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# YDA İNŞAAT SANAYİ VE TİCARET A.Ş.

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| Long term National Credit Rating: **TR AA+**<br>Short term National Credit Rating: **TR A1**<br>Outlook: Stable |

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| Previous Rating: | | | |
| LTNCR: **TR AA+** | STNCR: **TR A1** | Outlook: **Stable** | Date: 08.17.2018 |

**Istanbul, August 9, 2019 -** The TR AA+ Long-term National Credit Rating of YDA İnşaat Sanayi ve Ticaret A.Ş. (hereafter YDA or the Company) and its Short-term National Credit Rating of A1 have been affirmed. The continuation of YDA's robust financial structure despite the quadruplicating of its asset size over the last three years is a key factor supporting these ratings. Moreover, other positive factors are the increase in its equity, the diversification of the financial instruments, the enhancement of its financial flexibility, its business model, and its successful performance. Since our last rating review, the Turkish economy experienced a period of stagnation and economic decline and higher exchange rates caused many of the sector players with high foreign currency liabilities to face financial difficulties. The progress in construction contracting projects and real estate sales declined to the lowest levels of recent years. Despite this negative operating environment, YDA got through this period with a strong financial structure thanks to its business portfolio that includes PPP hospital projects (whose revenues are restated based on inflation and devaluation indices), in addition to its effective management strategies and its prestigious position in the sector. However, the ongoing recession in the construction contracting and real estate development sectors continue to constrain the credit rating. We maintain our view on the outlook as stable based on our confidence that the Company will be able to maintain its current financial structure and business performance.

**Strong Position in Several Sectors:** Established in 1993 by Hüseyin Arslan and Cüneyt Arslan, YDA currently runs a EUR 2.5 billion consolidated asset size holding company incorporating more than 40 companies in 10 different sectors although still viewed as a family company. With its 46 years of experience in the construction sector, YDA follows a planned and sustainable growth policy by creating synergy between different business lines. Other than the construction &contracting and real estate development sectors, the Company operates in PPP hospital management, airport management, information technology (IT), service (catering, building / facility management, etc.), medical & health, renewable energy (solar and geothermal) , agriculture, outdoor digital advertising, defense and mining sectors through its subsidiaries and affiliates. The Group maintains its strong position in the main sectors in which it operates. The Company's backlog of projects has reached USD 9.3 billion. As of the end of 2018, the total value of YDA's ongoing and planned investment and contracting projects was USD 8.2 billion.

**Success of Business Model:** YDA has spread its risks to various sectors and fields of activity and strategies have been developed to minimize the potential risks inherent in the various sectors it operates. To date, the Company has evidenced its successful performance as a concessional service contractor by completing three PPP projects before their deadlines. Furthermore, The Kayseri Integrated Health Campus, which the Company also operates, is the first hospital having scored 100 points among all public and private hospitals within the scope of the "Quality Standards Assessment in Health". This success also shows YDA's high performance in hospital management. Additionally, since these PPP hospitals started operating, their revenues are contributing to the Group's profitability particularly as the revenues are well defined under agreements that are recognized by international banks and the service fees are adjusted to official inflation and devaluation indices. The Company is trying to ensure that these PPP investments become financial assets that continuously gain value and represent cashable assets.

**Strong Effect of IFRS 9 Financial Instruments Standard on the Balance Sheet:** While IAS 39 "Financial Instruments: Recognition and Measurement Standard" was applied in the previous audit reports on the consolidated financial statements

of the Company, as a result of the change in accounting standards, IFRS 9 “Financial Instruments Standard” began to be applied as of the end of January 2018. The provisions of IFRS 9 were applied retrospectively and covered the entire statement period of 2018. As a consequence of the new application, the financial assets of the Company were evaluated as the financial assets which were measured at amortized cost and are measured at the fair value through discounting the expected yields of value. As a result of the revaluation of these financial assets which are recognized as “Receivables from Concession Arrangements” on balance sheet, YDA’s total assets and equity increased by TL 2.7 billion as of 1 January 2018. At the end of the 2018 statement period, these financial assets were revalued again and a valuation gains of TL 1.4 billion was added to the financial assets value and the same amount was included in the financial income as the fair value difference of the financial assets in the income statement. Thus, the application of IFRS 9 produced an effect that increased the total assets and equity of the Company by TL 4.1 billion in 2018.

**Remarkable Growth in Assets:** Due to the huge size of the ongoing projects, the value of YDA’s total assets, which have increased by nearly three times over the last two years, grew by 88.4% and reached TL 14.8 billion in 2018. This growth was mainly due to expenditures on real estate development projects and increases in “Receivables from Concession Arrangements” (IFRS 9), which consist of PPP projects. The growing trend of the YDA’s total assets is expected to continue in the upcoming periods.

**The Share of Equity in the Balance Sheet Increases:** As a result of the changes in the reporting standards, the fair value differences of the “Receivables from Concession Arrangements” were recalculated and YDA's equity grew of 205.7% and reached TL 4.6 billion at the end of 2018. The share of the fair value differences in current period incomes was 1.4 billion TL. As a result of the high growth rate, YDA's equity to total assets ratio increased to 31.3% and reached a much stronger level.

**Stagnation in the Real Estate Market Causes Increase in Inventories:** The total expenditures of YDA's ongoing and completed real estate development projects are classified under inventories. The real estate market remained stagnant over the last two years and sales declined. This led to a 46.8% increase to TL 1.4 billion in inventories in 2018. In our opinion, YDA’s financial structure is sufficiently strong to be able to effectively manage these inventories. However, if interest rates remain on a declining trend and the real estate markets revives, we would expect to see an acceleration in the Company's sales and a decrease in its inventory levels.

**Liabilities Increase in The Same Direction with Asset Growth:** YDA finances its operations with bank loans, financial leases, bond issuances, commercial debts and debts from related parties. Especially after PPP projects gained a larger share in YDA’s operations, liabilities increased parallel to asset growth. As of the end of 2018, the total liabilities of the Company increased to TL 10.1 billion, and financial liabilities represented 73.3% of total liabilities. In addition, TL 5.2 billion of the Company's financial liabilities consisted of foreign currency debts. This amount equated to 70.0% of financial liabilities and 51.3% of total liabilities. However, as most of these loans were associated with project finance loans, the foreign currency risk remained within the structure of project finance credit. Thus, the negative impact of foreign currency risk on the general position of the Group was minimal. Although YDA’s total financial liabilities were TL 7.4 billion, only 11.4% were short-term. The Company's project finance loans amounted to TL 4.7 billion and they constituted 63.0% of total financial liabilities. Financial liabilities excluding project finance loans was around TL 2.7 billion.

**Positive Impact of PPP Projects on Profitability:** YDA's revenue increased by 60.3% to TL 3.5 billion, and its net profit increased by 69% to TL 453 million in 2018. Within the terms of the contracts, the availability payments of PPP hospital projects are adjusted to inflation and devaluation indices, and the total revenues obtained during the operation period are recalculated according to their fair value measurement at the end of each period. As the result of the application of IFRS 9 accounting standards since 2018, the foreign exchange losses of project finance loans in the previous accounting periods are offset by the calculation of the fair value differences and consequently have a positive effect on the profitability of the Company.

**Cash Requirements Arising from Ongoing Projects Decreasing:** Owing to the acceleration of the construction phases of YDA's ongoing PPP projects, the Company's cash requirements have increased during the last three periods. This has led to an upward trend in the financial debts of the Company. Following the completion of the Kayseri Integrated Health Campus, the Manisa Training and Research Hospital and the Dalaman International Airport projects in 2018, the Company began to generate cash flow from these projects. Therefore, as of 2019 the Company is expected to have a cash-generating structure.

**Working Capital Continues to Increase:** The working capital of the Company grew by 52.7% and reached TL 3.3 billion in 2018. However, the ratio of the net working capital to assets decreased from 27.8% to 22.6% because asset growth was higher. The increase in working capital was in large part due to the reduction in the weight of short-term financial liabilities resulting from their substitution with longer term financial liabilities. Due to the rise in working capital, the current ratio strengthened from 2.1 to 2.6 and the liquidity ratio increased from 0.9 to 1.0.

**The Strategies for Upcoming Periods:** YDA's growth strategy focuses on overseas construction and PPP projects. In line with this strategy, the Company has undertaken four new projects in Kazakhstan where it has been operating since 2001. The first three are PPP project (two hospitals and one airport), the fourth is an airport access road construction work. In addition; there are ongoing negotiations for the undertaking of a hospital and an airport project (both PPP Projects). The total size of all these projects will be approximately USD 1.0 billion. The Company aims to generate a natural hedge against exchange rate fluctuations by obtaining foreign currency revenues from overseas projects in the future and intends to increase its profitability with the high profit margins of these projects. YDA also closely follows infrastructure project opportunities in markets such as Africa, the Middle East and the former East Bloc region, particularly in the areas of airport and hospital construction and management, which are its fields of expertise.

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

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Current Assets** | **1,902,384** | **2,432,188** | **3,045,473** | **4,168,863** | **5,478,680** |
| Short-term Receivables | 472,111 | 592,350 | 587,775 | 796,083 | 395,913 |
| Receivables from Related Parties | 79,459 | 182,919 | 438,386 | 660,557 | 459,563 |
| Inventories | 486,222 | 612,499 | 692,581 | 1,022,288 | 1.424,885 |
| **Fixed Assets** | **505,738** | **953,745** | **2,162,376** | **3,669,733** | **9,285,498** |
| **Total Assets** | **2,408,122** | **3,385,933** | **5,207,848** | **7,838,596** | **14,764,179** |
| *Asset Growth (%)* | 71.6% | 40.6% | 53.8% | 50.5% | 88.4% |
| **Current Liabilities** | **825,274** | **923,982** | **1,334,648** | **1,934,516** | **2,148,704** |
| Financial Liabilities | 262,699 | 330,494 | 391,150 | 370,868 | 844,454 |
| Trade Payables | 227,744 | 266,730 | 488,767 | 602,170 | 483,576 |
| Liabilities to Related Parties | 137,948 | 148,181 | 179,146 | 686,051 | 356,345 |
| Advances Received | 118,887 | 67,818 | 37,021 | 35,013 | 41,487 |
| **Long-term Liabilities** | **990,991** | **1,706,265** | **2,717,480** | **4,345,899** | **7,996,078** |
| Financial Liabilities | 653,761 | 1,002,069 | 2,220,811 | 3,818,939 | 6,583,241 |
| **Non-Controlling Shares** | **144,977** | **197,997** | **210,054** | **254,539** | **637,502** |
| **Total Equity** | **591,857** | **755,686** | **1,155,720** | **1,558,180** | **4,622,396** |
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| **Gross Sales** | **1,181,034** | **1,531,361** | **2,037,663** | **2,186,511** | **3,500,445** |
| *Sales Growth (%)* | -6.6% | 29.5% | 33.0% | 7.3% | 60.4% |
| Operational Profit / Loss | 174,531 | 230,570 | 492,188 | 550,335 | 875,948 |
| Pre-tax Profit / Loss | 127,424 | 45,831 | 260,791 | 183,281 | 756,151 |
| **Net Profit / Loss** | **105,410** | **76,447** | **376,712** | **268,280** | **453,251** |

*Based on Consolidated IFRS Audit Report.