

Corporate Credit Rating

Annual Review

Non-Financial & Industry

Natural Gas Distribution

		Long Term	Short Term
International	Foreign Currency	BBB-	A-3
	Local Currency	BBB-	A-3
	Outlook	Stable	Stable
National	Local Rating	BBB+(Trk)	A-1(Trk)
	Outlook	Positive	Positive
	Issue Rating	BBB+(Trk)	A-1(Trk)
Sponsor Support		2	-
Stand-Alone		B	-
Sovereign*	Foreign Currency	BBB-	-
	Local Currency	BBB-	-
	Outlook	Stable	-

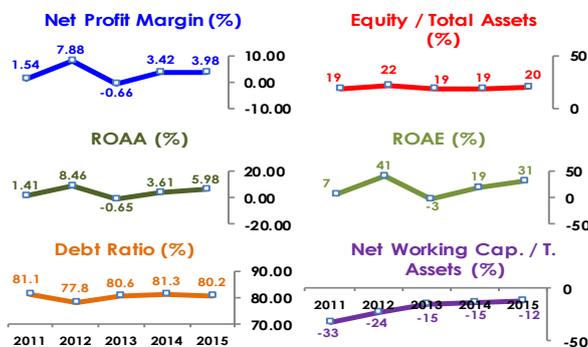
*Assigned by Japan Credit Rating Agency, JCR on July 19, 2016

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Strengths

- Maintenance of the upward trend in the principle profitability indicators throughout FY2015
- Stable ebitda margin supported by sustainable revenue streams derived from licensed monopoly status in its service region
- The future growth potential in the operating region supported by the recent additional investment permits secured from EMRA
- Medium and long-term growth potential of the gas distribution sector at the national level
- Asset quality strengthened by low level of impaired receivables, collection risks, off balance sheet liabilities, and absence of foreign currency risk
- Synergies and cost-savings created through management of risks at the Palmet Group level and the recently established Palmet Gas Group

Constraints

- Downward pressure exerted on gross operating profitability by the high cost of sales level
- Maintenance of negative net working capital levels due to short-term weighted funding structure
- Import dependency on Russia for natural gas imports along with the monopoly of state-owned BOTAS in the gas market
- Contraction in national gas consumption throughout FY2015 despite the rise in global consumption
- Ongoing deterioration in market circumstances stemming from the unsuccessful coup attempt and its impact on economic confidence
- Further need for improvement in the level of compliance with Corporate Governance Practices

PALGAZ DOĞALGAZ DAĞITIM SANAYİ ve TİCARET A.Ş.					
Financial Data	2015*	2014*	2013*	2012*	2011*
Total Assets (000 USD)	139,962	144,827	129,266	139,429	96,366
Total Assets (000 TRY)	406,952	335,839	275,892	247,849	182,027
Equity (000 TRY)	80,551	62,684	53,477	55,015	34,374
Net Profit (000 TRY)	17,777	9,159	-1,605	17,369	1,851
Sales (000 TRY)	446,907	267,814	243,393	220,529	120,038
Net Profit Margin (%)	3.98	3.42	-0.66	7.88	1.54
ROAA (%)	5.98	3.61	-0.65	8.46	1.41
ROAE (%)	31.03	19.01	-3.16	40.69	6.92
Equity / Total Assets (%)	19.79	18.66	19.38	22.20	18.88
Net Working Capital / T. Assets (%)	-12.07	-14.56	-14.80	-23.50	-33.05
Debt Ratio (%)	80.21	81.34	80.62	77.80	81.12
Asset Growth Rate (%)	21.17	21.73	11.31	36.16	25.31

*End of year

Company Overview

Palgaz Dogalgaz Dagitim Sanayi ve Ticaret A.Ş. (referred to as Palgaz or the Company) was one of the early entrants into the Turkish natural gas distribution sector following the winning of the tender for Gebze and surrounding region in the Izmit province. The Company holds a distribution license issued by Energy Markets Regulatory Authority (EMRA) for a period of 30 years starting from FY2004. **Palmet Gaz Grup A.Ş.** and ultimately **Palmet Enerji A.Ş.** is the qualified shareholder of the Company whilst 10% of the shares belong to the local municipalities located in its licensed service region.

Being located in the economic heartland of Turkey, Palgaz maintained its stable growth trend since the time of establishment and continues to add more customers onto its membership scheme with the number of subscribers currently exceeding 180k. Palgaz operates under the wider Palmet Enerji Group, which has a track record dating back to the 1990s through the construction of natural gas pipelines and is a vertically integrated energy company housing companies in the fields of natural gas distribution & trade, electricity generation & trade, engineering and contracting services along with the provision of administrative and managerial support to group companies. Mr. Bulent Doganay **SAMURAY** is the qualified shareholder of Palmet Enerji and subsequently Palgaz as well as being its Chairman.

Publication Date: August 2, 2016

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