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YDA İNŞAAT SANAYİ VE TİCARET A.Ş.

Long term National Credit Rating: **TR AA+** Short term National Credit Rating: **TR A1** Outlook : Stable

Ratings History:	LTNCR: **TR AA**	STNCR: **TR A1**	Outlook: **Positive**	Date: 25.11.2014
	LTNCR: **TR AA**	STNCR: **TR A1**	Outlook: **Positive**	Date: 18.01.2016

Istanbul, August 3, 2017 - The TR AA Long-term National Credit Rating of YDA İnşaat Sanayi ve Ticaret A.Ş. (hereafter YDA or the Company) has been upgraded to TR AA+ and its Short-term National Credit Rating of A1 has been affirmed. Having doubled its asset size in the last two years, YDA maintained its strong financial structure despite this robust growth. The increase in equity, the diversification of its funding sources and the enhancement of its financial flexibility have also contributed to the rating upgrade. Despite the highly unstable and negative operating environment caused by international and local political factors in 2016, YDA's projects have progressed as planned, the financing of its major infrastructure projects were closed and the company succeeded in pioneering a private sector long-term (four year) bond issue. We view the outlook as stable based on our confidence that going forward the company will be able to maintain the same structure.

The Steady Growth and Diversification of Revenue Sources Continue : Established in 1993 by Hüseyin Arslan and Cüneyt Arslan, YDA currently runs a €1.4 billion consolidated asset size holding company incorporating more than 40 companies in 10 different sectors although still viewed as a family company. Year 2016 has been another year marking significant progress in major infrastructure projects. Growth was largely driven by capital investments, physical progress in contracted projects (with the impact of construction accounting), and the increase in the concessional receipts[1] of the Kayseri Integrated Heathcare Campus PPP (Public-Private Partnership), the Konya Karatay Integrated Heathcare Campus PPP, Manisa Research and Training Hospital PPP and Dalaman Airport Project. YDA strives to maintain a sustainable growth strategy by developing synergies between diverse business lines. Between 2014 and 2016, concessional service agreements and construction accounting have been contributive factors to a 50% average annual asset growth. YDA's consolidated assets reached TL5.0 billion in 2016 and its net income rose by 3.6 times to TL278 million. The company also has operations in Kazakhstan and generates 3.9% of its earnings from international business. Recently, YDA entered a new sector by establishing an IT company, KEYDATA Bilgi İşlem Teknoloji Sistemleri A.Ş., with the objective of setting up Hospital Information Management System (HIMS) in its own PPP hospital projects, export technological solutions to PPP model hospitals in Turkey and other countries, and closely follow IT innovations in all sectors.

Successful Business Model: YDA has developed various strategies that will minimize its risk in every sector it operates and spreading its business risk to various sectors and operations. We understand that YDA's business model will prioritize construction contracts, airport and hospital management PPP projects and branded real estate development projects for the upcoming periods. The effectiveness of YDA's internal control systems is a key factor in the company's capability to successfully implement and monitor a large number of real estate development and construction contract projects concurrently. Additionally, its ability to select appropriate partners and subcontractors has played an important role in its achievements.

[1] "Receivables from Concessional Service Agreements" (TFRS Interpretation 12)

Robust Financial Structure Continues: Equity has increased over the years owing to retained earnings and reached TL1.1 billion at the end of 2016. Among the ongoing real estate development projects, the First Phase of Park Avenue was completed and the deeds were transferred in 2016. This resulted in 32% increase in sales revenues and boosted profitability. As PPP Hospital projects began to generate cash, the company's cash generation capacity increased. Kayseri Integrated Healthcare Campus is planned to start operation (current physical completion rate 90%) on the last quarter of 2017 and Manisa Research and Training Hospital is planned to start operation (current physical completion rate 55%) in the beginning of 2018. Thus, the Company will start to generate cash through hospital management operations. Having successfully completed the financial closures of Kayseri Integrated Heathcare Campus, the Konya Karatay Integrated Heathcare Campus, the Manisa Research and Training Hospital and Dalaman Airport Projects, YDA has also minimized its currency risks on the cash flows from construction contracts by hedging transactions.. The diversification of funding sources and the diversification of its investor base has strengthened YDA's financial flexibility. Also in 2016, YDA issued the first private sector bond issue in Turkey having a four-year maturity and managed to raise the portion of foreign investors. Additionally, another first YDA achieved in Turkey was the combination of Islamic and conventional financing raised for the Konya Karatay Integrated Healthcare Campus Project. The financing of the Manisa Research and Training Hospital Project constituted the world's first ever example of a PPP health project financing under Islamic financing principles.

YDA's financial liabilities related to its long-term projects have rapidly increased in tandem with the physical completion of the infrastructure projects. Nonetheless, its leverage ratio (financial liabilities/equity) is only 1.8 times when adjustment is made to exclude easily cashable liquid assets and financial investments from financial liabilities. At the end of 2016, YDA's financial liabilities associated with the non-recourse and ring fenced projects advanced to 70% of its consolidated net financial liabilities as a result of which, on a consolidated basis, the average borrowing term was prolonged and the average borrowing costs were reduced. We expect YDA to continue to maintain this robust financial structure and the financial flexibility in the foreseeable future.

Effective Management and Enhancement in Corporate Governance Standards: YDA's priority to achieve sustainability under higher institutional standards continues and marked progress has been made with the strong support of European Bank for Reconstruction and Development (EBRD) and the determined stance of its shareholders. YDA's efforts to improve corporate governance standards continues while the company has already made headway in transparency and public disclosure.

Strengths and Opportunities

- Experience, expertise and prestige in sectors in which the company operates
- Diversification of revenue sources
- High liquidity ratios,
- Strong working capital
- Funding capacity and access to alternative funding sources
- Increase in equity
- Efforts to improve corporate governance
- Management's experience in innovative financing methods and high esteem among financial institutions.

Weaknesses and Threats

- Increase in debt/equity ratios (including liabilities that are non-recourse to YDA)
- Vulnerable economic conditions and volatile operating environment
- Uncertainties in the construction sector and frequent changes in regulations
- The negative impact of rising borrowing costs on real estate projects

YDA's Selected Financial Indicators (1,000 TL)*

	2012	2013	2014	2015	2016
Current Assets	**1,025,260**	**1,144,869**	**1,902,384**	**2,431,373**	**2,962,974**
Short-term Receivables	274,199	301,303	472,111	584,459	506,925
Receivables from Related Parties	60,411	106,314	79,459	182,919	315,248
Inventories	260,345	279,904	486,222	612,499	692,581
Fixed Assets	**280,753**	**258,611**	**505,738**	**951,445**	**2,078,901**
Total Assets	**1,306,013**	**1,403,480**	**2,408,122**	**3,382,818**	**5,041,875**
Asset Growth (%)	*38.1*	*7.5*	*71.6*	*40.5*	*49.0*
Current Liabilities	**494,086**	**491,956**	**825,274**	**923,678**	**1,229,696**
Financial Liabilities	76,436	119,858	262,699	330,189	374,433
Trade Payables	304,536	222,156	227,744	266,730	488,967
Liabilities to Related Parties	15,720	85,266	137,948	148,181	178,946
Advances Received	69,356	5,117	120,044	67,818	37,021
Long-term Liabilities	**492,177**	**485,536**	**990,991**	**1,705,533**	**2,747,418**
Financial Liabilities	247,926	307,179	653,761	1,001,337	2,241,008
Non-Controlling Shares	**58,043**	**77,040**	**144,977**	**197,997**	**210,054**
Equity	**319,750**	**425,988**	**591,857**	**753,607**	**1,064,761**
Gross Sales	**1,306,207**	**1,264,689**	**1,181,034**	**1,531,361**	**2,019,946**
Sales Growth (%)	*40.6*	*-3.2*	*-6.6*	*29.5*	*31.8*
Operational Profit / Loss	128,767	198,966	174,531	230,570	466,379
Pre-Tax Profit / Loss	108,242	140,105	127,424	45,831	204,610
Net Profit/ Loss	**94,422**	**111,851**	**105,410**	**76,447**	**278,431**

* Based on Consolidated IFRS Audit Report.