Economic Outlook Report (prev.: November 2021 Interim Report)	**3.7%↑**	**3.3%**	**3.0%↓**	**3.9%**

The international rating agency S&P has reduced its GDP growth forecast for Turkey for 2022 from 3.7% to 2.4% and for 2023 from 3.1% to 2.9%. It increased its GDP growth forecast for 2024 from 3.0% to 3.3%.

After raising the policy rate to 19% with an increase of 200 bps at the March 2021 meeting, the CBT lowered it by 100 bps to 18% at the September MPC meeting, the first rate cut in 1.5 years. The MPC lowered the policy rate by 200 bps to 16% at the October meeting and finally to 14% after cutting 100 basis points in each consecutive meetings in November and December. After keeping the policy rate steady at 14% in the first 7 meetings of 2022, the Board decided to reduce the policy rate by 100 basis points at the August meeting, stating that it is important to support financial conditions in terms of maintaining the momentum achieved in industrial production and the upward trend in employment at a time when uncertainties and geopolitical risks for global growth are increasing.

The USD/TL rate, which was 8.63 before the interest rate cut in September, spiked to 18.36 after the last interest rate cut in December of 2021. With the government's prompt implementation of the "Currency protected TL time deposits" program, the exchange rate dropped rapidly and the 2021 year-end USD/TL rate came down to 13.33. However, as a result of increased risks following the Russian invasion of Ukraine, the exchange rates moved into a steady upward trend again.

Turkey's five-year credit default swap (CDS) premiums exceeded 900 and reached the highest level after 2008. Turkey's lowest CDS premium in 2022 was recorded in February 13th with 509.51, and the highest was recorded on July 16th, 2022 with a score of 908.4. The latest bond issuance in USD by the Turkish Treasury issued within the framework of the external financing program for 2022, was in March, with a maturity of 5 years and a coupon rate of 8.6%. As the FED is expected to tighten its monetary policy, the expectations are that the Turkish CDS premiums and borrowing costs might rise further.

In the third inflation report of the year, the Central Bank raised its inflation forecasts. Accordingly, the 2022 CPI inflation forecast was increased from 42.8% to 60.4% and the 2023 year-end forecast was increased from 12.9% to 19.2%. For the end of 2024, it has been predicted that inflation will continue its downward trend, decreasing to 8.8%.

According to the results of the Foreign Trade Expectation Survey performed quarterly by the Ministry of Commerce, the Export Expectation Index for the 3rd quarter of 2022 decreased by 2.2 points compared to the previous quarter, to 119.1. The Import Expectation Index, on the other hand, decreased by 2 points compared to the previous quarter to 108.6.

The main macro-economic developments in Turkey as of our reporting date can be summarized as follows:

Indicator	Current Value	Previous Value	Summary
Growth (TUIK)	2022-Q2 **7.6%**	2022-Q1 **7.3%**	The GDP chained volume index increased by 7.6% compared to the same quarter of the previous year as of Q1 this year. Analyzing its constituent parts, the value added increased by 26.6% in finance and insurance, 18.1% in services, 11.0% in professional, administrative and support service activities, 7.8% in industry, 5.3% in information and communication, 4.1% in real estate activities, 1.9% in other service activities, and 1.7% in public administration, education, human health and social work activities. Agriculture, forestry and fisheries decreased by 2.9% and the construction sector by 10.9%.
Unemployment (TUIK)	2022/07 **10.1%**	2022/06 **10.3%**	The number of unemployed in Turkey aged 15 and above was 3,445,000 in July 2022 with a decrease of 113,000 compared to the previous month. The unemployment rate was estimated at 10.1% with 0.2 percentage point decrease compared to the previous month. The number of employed decreased by 148,000 in July 2022 compared to the previous month to 30,608,000 persons compared to the previous month. The employment rate was recorded as 47.3% with 0.3 percentage points decrease.
Inflation **CPI** **PPI** (TUIK)	2022/08 **80.2%** **143.75%**	2022/07 **79.6%** **144.61%**	The rise in CPI in August was 1.46% compared to the previous month, 47.85% compared to December of the previous year and 80.21% compared to the same month of 2021. The 12-month average was an increase of 54.69%. PPI increased by 2.41% in August compared to the previous month, by 74.13% compared to December of the previous year and 143.75% compared to the same month of 2021. The 12-month average was an increase of 105.39%.
Industrial Production Index (TUIK)	2022/06 **8.5%**	2022/05 **9.1%**	The Industrial Production Index increased by 8.5% in June 2022 compared to the same month last year. When the sub-sectors are analyzed, mining and quarrying index decreased by 7.1%, manufacturing index increased by 10.0% and electricity, gas, steam and air conditioning supply index increased by 0.6% in June 2022, compared with same month of previous year.
Car & Light Commercial Vehicle Sales (ODD)	2022/08 **458,446**	2022/07 **410,110**	The Turkish automobile and light commercial vehicles total market in January-August 2022 decreased by 8.5 % YoY and amounted to 458,446 units. On the other hand, in July 2022 passenger car and light commercial vehicle market decreased by %17.3 compared to August of 2021, to 48,336 units.
Housing Sales (TUIK)	2022/07 **93,902**	2022/06 **150,509**	Residential sales in Turkey decreased by 12.9% in July 2022 compared to the same month of the previous year with 93,902 units. Istanbul got the lions share with 14,350 units sold (15.3%).
Turkish PMI (ISO-IHS Markit)	2022/08 **47.4**	2022/07 **46.9**	The headline PMI, which was 46.9 in July, rose to 47.4 in August. Although operating conditions weakened for the sixth month in a row, the latest survey data indicated that the deterioration in the manufacturing sector slowed slightly.
Eurozone PMI (IHS Markit)	2022/08 **49.6**	2022/07 **49.8**	Eurozone Manufacturing Purchasing Managers Index (PMI), announced by IHS Markit, decreased to 49.6 points in August from 49.8 points in July.
Consumer Confidence Index (TUIK, CBT)	2022/08 **72.2**	2022/07 **68.0**	Seasonally adjusted consumer confidence index calculated from the results of the consumer tendency survey carried out in cooperation with the Turkish Statistical Institute and Central Bank of the Republic of Turkey increased by 6.1% in August compared to the previous month. The index became 72.2 in August while it was 68.0 in July.
Banking Sector NPL Ratio (BRSA)	2022/07 **2.42%**	2022/06 **2.49%**	The asset size of the Turkish Banking Sector in July 2022 increased by 3.5% compared to the end of 2021 reaching TL 12,304,480 million, loans increased by 32.9% to TL 6,511,631 million and securities by 38.0% to TL 2,037,307 million. In this period, the NPL ratio of loans was 2.42%.
Budget Balance (TL Billion) (Min. of Treasury and Finance)	2022/07 **-64.0**	2022/06 **-31.1**	In July 2022, the central government budget expenditures were TL 261.0 billion, budget revenues were TL 197.0 billion and the budget deficit was TL 64.0 billion. In addition, primary budget expenditures were realized as TL 244.3 billion and the primary deficit was TL 47.3 billion.

Indicator	Current Value	Previous Value	Summary
Current Account Balance ($ Million) (CBT)	2022/07 **-4,010**	2022/06 **-3,458**	The current account deficit increased by USD 3,700 million compared to July of the previous year and was realized as USD 4,010 million. As a result, the twelve-month current account deficit was USD 36,585 million.

According to the data released by EMRA, as of June 30, 2022, there are total of 72 natural gas distribution companies operating at 81 provinces of Turkey (same as of Dec. 31, 2021). As of end-2021, the total length of steel pipelines increased by 5.21% compared to the previous year and reached approximately 15,702 km., and the length of polyethylene pipelines increased by 7.02% compared to the previous year, reaching to 108,617 km.

As of the end of 2021, the total number of subscribers have reached 17,885,750 with an increase of 6.17% compared to the previous year, and the number of free consumers increased by 1.91% to 667,953. The natural gas consumption of the subscribers of the companies holding natural gas distribution licenses increased by 6.39% compared to the previous year, reaching 16,101.74 million Sm3 in 2021. The natural gas consumption of free consumers increased by 18.88% within the same year compared to the previous year to 11,614.54 million Sm3. The table below gives the annual general view of the natural gas market.

Natural Gas Market Overview (Sm3 million);

(Sm^3 million)	2017	2018	2019	2020	2021	Δ2021 (%)
Imports	55,249.95	50,282.05	45,211.47	48,125.51	58,703.93	21.98
Production	354.15	428.17	473.87	441.27	394.44	(10.61)
Exports	630.67	673.29	762.68	577.52	382.89	(33.70)
Consumption	53,857.14	49,204.14	45,285.50	48,261.35	59,854.17	24.02
Year-end Inventory	2,948.37	3,167.23	3,095.44	2,852.00	1,914.17	(32.88)

(*Source: EMRA*)

Comparison of Import-Export-Production-Consumption in 2021 (January-June) and 2022 (January-June) (Sm3 million);

(Sm3 million)	2021 (January-June)	2022 (January-June)	Change (%)
Imports	30,313.83	30,825.81	1.69
Production	201.66	181.26	(10.45)
Exports	218.07	272.64	25.02
Consumption	31,438.52	31,958.45	0.45

(*Source: EMRA*)

Company Overview

Established in 2003, Çinigaz is engaged in natural gas distribution and sales and has obtained a distribution license from EMRA to distribute and sell natural gas in Kütahya 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 Region 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.

Çinigaz is the only distributor in the region in where it holds the license rights. In this sense, although there are monopoly market conditions, there are expansion and operation obligations within the region by investing in natural gas distribution infrastructure, in line with market regulations. In parallel, the Company's strategy is to expand its area of activity and increase the number of subscribers.

The current capital structure of Çinigaz, housing 90 employees as of end-2021 (2019: 94) is as follows:

Shareholders	Ownership Interest (TL)	Ownership Interest (%)
Abdullah Rasim Akdoğan	50,920,000	76
Akın Can Akdoğan	8,040,000	12
Municipality of Kütahya (*)	6,700,000	10
Mehmet Yılmaz Akdoğan	1,340,000	2
Total	**67,000,000**	**100**

(*) 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.

The management and capital control of the company belongs to Mr. Abdullah Rasim Akdoğan. 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, is mainly engaged in infrastructure contracting. Since its establishment, he has been involved in many projects of institutions such as State Hydraulic Works, General Directorate of Eti Mine Works and Ministry of National Defense, also undertaking 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. İt 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.	Established to issue lease certificates exclusively in accordance with the CMB's Communiqué on Lease Certificates (III-61.1) published in the Official Gazette dd. June 7, 2013 – No: 28670. Setaş İnşaat A.Ş. owns 100% of the company.

Key Financial Indicators

Income Statement (TL '000')	2019/12	2020/12	2021/12	2020 %		2021 %	
Sales	341,465	438,135	657,978	28.3%	▲	50.2%	▲
COGS (-)	327,174	415,824	623,687	27.1%	▲	50.0%	▲
Gross Profit	**14,291**	**22,312**	**34,290**	56.1%	▲	53.7%	▲
Operating Expenses (-)	8,885	11,587	11,524	30.4%	▲	(0.5%)	▼
Net Real Operating Income	**5,406**	**10,725**	**22,766**	98.4%	▲	112.3%	▲
Other Real Operating Income/Loss	2,132	2,098	(2,096)	(1.6%)	▼	(199.9%)	▼
Real Operating Income	**7,539**	**12,823**	**20,670**	70.1%	▲	61.2%	▲
Net Income Loss from Investments	300	213	623	(29.0%)	▼	192.5%	▲
Pre-financing Operating Profit	**7,839**	**13,036**	**21,293**	66.3%	▲	63.3%	▲
Financing Expense (-)	5,522	5,536	18,732	0.2%	▲	238.4%	▲
Pre-tax Profit	**2,317**	**7,500**	**2,561**	223.7%	▲	(65.9%)	▼
Taxes (-)	(613)	2,946	703	580.5%	▲	(76.1%)	▼
Net Profit	**2,930**	**4,554**	**3,264**	55.4%	▲	(28.3%)	▼

Balance Sheet (TL '000')	2019/12	2020/12	2021/12	2020 %		2021 %	
Current Assets	**70,722**	**71,546**	**157,677**	1,2%	▲	120,4%	▲
Cash and Cash Equivalents	30,966	28,958	40,914	(6,5%)	▼	41,3%	▲
Trade Receivables	34,088	38,537	113,214	13,1%	▲	193,8%	▲
Other Receivables	269	409	292	52,0%	▲	(28,6%)	▼
Inventory	135	145	755	6,9%	▲	422,1%	▲
Other Current Assets	5,264	3,497	1,881	(33,6%)	▼	(82,3%)	▼
Fixed Assets	**203,761**	**228,160**	**240,504**	12,0%	▲	5,4%	▲
Tangible Fixed Assets	190,259	216,673	226,436	13,9%	▲	4,5%	▲
Right of Use Assets	1,837	1,701	1,565	(7,4%)	▼	(8,0%)	▼
Intangible Assets	1,399	1,476	1,616	5,5%	▲	9,5%	▲
Deferred Tax Assets	10,266	8,311	10,887	(19,0%)	▼	31,0%	▲
Total Assets	**274,484**	**299,706**	**398,181**	9,2%	▲	32,9%	▲
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Short Term Liabilities	**130,384**	**127,828**	**211,490**	(2.0%)	▼	65.4%	▲
Financial Liabilities	-	-	-		—		—
ST Portion of LT Financial Liabilities	6,348	11,583	20,901	82.5%	▲	80.4%	▲
Trade Payables	111,544	95,044	155,499	(14.8%)	▼	63.6%	▲
Other ST Liabilities	12,493	21,201	35,090	69.7%	▲	65.5%	▲
Long Term Liabilities	**109,792**	**132,505**	**144,027**	20.7%	▲	8.7%	▲
Financial Liabilities	12,068	21,977	3,045	82.1%	▲	(86.1%)	▼
Other Provisions for Liabilities and Expenses	97,724	110,528	140,982	13.1%	▲	27.6%	▲
Equity	**34,308**	**39,373**	**42,664**	14.8%	▲	8.4%	▲
Paid-in Capital	57,000	57,000	67,000	0.0%	—	17.5%	—
Other	(420)	91	118	121.8%	▲	29.5%	▲
Reserves on Retained Earnings	3,064	10,455	4,085	241.2%	▲	(60.9%)	▼
Retained Earnings	(28,266)	(32,727)	(31,803)	(15.8%)	▼	2.8%	▲
Profit	2,930	4,554	3,264	55.4%	▲	(28.3%)	▼
Total Liabilities	**274,484**	**299,706**	**398,181**	9.2%	▲	32.9%	▲

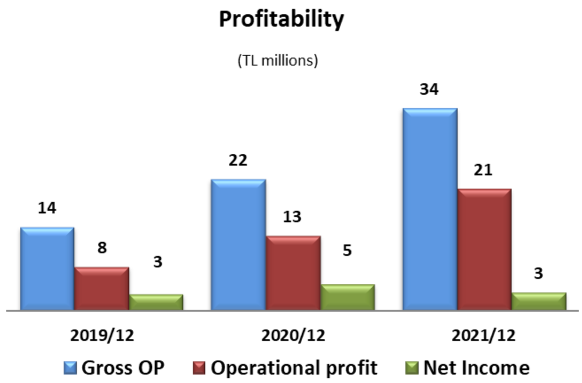
As of main items, the Company's income consists of sales of natural gas to subscribers, and transport and connection revenues generated by pipelines. Aiming to increase the penetration rate and the number of subscribers with its infrastructure investments, total number of subscribers in 2021 increased by 5.6% compared to 2020 and reached 142,544 (2020: 135,000).

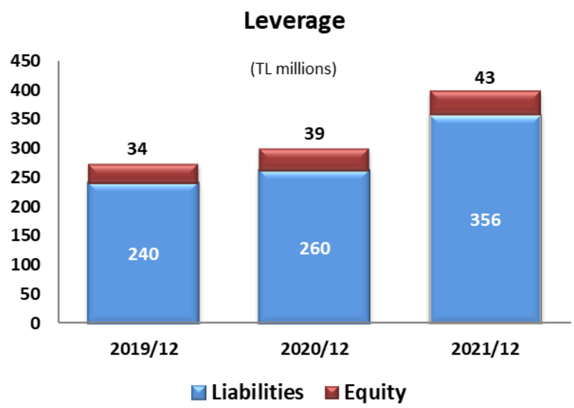
Çinigaz is the only establishment authorized by EMRA to distribute natural gas in Kütahya region for 30 years starting from 2004. There is no price competition. According to the Natural Gas Market Tariffs Regulation; retail price to be applied by the distribution company is composed of purchase price 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 are important for the income statement items.

As of the end of 2021, sales revenues increased by 50.2%, reaching TL 658 million. Gross profitability ratio in the sector is stable thanks to price and cost regulations. As of the end of 2021, net profit decreased by 28.3% to TL 3.3 million due to the increase in financing expenses.

Total investments in 2021 totaled TL 24.6 million, which consisted of expansion investments and investments to bring gas to newly opened sites in the existing region. A total investment of TL 44 million is planned in 2022. As of the end of 2021, the Company's financial liabilities decreased by 28.6% to TL 24 million (2020: TL 33.6 million). On the other hand, as a result of the strong cash position of TL 41.0 million (2020: TL 29 million), the net financial liability was TL -17 million in 2021 (2020: TL 4.6 million).

The Company, which has no liabilities in foreign currency as of the end of 2021, is not sensitive to currency movements. The majority of trade payables are due to natural gas purchases from BOTAŞ.





Financial Ratios

Main Financial Ratios	2019/12	2020/12	2021/12
Liquidity			
Net working capital / Total Assets	-0,22	-0,19	-0,14
Current ratio - Current assets / Short-term liabilities)	0,54	0,56	0,75
Acid-test ratio - (Current assets-Inventories) / Short-term liabilities	0,54	0,56	0,74
Cash ratio - Cash & equivalents / Short-term liabilities	0,24	0,23	0,19
Inventories / Current Assets	0,00	0,00	0,00
Inventories / Total Assets	0,00	0,00	0,00
Financial structure			
Leverage ratio - Liabilities / Equity	7,00	6,61	8,33
Debt ratio - Liabilities / Total Assets	0,88	0,87	0,89
Short-term liabilities / Liabilities	0,54	0,49	0,59
Short-term liabilities / Total Assets	0,48	0,43	0,53
Short-term financial liabilities / Short-term liabilities	0,05	0,09	0,10
Financial debt / Total Assets	0,07	0,11	0,06
Operational ratios			
Receivables turnover rate - Revenues / Trade Receivables	10,02	11,37	5,81
Trade payables turnover rate - COGS / Trade payables	2,93	4,38	4,01
Current assets turnover rate - Revenues / Current assets	4,83	6,12	4,17
Tangible assets turnover rate - Revenues / Tangible assets	1,79	2,02	2,91
Equity turnover rate - Revenues / Equity	9,95	11,13	15,42
Asset turnover rate - Revenues / Total Assets	1,24	1,46	1,65
Profitability			
Gross operating profit margin - GOP / Revenues	4,2%	5,1%	5,2%
EBITDA Margin (1) - (Operational profit + Depreciation) / Revenues	5,4%	6,0%	5,7%
EBITDA Margin (2) - (GOP- Operational costs + Depreciation) / Revenues	4,8%	5,6%	6,0%
Operational profit margin - Operational profit / Revenues	2,2%	2,9%	3,1%
Net profit margin - Net Income / Revenues	0,9%	1,0%	0,5%
COGS / Revenues	95,8%	94,9%	94,8%
Operational Costs / Revenues	2,6%	2,6%	1,8%
Asset profitability - Net Income / Total Assets	1,1%	1,5%	0,8%
Equity profitability - Net Income / Equity	8,5%	11,6%	7,7%

Corporate Governance

Examining the corporate governance practices, it is 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 some 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 the Company's performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. 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 risk 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. Our methodology consists 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 reflect 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 -erm 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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