ÇİNİGAZ DOĞALGAZ DAĞITIM SANAYİ VE TİCARET A.Ş.

21 September 2021

Credit Rating

Long-term (National):

(TR) A+

Outlook:

Stable

Short-term (National):

(TR) A1

Outlook:

Stable

Expiry Date:

21 September 2022

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" 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. The Company took over the natural gas 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 (August 14, 2020)

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.

In 2020, Çinigaz increased its revenues by 28.3% compared to 2019, which was the basis for the previous rating study. The EBITDA ratio increased to 5.6% with the effect of increasing revenues (2019: 4.8%). The Company's net profit in 2020 was TL 4.6 million, with an increase of 55.4%. Within the scope of the natural gas sales tariff determined by the regulatory authority and valid between 2018 and 2021, the Company has a predictable and low volatility cash flow.

As of December 31, 2020, the Company has no foreign currency liabilities and does not hold a net foreign currency position. In this sense, the income statement is not sensitive to possible exchange rate fluctuations.

Despite the relative increase in financial loans of the Company, which continued its expansion/infrastructure investments in 2020, there was no deterioration in debt/leverage ratios. Even though the net financial liabilities have turned positive as of 2020 (TL 4.6 million), cash assets have been at a higher level than the Company's financial liabilities in recent years, corresponding to a very low level when compared to assets.

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"**.

Macro-Economic Outlook

World: 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 2020 and 2021 are given below:

Organization	Source	2021		2022	
		(Current)	(Previous)	(Current)	(Previous)
IMF	July 2021 World Economic Outlook Report (prev.: April 2021)	**6.0% ↔**	**6.0%**	**4.9% ↑**	**4.4%**
World Bank	June 2021 World Economic Prospects Report (prev.: January 2021)	**5.6% ↑**	**4.0%**	**4.3% ↑**	**3.8%**
OECD	May 2021 Economic Outlook Report (prev.: March 2021 Interim Report)	**5.8% ↑**	**5.6%**	**4.4% ↑**	**4.0%**

IMF's July 2021 Global Economic Outlook Report states that the national economic differences increased even more compared to the April report. According to the report, the global economy will grow by 6% in 2021 and 4.9% in 2022. Expectations for developing countries for 2021 were revised downwards, while the developed economies were updated upwards. It was emphasized that the 0.5% increase in the global growth forecast in 2022 resulted from the additional financial support expected in the 2nd half of 2021 in developed countries, especially the USA, and the improvement in health conditions.

With the increasing concerns about the economic effects of the Covid-19 epidemic, the US Federal Reserve Bank, who lowered the policy rate to 0.00-0.25% range at the beginning of March 2020, has not changed the level since. In his speech at the Jackson Hole Symposium in August 2020, FED Chairman Jerome Powell stated that the monetary policy strategy had been changed, and announced that the loose monetary policy would be continued without increasing the interest rates, allowing for a period to even exceed the "average" 2% inflation level that the bank would target from now on. The US gross domestic product, which grew by 33.4% (QOQ) in Q3 of 2020, when the restrictions brought by the pandemic were relatively loosened, recorded a growth of 4.1% in the last quarter and 6.4% in Q1 of 2021. In Q2 of 2021, the US economy grew by 6.5% on an annual basis. The ongoing economic recovery, reopening of institutions and the government's support for the Covid-19 outbreak were effective in the increase in GDP in the 2nd half of the year.

While inflation in the USA was 0.5% on a monthly basis in July, it was 5.4% annually, in line with the expectations. Such a rate was last seen in August 2008. Fed Chairman Jerome Powell stated that inflation is rising, however, this increase is largely due to temporary factors. While there were discussions about inflation and withdrawal of incentive policies, the US Senate approved the infrastructure package, which envisages a new investment of USD 550 billion. The bipartisan package needs the approval of the House of Representatives to become law.

Following the July meeting, Fed Chairman Jerome Powell reiterated that the Committee will continue to monitor the effects of incoming data on the economic outlook while evaluating the appropriate monetary policy stance and will be ready to adjust its monetary policy stance accordingly if risks arise that may prevent the achievement of targets. It was stated that the Federal Open Market Committee aims to achieve the maximum employment and 2% inflation target in the long-term, it was also emphasized that the supportive stance of the monetary policy is expected to be maintained until these targets are achieved.

In the 2021 Summer Economic Forecast Report published by the EU Commission, the growth forecast for 2021 increased by 0.6 percentage points for the European Union and 0.5% for the Eurozone, to 4.8% and 4.5%, respectively, compared to the spring term report. While expressing the expectation that the economies of both regions will grow by 0.1% in 2022 compared to the previous report, the Commission predicted that the EU and Eurozone will reach the pre-crisis level in real GDP only in the last quarter of 2021.

Turkey: The following table shows the latest official 2020-2021 growth forecasts of the IMF, OECD and the World Bank on Turkey, which recorded a growth of 1.8% in 2020. In its May 2021 update, the OECD has reduced its 2021 growth forecast of 5.9% in January to 5.7%, and for 2022, increased its expectation from 3.0% to 3.4%. In the Regional Update Report published in June 2021, the World Bank revised its January 2021 projections for Turkey and increased its 2021 forecast from 4.5% to 5%, while the 2022 forecast was reduced from 5% to 4.5%. The IMF lowered its 2021 real economic growth forecast for Turkey by 0.2 points to 5.8% in its World Economic Outlook report in July and also lowered its 2022 growth forecast, predicting a growth of 3.3%. In the April report of the IMF, it was estimated that the Turkish economy would grow by 6.0% in 2021 and 3.5% in 2022.

International credit rating agency Fitch Ratings' growth expectation for Turkey in 2021 was increased from 6.3% to 7.9% due to the high turnover effect and the ongoing resistance in economic activity, especially after the strong performance in the first quarter of the year.

Organization	Source	2021 (Current)	2021 (Previous)	2022 (Current)	2022 (Previous)
IMF	July 2021 World Economic Outlook Report (prev.: April 2021)	**5.8% ↓**	**6.0%**	**3.3% ↓**	**3.5%**
World Bank	June 2021 World Economic Prospects Report (prev.: January 2021)	**5.0%↑**	**4.5%**	**4.5%↓**	**5.0%**
OECD	May 2021 Economic Outlook Report (prev.: March 2021 Interim Report)	**5.7%↓**	**5.9%**	**3.4%↑**	**3.0%**

In order to eliminate the risks and take under control inflation expectations, and to re-establish the disinflation process as soon as possible, the CBT increased the policy rate to 10.25% with an increase of 200 bps following its September 2020 meeting, to 15% with an increase of 475 bps in November, followed by an additional 200 bps increase to 17% in December, and finally to 19% with 200 bps increase at its March 2021 meeting. In the resolution text of the March meeting, it was emphasized that an additional strong and front-end monetary tightening would be applied, taking into account the risks on inflation expectations, pricing behavior and the medium-term inflation outlook. At its August meeting, MPC decided to keep the policy rate constant at 19%. Moreover, at the third inflation meeting of the year, the Central Bank updated its inflation forecast from 12.2% to 14.1% for the end of 2021. In the meeting, it was stated that within the framework of basic assumptions and short-term projections, inflation is expected to gradually converge to the targets, under an outlook that the policy rate will continue to be formed at a level above inflation, while maintaining the strong disinflationary effect. In this framework, it is estimated that the inflation will be 14.1% at the end of 2021, and will stabilize by decreasing to 7.8% by the end of 2022 and to the medium-term target of 5% by the end of 2023. The CBT underlined that the current tight stance in monetary policy will be resolutely maintained until the significant decrease in the forecast path of the inflation report is achieved.

According to the Foreign Trade Expectation Survey conducted by the Ministry of Trade quarterly, the Export Expectation Index for the 3rd quarter of 2021 decreased by 4.4 points compared to the previous quarter and was realized as 127.6. When the diffusion indices of the questions included in the Export Expectation Index are analyzed, the evaluations regarding the export expectation for the next 3 months, export order expectation and the currently registered export order level affect the index in a downward direction. On the other hand, evaluations regarding the export orders in the last 3 months have affected the index in an upward direction.

The Import Expectation Index for Q3 of 2021 increased by 2.9 points compared to the previous quarter, to 114.5. Among the questions included in the Index, the import expectation (next 3 months), the currently registered import order level, and the evaluations of the import order level for the last 3 months affected the index in an upward direction, while the evaluations regarding the import unit price expectation (next 3 months) led the index to decrease.

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

Indicator	Current Value	Present Value	Summary
Growth (TUIK)	2021-Q2 **21.7%**	2021-Q1 **7.00%**	First estimate of GDP for the second quarter of 2021; the GDP chained volume index increased by 21.7% compared to the same quarter of the previous year. When the content of GDP is examined; in the second quarter of 2021, as a chained volume index compared to the previous year, services increased by 45.8%, industry by 40.5%, professional, administrative and support service activities by 32.4%, other service activities by 32.3%, information and communication activities by 25.3% public administration, education, human health and social services service activities increased by 8.5%, real estate activities by 3.7%, construction by 3.1% and agriculture, forestry and fisheries by 2.3%. Finance and insurance activities, on the other hand, decreased by 22.7%.
Unemployment (TUIK)	2021/07 **12.0%**	2021/06 **10.60%**	The number of unemployed in Turkey aged 15 and above was 3,902,000 in July 2021 with an increase of 506,000 compared to the previous month. Unemployment rate increased by 1.4 points to 12.0%. The number of people employed increased by 125,000 in July 2021 compared to the previous month to 28,730,000, while the employment rate increased by 0.2 points to 45.1%.
Inflation **CPI** **PPI** (TUIK)	2021/08 **19.25%** **45.52%**	2021/07 **18.95%** **44.92%**	The rise in CPI in August was 1.12% compared to the previous month, 11.65% compared to December of the previous year and 19.25% compared to the same month of 2020. The 12-month average was an increase of 15.78%. PPI increased by 2.77% in August compared to the previous month, by 28.51% compared to December of the previous year and 45.52% compared to the same month of 2020. The twelve-month average was an increase of 31.34%.

Indicator	Current Value	Present Value	Summary
Industrial Production Index (TUIK)	2021/07 **8.7%**	2021/06 **23.9%**	The Industrial Production Index increased by 8.7% in July 2021 compared to the same month last year. When the sub-sectors are analyzed, the mining and quarrying sector index increased by 15.2% compared to the same month of the previous year, the manufacturing industry sector index by 7.9% and the electricity, gas, steam and air conditioning production and distribution sector by 11.7%.
Car and Light Commercial Vehicle Sales (ODD)	2021/08 **58,454**	2021/07 **47,849**	In the January-August period of 2021, the Turkish automobile and light commercial vehicle total market increased by 24.3% compared to the same period of the previous year, to 501,004 units. The decrease was 5.0% compared to August of 2020, with 58,454 units.
Housing Sales (TUIK)	2021/08 **141,400**	2021/07 **107,785**	Residential sales in Turkey decreased by 17.0% in August 2021 compared to the same month of the previous year with 141,400 units. Istanbul got the lions share with 24,286 units sold (17.2%).
Turkish PMI (ISO-IHS Markit)	2021/08 **54.1**	2021/07 **54.0**	The headline PMI, which was 54.0 in July, rose to 54.1 in August, pointing to a strong improvement in the performance of the manufacturing sector and has reached its high level since January. Thus, operating conditions strengthened for the third month in a row.
Eurozone PMI (IHS Markit)	2021/08 **61.4**	2021/07 **62.8**	Eurozone Manufacturing Purchasing Managers Index (PMI), announced by IHS Markit, decreased to 61.4 points in August from 62.8 points in July and showed the slowest growth in the last 6 months.
Economic Confidence Index (TUIK, CBT)	2021/08 **100.8**	2021/07 **100.1**	The economic confidence index which was 100.1 in July, increased by 0.7% in August to 100.8. The increase in the economic confidence index stemmed from the increases in consumer, real sector (manufacturing industry), service, retail trade and construction sector confidence indices.
Banking Sector NPL Ratio (BRSA)	2021/07 **3.71%**	2021/06 **3.66%**	In July 2021, the asset size of the Turkish Banking Sector reached TL 6,712,255 million. Loans increased 8.6% to TL 3,882,699 million, while securities increased by 11.8% to TL 1,142,813 million. During this period, the NPL ratio of loans was 3.71%.
Budget Balance (TL Billion) (Ministry of Treasury and Finance)	2021/08 **40.8**	2021/07 **-45.8**	In August 2021, central government budget expenditures were TL 105.7 billion, budget revenues were TL 146.5 billion and budget surplus was TL 40.8 billion. In addition, primary budget expenditures were realized as TL 92 billion and primary surplus was TL 54.5 billion.
Current Account Balance (USD Million) (CBT)	2021/07 **-683**	2021/06 **-1,127**	The current account deficit decreased by USD 1,306 million compared to July of the previous year to USD 683 million. As a result, the twelve-month current account deficit was USD 27,832 million.

According to the data released by EMRA, as of June 30, 2021, there are total of 72 natural gas distribution companies operating at 81 provinces of Turkey (same as of Dec. 31, 2020). As of end-2020, the total length of steel pipelines increased by 5.48% compared to the previous year and reached approximately 14,924 km., and the length of polyethylene pipelines increased by 6.64% compared to the previous year, reaching to 101,496 km.

As of the end of 2020, the total number of subscribers have reached 16,848,604 with an increase of 6.18% compared to the previous year, and the number of free consumers increased by 5.05% to 655,464. The natural gas consumption of the subscribers of the companies holding natural gas distribution licenses increased by 8.49% compared to the previous year, reaching 15,134.77 million Sm3 in 2020. The natural gas consumption of free consumers decreased by 3.24% within the same year compared to the previous year to 9,770.28 million Sm3. The table below gives the annual general view of the natural gas market.

Natural Gas Market Overview by Years (million Sm3)

(million Sm^3)	2016	2017	2018	2019	2020	Δ2020 (%)
Imports	46,352.17	55,249.95	50,282.05	45,211.47	48,125.51	6.4%
Production	367.28	354.15	428.17	473.87	441.27	-6.9%
Exports	674.68	630.67	673.29	762.68	577.52	-24.3%
Consumption	46,395.06	53,857.14	49,204.14	45,285.50	48,261.35	6.6%
Year-end Inventory	1,700.25	2,948.37	3,167.23	3,095.44	2,852.00	-7.9%

(*Source: EMRA*)

When the January-June period of 2021 is compared with the same period of the previous year, an increase of 28% in consumption and 35% in imports is observed in 2021.

(million Sm^3)	2020 (Jan.-June)	2021 (Jan.-June)	Δ (%)
Imports	22,483.47	30,313.83	34.8%
Production	231.91	201.66	-13.0%
Exports	203.03	218.07	7.4%
Consumption	24,569.45	31,438.52	28.0%

Company Overview

Established in 2003, the Company 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.

The Company 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 86 employees as of end-2020 (2019: 86) is as follows:

Shareholders	Ownership Interest (TL)	Ownership Interest (%)
Abdullah Rasim Akdoğan	40,470,000	71.0
Akın Can Akdoğan	6,840,000	12.0
Kütahya Mayor’s Office (*)	5,700,000	10.0
Gülten Sevin Akdoğan	2,850,000	5.0
Mehmet Yılmaz Akdoğan	1,140,000	2.0
Total	**57,000,000**	**100.0**

(*) 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

(TL '000')

Income Statement	2018/12	2019/12	2020/12	2019 %		2020 %	
Sales	293,085	341,465	438,135	16.5%	▲	28.3%	▲
COGS (-)	277,889	327,174	415,824	17.7%	▲	27.1%	▲
Gross Profit	**15,196**	**14,291**	**22,312**	(6.0%)	▼	56.1%	▲
Operating Expenses (-)	3,882	8,885	11,587	128.9%	▲	30.4%	▲
Net Real Operating Income	**11,314**	**5,406**	**10,725**	(52.2%)	▼	98.4%	▲
Other Real Operating Income/Loss	1,761	2,132	2,098	21.1%	▲	(1.6%)	▼
Real Operating Income	**13,074**	**7,539**	**12,823**	(42.3%)	▼	70.1%	▲
Net Income Loss from Investments	309	300	213	(2.7%)	▼	(29.0%)	▼
Pre-financing Operating Profit	**13,383**	**7,839**	**13,036**	(41.4%)	▼	66.3%	▲
Financing Income					—		—
Financing Expense (-)	6,633	5,522	5,536	(16.7%)	▼	0.2%	▲
Pre-tax Profit	**6,750**	**2,317**	**7,500**	(65.7%)	▼	223.7%	▲
Tax (-)	1,539	(613)	2,946	(139.8%)	▼	580.5%	▲
Net Profit	**5,212**	**2,930**	**4,554**	(43.8%)	▼	55.4%	▲

(TL '000')

Balance Sheet	2018/12	2019/12	2020/12	2019 %		2020 %	
Current Assets	**63,077**	**70,722**	**71,546**	12.1%	▲	1.2%	▲
Cash and Cash Equivalents	30,013	30,966	28,958	3.2%	▲	(6.5%)	▼
Trade Receivables	28,217	34,088	38,537	20.8%	▲	13.1%	▲
Other Receivables	172	269	409	56.6%	▲	52.0%	▲
Inventory	118	135	145	15.0%	▲	6.9%	▲
Other Current Assets	4,558	5,264	3,497	15.5%	▲	(33.6%)	▼
Fixed Assets	**176,698**	**203,761**	**228,160**	15.3%	▲	12.0%	▲
Tangible Fixed Assets	165,487	190,259	216,673	15.0%	▲	13.9%	▲
Right of Use Assets	1,972	1,837	1,701	(6.9%)	▼	(7.4%)	▼
Intangible Assets	595	1,399	1,476	135.0%	▲	5.5%	▲
Deferred Tax Assets	8,643	10,266	8,311	18.8%	▲	(19.0%)	▼
Total Assets	**239,774**	**274,484**	**299,706**	14.5%	▲	9.2%	▲
					—		—
Short Term Liabilities	**117,891**	**130,384**	**127,828**	10.6%	▲	(2.0%)	▼
Financial Liabilities	-	-	-		—		—
ST Portion of LT Financial Liabilities	232	6,348	11,583	2.632.9%	▲	82.5%	▲
Trade Payables	107,824	111,544	95,044	3.4%	▲	(14.8%)	▼
Other ST Liabilities	9,835	12,493	21,201	27.0%	▲	69.7%	▲
Long Term Liabilities	**90,075**	**109,792**	**132,505**	21.9%	▲	20.7%	▲
Financial Liabilities	7,095	12,068	21,977	70.1%	▲	82.1%	▲
Other Provisions for Liabilities and Expenses	82,980	97,724	110,528	17.8%	▲	13.1%	▲
Equity	**31,808**	**34,308**	**39,373**	7.9%	▲	14.8%	▲
Paid-in Capital	57,000	57,000	57,000	0.0%	—	0.0%	—
Other	10	(420)	91	(4.276.0%)	▼	121.8%	▲
Reserves on Retained Earnings	3,064	3,064	10,455	0.0%	—	241.2%	▲
Retained Earnings	(32,004)	(28,266)	(32,727)	11.7%	▲	(15.8%)	▼
Profit	3,738	2,930	4,554	(21.6%)	▼	55.4%	▲
Total Liabilities	**239,774**	**274,484**	**299,706**	14.5%	▲	9.2%	▲

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, Company's total number of subscribers in 2020 increased by 6.3% compared to 2019 and reached 135,000 as of 2019 (2019: 127,000).

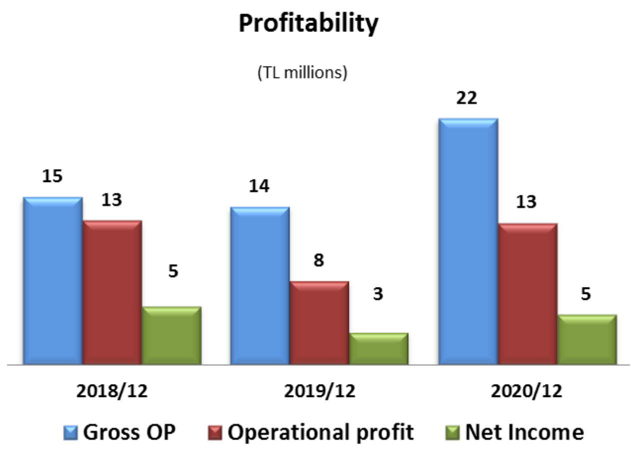
The Company is the only establishment authorized by EMRA to distribute natural gas in Kütahya region for 30 years starting from 2004. There is no price competition. According to the Natural Gas Market Tariffs Regulation; retail price to be applied by the distribution company is composed of purchase price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

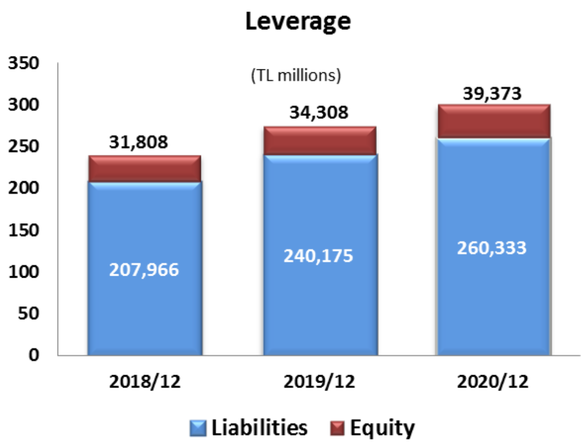
Çinigaz, which grew by 16.5% in 2019, increased its revenues by 28.3% in 2020. The gross and net profitability ratios are stable thanks to price and cost regulations. Along with the increased revenue, the Company increased its net profit by 55.4% to TL 4.6 million (2019: TL 2.9 million).

While the total investment cap approved by EMRA for the 2017-2021 tariff period was TL 76.5 million, the realized investment of the Company for the 2017-2020 period was TL 92.1 million. Both investment and operating expenses exceeded the budgets approved by the regulatory authority, and according to Çinigaz officials, these expenses incurred in excess are expected to have a positive impact on the new tariff period.

Total investments in 2020 totaled TL 37.2 million, which consisted of expansion investments and investments to bring gas to newly opened sites in the existing region. A total investment of TL 17.1 million is planned in 2021. Company's financial liabilities increased by 88.2% to TL 33.5 million (2019: TL 18.4 million) due to the investments. As a result of the strong cash position of TL 29.0 million (2019: TL 31.0 million), net financial liabilities turned positive for the first time in recent years to TL 4.6 million in 2020 (2019: TL -12.6 million). On the other hand, when the aforementioned net financial liability level is evaluated in relation to the assets, no significant risk is in question.

The Company, which has no liabilities in foreign currency as of the end of 2020, is not sensitive to currency movements. The majority of trade payables are due to natural gas purchases from BOTAŞ, and to the Company's infrastructure works undertaker Setaş İnşaat, which is under the same risk group. We consider positively that the debt/leverage ratio of Çinigaz, whose financial liabilities increased with borrowings to finance expansion/infrastructure investments in 2019, did not deteriorate.





Financial Ratios

Main Financial Ratios	2018/12	2019/12	2020/12
Liquidity			
Net Working Capital / Total Assets	-0.23	-0.22	-0.19
Current Ratio – Current Assets / Short-Term Liabilities	0.54	0.54	0.56
Acid Test Ratio – (Current Assets – Inventories) / ST Liabilities	0.53	0.54	0.56
Cash Ratio – Liquid Assets / ST Liabilities	0.25	0.24	0.23
Financial Structure			
Leverage Ratio - Total Debt / Equity	6.54	7.00	6.61
Debt Ratio - Total Debt / Total Assets	0.87	0.88	0.87
Short Term Liabilities / Total Debt	0.57	0.54	0.49
Short Term Liabilities / Total Assets	0.49	0.48	0.43
Short Term Financial Liabilities / Short Term Liabilities	0.00	0.05	0.09
Financial Debt / Total Assets	0.03	0.07	0.11
Operating Ratios			
Receivables Turnover Rate - Sales / ST Trade Receivables	10.39	10.02	11.37
Accounts Payable Turnover Rate - COGS / ST Accounts Payable	2.58	2.93	4.38
Current Asset Turnover - Sales / Current Assets	4.65	4.83	6.12
Tangible Fixed Assets Turnover - Sales / Tangible Fixed Assets	1.77	1.79	2.02
Equity Turnover Rate - Sales / Equity	9.21	9.95	11.13
Asset Turnover Rate - Sales / Total Assets	1.22	1.24	1.46
Profitability			
Gross Profitability - Gross Profit / Sales	5.2%	4.2%	5.1%
EBITDA 1 Margin - (Operating Profit + Depreciation) / Sales	7.4%	5.4%	6.0%
EBITDA 2 Margin - (Gross Profit - Operating Expenses + Depreciation) / Sales	6.8%	4.8%	5.6%
Operating Profitability - Net Operating Profit / Sales	4.5%	2.2%	2.9%
Net Profitability - Net Profit for the Year / Sales	1.3%	0.9%	1.0%
COGS / Sales	94.8%	95.8%	94.9%
Operating Expense / Sales	1.3%	2.6%	2.6%
Asset Profitability – Profit for the Year / Total Assets	1.6%	1.1%	1.5%
Return on Equity – Profit for the Year / Shareholders' Equity	11.8%	8.5%	11.6%

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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