Corporate Governance and Credit Rating Services Inc.

1 July 2016

Credit Rating

Rating (National): Long Term

(TR) AAA

Outlook:

Stable

Rating (National): Short Term

(TR) A1+

Outlook:

Stable

Aygaz A.Ş.

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AYGAZ A.Ş.

Rating Summary

Established in 1961, Aygaz A.Ş. ("Aygaz") operates in all LPG processes, including production, procurement, storage and filling, as well as production and sale of LPG-operated devices. Aygaz is also the first and only public LPG Company in Turkey and continues to provide its services in 81 provinces through over 2,100 cylinder gas dealers and nearly 1,800 auto gas stations. The Company also owns LPG vessels, and provides import, leasing and spot shipment services.

Aygaz is the first Koç Group of Company operating in the energy sector and Turkey's 13th largest industrial company according to the 2015 ranking of the Istanbul Chamber of Industry. Through an effective dealer structuring, the Company serves under Aygaz, Mogaz and Lipetgaz brands throughout Turkey.

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

Outlook

With an EBITDA growth of 79%, Aygaz operations showed a significant recovery in 2015. The main reasons behind this are the strong growth in sales volume and increase in cylinder gas sales for the first time after 15 years. Reaching to a possible equilibrium in LPG consumption by the slowdown in natural gas distribution in Turkey and parallel to low oil prices, the positive effect of the low LPG prices to demand, are expected to improve the Company's margins.

Turkish cylinder gas market grew by 2% in 2015. 15% lower LPG prices compared to last year had a positive effect on growth and LPG consumption has reached to 3,093 tons, with an increase of 9%. The gross profit was bolstered and reached to TL 677 million with an increase of 28 % compared to last year, thanks to the stop in decline of the Cylinder LPG sales volume, continued high demand to auto gas and the Company's logistic advantages.

Aygaz's leading position in the industry and its market share, its brand awareness and geographical and resource diversification in the process of LPG supply, along with the presence of an experienced management team are the Company's main merits. Declining investment need due to investment projects already completed in the past is a prime advantage for the Company. Considering the Company's low debt-to-equity composition, Aygaz will evaluate local and international merger, acquisition and investment opportunities in order to protect and maintain its leading position in the LPG market.

Aygaz will continue to generate a considerable amount of cash in line with the current pricing system in which the Company is the market leader in its sector. Contribution of the developments in the natural gas market to cost and profitability will be monitored in the coming periods. However, low LPG demand due to unfavorable economic conditions and negative effect of a further stiff competition on profitability is another factor to be monitored in the coming period.

For these reasons, the Company's short and long-term outlook is determined as 'stable'

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of SAHA Z-Score, company's distance from the point of default, its performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. Default point analysis measures the distance from the point of default and it is based on relevant sector firms' past financial performances, ratios derived from a distinctive default statistics, and statistically derived coefficients. This analysis is based on genuine statistical study of SAHA, covering companies in the chemical, petroleum, rubber and plastic products industries in Turkey. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis 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 tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again 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 rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and 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. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the 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 and economic and financial conditions may increase investment risk, but not at a significant level.
(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 due to adverse economic conditions and changes.

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

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(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 of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with Aygaz A.Ş. and is based on information disclosed to public by Aygaz A.Ş..

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SAHA A,Ş, has embraced and published on its web site (www,saharating,com) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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