

## Corporate Credit & Issue Rating (Update)

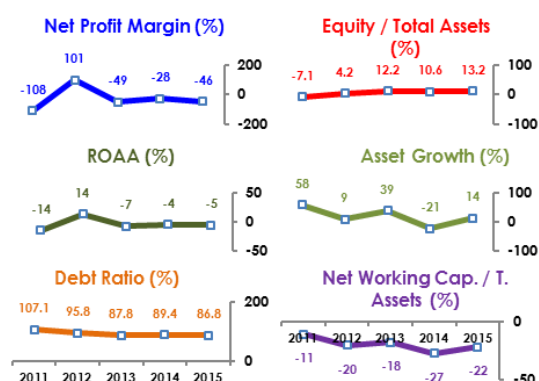
## Energy

		Long Term	Short Term	Zorlu Enerji Elektrik Üretim A.Ş.					
				Financial Data		2015*	2014*	2013*	2012*
International	Foreign Currency	BBB-	A-3	Total Assets (USD mn)					
	Local Currency	BBB-	A-3	Total Assets (TRY mn)					
	Outlook	FC	Stable	Stable	Equity (TRY mn)				
		LC	Stable	Stable	Sales (TRY mn)				
Issue Rating		n.a	n.a	EBITDA (TRY mn)					
National	Local Rating	BBB- (Trk)	A-3 (Trk)	Net Profit (TRY mn)					
	Outlook	Positive	Stable	Net Profit Margin (%)					
	Issue Rating	BBB- (Trk)	A-3 (Trk)	ROAA (%)					
Sponsor Support		2	-	Equity / Total Assets (%)					
Stand Alone		B	-	Net W. Cap./ T. Assets (%)					
Sovereign*	Foreign Currency	BBB-	-	Debt Ratio (%)					
	Local Currency	BBB-	-	Asset Growth Rate (%)					
	Outlook	FC	Stable	-					
		LC	Stable	-					

\*End of Year

\*Assigned by Japan Credit Rating Agency, JCR on July 19, 2016

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### Overview

Zorlu Enerji Elektrik Üretim A.Ş. ("Zorlu Enerji" or "the Company"), established in 1992, is a subsidiary of the Zorlu Group having investments and operations in the energy sector. The Company currently operates in the fields of natural gas combined cycle and cogeneration plants, hydroelectric, wind, and geothermal power plants. As of the reporting date, Zorlu Enerji, as one of the leading companies in Turkey with an increasing presence abroad, had a total of 1,026 megawatts of installed power in Turkey, Pakistan, and Israel: 6 natural gas power plants totaling 522 megawatts, 7 hydroelectric power plants totaling 113 megawatts, 3 geothermal power plants totaling 140 megawatts, and 3 wind farms totaling 251 megawatts.

The Company holds licenses of an energy generation portfolio consisting of natural gas combined cycle plants, hydroelectric power plants, wind power plants, and geothermal power plants and plans to invest in this segment in the midterm under the condition that projects offer favorable feasibility and productivity. International operations currently include a wind farm in Pakistan and three power plant investments in Israel. Following the Dorad Natural Gas Combined-Cycle Power Plant, two more plants, namely, Ashdod and Ramat Negev, built by Ezotech Electric Limited, a company in which Zorlu Enerji has a 42.15% stake, became operational in December 2015.

The Company, headquartered in Istanbul, employed a staff force of 157 as of March 2015 (31 December 2015: 147). The Company is registered to Capital Markets Board and shares have been publicly traded on the Borsa Istanbul since 2000. As of reporting date, 32% of its shares are open for trading.

### Strengths

- Stable and sustainable cash flow generation potential in the renewable energy segment under a feed-in-tariff mechanism safeguarded by strong regulatory operating environment
- Increase in core operating profitability in the completed financial year due to reductions in cost of sales as renewable energy projects become operational and sell their output at guaranteed tariffs
- Diversified investment portfolio in terms of energy sources and geographic location lowering market risk and uncertainty
- Asset quality strengthened by the large share of tangible assets, low collection risks, and negligible credit risk exposure
- Successive realized bond issues in the past and current financial year extending the maturity of the debt
- Growing energy needs of Turkey ensuring strong demand for electricity production, promising further growth potential in the future
- Commitment to corporate governance best practices concerning investor relations, transparency, and communication

### Constraints

- Deterioration in internal equity generation capacity and subsequent losses throughout the completed financial year resulting from the utilization of USD denominated financial liabilities despite the improvement in EBITDA margin
- Sizable foreign currency risk exposure due to the project finance loan, requiring close monitoring and incurring hedge expenses
- High levels of financial leverage in order to fund the growth in operational expansion with negative effects on profitability by financial expenses despite an improvement through capital increase
- Negative net working capital figures giving rise to more demanding liquidity management despite an improvement through refinancing its short time debts
- Excessive supply in the national electricity market due to ongoing and planned projects anticipated to exert pressure on future prices and profit margins across the sector
- Geopolitical and economic concerns along with the recent failed coup attempt harboring uncertainties and wielding pressure on business prospects

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