

## PRESS RELEASE

### Istanbul – July 22, 2016

**JCR Eurasia Rating**, in its periodic review, has affirmed the ratings of the **Consolidated Structure of 'Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş. and its consolidated structure'** and the **'Cash Flows on Prospective Bond Issue'** as **'BBB(Trk)'** on the Long Term National Local Scale and as **"BBB-"** on the Long Term International Foreign and Local Currency Scale ratings, respectively. Outlooks regarding all grades have been maintained as **'Stable'**.

**JCR Eurasia Rating**, in its periodic review, has affirmed the credit ratings of the **"Consolidated Structure of Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş. and the 'Cash Flows on Prospective Bond Issue'** at the investment grade of **"BBB(Trk)/Stable"** on the Long Term National Scale. In addition, JCR Eurasia Rating has affirmed the Long Term International Foreign and Local Currency Scale as **'BBB-/Stable'**. Other notes and details of the ratings are given in the table below:

<b>Long Term International Foreign Currency</b>	:	<b>BBB-/ (Stable Outlook)</b>
<b>Long Term International Local Currency</b>	:	<b>BBB- / (Stable Outlook)</b>
<b>Long Term National Local Rating</b>	:	<b>BBB (Trk) / (Stable Outlook)</b>
<b>Long Term National Issue Rating</b>	:	<b>BBB (Trk)</b>
<b>Short Term International Foreign Currency</b>	:	<b>A-3 / (Stable Outlook)</b>
<b>Short Term International Local Currency</b>	:	<b>A-3 / (Stable Outlook)</b>
<b>Short Term National Local Rating</b>	:	<b>A-3 (Trk) / (Stable Outlook)</b>
<b>Short Term National Issue Rating</b>	:	<b>A-3 (Trk)</b>
<b>Sponsor Support</b>	:	<b>2</b>
<b>Stand Alone</b>	:	<b>BC</b>

Established by Sumerbank in 1937, Ereğli Tekstil was acquired by the Albayrak Group through privatization efforts in 1997. Ereğli Tekstil runs its production operations in its factory located in Konya and provides a significant share of uniforms of the Turkish Armed Forces manufactured in modern and integrated production plants with flexible manufacturing and design capability and has strengthened its position in the market as one of the few companies with the capacity to produce high-tech-military products. The Company's production and sales expectations are shaped depending on the tenders. Despite slowness in the textile sector, Ereğli Tekstil has increased its domestic reputation through its sales range and the facilities of its public subsidiary Tümosan Motor, the first diesel engine manufacturer in Turkey.

Factors considered to be positive in the determination of the Company's notes include: the separation and authorization of the sales and marketing departments of Tümosan Motor, the Group's largest-scale main subsidiary included in the consolidation; after sales services; reduction of transport and cargo expenses via an expanding dealer structure; strengthened equity in the following periods due to the high dependence on domestic manufacturing, increasing profitability indicators, and customer satisfaction; emphasis on the sale of high profit margin spare parts through online orders providing a time advantage and supporting profitability; increasing profit margins despite a slowdown in the share of the tractor market; warranty expenses savings due to customer satisfaction, quality-oriented management strategies, and decreased service costs; sustained sales capability and inter/national brand identity; largely eliminated FX risks due to the high share of financial liabilities in TRY; diversified funding structure via bond issuances and low leverage level; and relaxed management of cash flows via internal resource generation capacity supported by strong sales revenue. The Company's Long-Term National Rating has been affirmed as **'BBB (Trk)'** and the Short-Term National Rating as **'A-3 (Trk)'** in consideration of the following factors that exert pressure on the Company's grades: increased operating costs and pressured profitability from the commissions paid to distributors in the tractor field and expenses regarding ongoing projects; the need for improvements in corporate governance principles, risk management, and auditing strategies; suppression of the financial structure and asset quality of the Company through ongoing high level of off-balance sheet contingencies and commitments; customer concentration risk in textile activities; seasonal fluctuations and pricing competition pressure on profitability in the fields of textiles and tractors; volatility in sales revenue and profitability via pricing strategy; and the negative conjecture created by political and economic stresses along with regional tensions. A separate rating report has not been compiled as the resources obtained from the bond issue will be carried in the Company's balance sheet and was subject to analysis in the corporate credit rating report. The planned bond issue carries no difference in comparison to the Company's other liabilities with respect to its legal standing and collateralization, as such the notations outlined in the corporate credit rating report also reflect the issue rating.

Strong sales volume, the positive effect of austerity measures projected in the fields of production, management, and logistics on profitability performance in the following periods, the reflection of recently acquired Trabzon Liman İşletmesi on the company balance sheet, the Group's strategy of expanding its operating fields, ongoing uncertainty regarding technical support from abroad for the Altay Tankı Güç Geliştirme Project, and the sustainability of future cash flows of the Company under political and economic stresses and regional tensions are all factors that will continue to be monitored by JCR Eurasia Rating. On the other hand, the low import dependency and liabilities in foreign currency eliminates the vulnerability against foreign exchange rate fluctuations in the Company balance sheet. Additionally, with the ongoing investments in Tümosan Döküm, totally owned by Tümosan Motor, the Group projected to almost double production capacity. The improved effect on net working capital via generated cash through augmented profit stemming from decreased costs, attainability of the Company's future growth plan, and generation of internal resources and cash flows to meet debt payments are factors that will be watched by JCR Eurasia Rating and play a role in affirmation of Short and Long term outlooks as **'Stable'**.

The Company's Sponsor Support grade has been determined as **(2)**, taking into consideration the publicly traded shares of the Group's main subsidiary Tümosan Motor and the track-record in various sectors, investments, and activities of the main shareholders, **Albayrak Turizm Sey. İnş. Tic. A.Ş.** and the **Albayrak Family**.

On the other hand, taking into account the Company's current market share, competitive advantage of providing sales to a large number of customers with expanding dealer network, equity level, experienced management team, market reputation, internal equity generation capacity supported by high sales volume, short term borrowing structure, and capital structure, we, as JCR Eurasia Rating, are of the opinion that **Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş.** has reached the level of adequate experience and facilities to manage the incurred risks on its balance sheet regardless of any assistance from the shareholders, provided that it improves its current customer level, efficiency and existing macroeconomic level in the market. Within this context, the Stand Alone grade of the Company has been affirmed as **(BC)** in the JCR Eurasia Rating notation system, indicating an adequate level.

For more information regarding the rating results you may visit our internet site <http://www.jcrer.com.tr> or contact our analyst Ms. Merve HAYAT.

**JCR EURASIA RATING**  
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