

18 March 2015

Credit Rating

Rating
(National): Long Term

(TR) BBB

Outlook:

Stable

Rating
(National): Short Term

(TR) A3

Outlook:

Stable

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SÖKTAŞ TEKSTİL SANAYİ ve TİCARET A.Ş.

Rating Summary

Söktaş Tekstil Sanayi ve Ticaret A.Ş., (the "Group", "Söktaş") was founded in 1971 at Söke, Aydın. The company separated its operations on fabric production and agri-dairy operations with a partial division following the extraordinary general shareholders' meeting which took place on 19 January 2011. Its main activities as of this date are equity investments and management, and cotton yarn production and sales. Establishment and registration of the companies formed after partial division was completed on January 31, 2011. Since February 1st 2011 Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş. overtook the woven fabric production activities in Turkey and Efeler Çiftliği Tarım ve Hayvancılık A.Ş. have begun to pursue the agriculture and dairy farming activities. The company sold all the shares of its subsidiary, Moova Gıda Sanayi ve Ticaret A.Ş., operating in the field of milk and dairy products processing and marketing since 2011, to Tat Gıda Sanayi A.Ş. on 20 August 2014. Thus the company's and its other subsidiaries' control over Moova Gıda has ended as of the same date.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the company, as well as the Group's domestic market position, SÖKTAŞ received a (National) rating of BBB.

Strengths and Risks

Strengths

- The Group has completed its investments and put an end to loss-generating activities.
- Variable interest rate risk on the balance sheet is minimized.
- Söktaş is institutionalized, possessing highly experienced management skills.

Risks

- The overall trend of parity change in the current conjuncture adversely affect the cost structure and gross profitability.
- Leverage use is at high levels.
- Capacity utilization is below sector average.

Outlook

The main factors that may affect the overall appearance of the company in the short-term period are as follows:

- The depreciation of the Turkish lira as a result of recent macro-economic developments is expected to have positive impact on exports, hence on Group revenues.
- Meanwhile, short and medium-term changes observed on Euro / USD parity in favor of the dollar is poised to have a negative impact on Group costs and on gross profit.
- Having stopped the loss-generating activities that harm the Group has enabled the creation of source in the period ahead with a consolidated EBITDA margin of 20%.

Considering these factors, the Group outlook is considered to be **Stable**.

Economic Outlook and Analysis of the Sector

Recovery in the global economy in 2014 remained below the forecast. The global economic recovery differed between countries in 2014 rather than an overall improvement. The US economy dissociated from other developed countries with minimal but increasing growth rates during the same period. The economic activity in the Euro Zone continues to exhibit a weak outlook, raising questions on the faith of the economic activity as a result of quantitative easing. Policies implemented since 2013 to combat disinflation in the Japanese economy which entered a recession in the third quarter of this year has not yet have the effect intended.

Growth performance of developing countries in 2014 remained in low levels compared to pre and post global crisis era. In particular, loss of growth momentum in China, the world's second largest economy, has been a factor that increased concerns about the global economy.

The US has terminated the asset purchase program. The US economy showed a poor performance in the first quarter of 2014 due to adverse weather conditions, but we have witnessed a significant rebound in the following period. In the framework of improvement in the economy, US Federal Reserve (FED) has gradually reduced the monthly asset purchase of US \$ 85 billion which has been going on for over two years and completely terminated in October 2014. Meanwhile the weak economic activity in the Euro Zone has made it necessary to take additional measures. In 2014 the European Central Bank (ECB) has brought the interest rate level to near zero to support the economy. The ECB has also decided to apply negative interest on deposits held by banks. In addition, the ECB began to supply liquidity to the market with long-term refinancing operations and asset purchase programs.

The most important item on the agenda of the global economy in 2015 is expected to be the normalization process in the Fed's monetary policy. The start of FED's interest rate raise in line with the economic recovery is expected to cause fluctuations on capital flows, particularly to emerging economies. Aftermath the global crisis this is an indication of continuation of the moderate growth also in 2015 in developing countries, including Turkey, which are the locomotive of the world economy. In addition, a recovery in the US economy is expected to show a positive reflection in the economies of countries developing by way of external trade. Continuation of current low level of oil prices also in the coming period is expected to support growth in the energy importer countries such as Turkey. However, oil-exporting countries, especially Russia, which is one of the major export markets of Turkey, will be negatively affected by this situation.

There are many factors that can affect the inflation outlook both positively and negatively in 2015. The gradual realization of the anticipated recovery in economic activity and aggregate demand are expected to support the disinflation process. Tight stance in the monetary policy and macro precautionary measures are positively affecting mainly energy and non-food (core) inflation indicators. Falling commodity prices, especially oil, supports the disinflation process. On the other hand, like witnessed in other developing countries, upward trend in exchange rates in Turkey are unexpectedly high due to high political risks and economic uncertainties. This increase in exchange rates should be expected to begin to feel the negative effects of inflation towards the middle of the year. An upward pressure on interest rates might likely occur if the cost inflation is not kept under control.

Domestic demand has slowed down considerably as a result of tight monetary policy implemented by the Central Bank of Turkey. In this context, the contribution of private consumption expenditure to growth has been decreasing and Turkey has achieved a net export-oriented composition of growth. In line with the strong trend of net exports, the foreign trade deficit at the end of 2014 declined by 15.4% compared to the same period of the previous year and stood at 84.5 billion US dollars. The share of Turkey's exports to EU countries rose in 2014, but the conflict in the Middle East has led to a decrease in the share of exports in this region. Current account deficit has narrowed considerably in 2014 due to weak domestic demand conditions and developments in the trade balance. The current account deficit in 2014 decreased by 18.8 billion US dollars compared to end 2013, backing to 45.8 billion US dollars level.

In summary, growth in Turkey's economy in 2015 is expected to be mainly based on domestic demand. However, despite ongoing problems in Turkey's export markets permanent low oil prices will eliminate any upward pressure on the current account deficit.

Textile and garment industry emerges as one of the important sectors in the economic development of many countries due to its added value in the manufacturing process and its high share in export revenues. The textile and garment industry has an important role in production, exports and employment also in our country providing 10 percent of GDP. Since it is especially an export-oriented industry, the sector is closely affected by the developments in world trade. Turkey's exports of textiles and raw materials in January-August period of 2014 have risen to \$ 5.9 billion, an increase of 8.4 percent compared to the same period of 2013. The share of Turkey's textile and garment exports in total exports announced by Istanbul Chamber of Commerce each year is 16.48 percent.

Textile exports to the EU, Middle East, Africa, Free Zones and the Turkic republics (of the former Soviet Union) has increased at rates ranging from 3.5 percent to 54.9 percent in January-August 2014 period while exports to the former Eastern Bloc, Asia, Oceania countries and other European countries decreased in varying proportions between 3.5 percent and 9.8 percent. No change has been noted in the amount of the exports to America.

Company Overview

Söktaş Tekstil Sanayi ve Ticaret A.Ş. was founded in 1971 at Söke, Aydın. The company separated its operations on fabric production and agri-dairy operations with a partial division. Its main activities as of this date are equity investments and management, and cotton yarn production and sales. Establishment and registration of the companies formed after partial division was completed on January 31, 2011. Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş. overtook the woven fabric production activities in Turkey and Efeler Çiftliği Tarım ve Hayvancılık A.Ş. have begun to pursue the agriculture and dairy farming activities.

Söktaş continues production in facilities located in Söke, Aydın. The company has a total of 3 branches; at the Aegean Free Zone, at Beyoğlu, Istanbul and Biella, Italy.

Subsidiaries of the Group are as follows:

Company	Field of Activity	Operations	Stake Held (%)
Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş.	Fabric Production	Textiles	99.99
Soktas India Pvt. Ltd. (India)	Fabric Production	Textiles	89.29
Efeler Çiftliği Tarım ve Hayvancılık A.Ş.	Agriculture & Livestock	Agriculture	99.99
Black Sea Blue Danube Rom SRL (Rumania)	Agriculture	Agriculture	100.00

The Group shares are traded under "SKTAS" code at Borsa Istanbul National Market and Söktaş is a constituent of - BIST INDUSTRIALS / -BIST TEXTILE, LEATHER / -BIST ALL SHARES / -BIST ALL SHARES-100 / -BIST NATIONAL indices.

Annual development of the number of employees of the Group is mentioned below:

	2012	2013	2014
Number of Employees (Excluding Moova)	1,992	2,034	2,153
Number of Employees (Including Moova)	2,154	2,254	2,244

The company's paid-up capital is TL 31,620,000 as of the date of our report and the capital structure is as follows:

Shareholder	Shares Held (%)	Amount (TL)
Kayhan Holding A.Ş.	21.18	6,698,302.00
A.Seyda Kayhan	10.00	3,162,000.00
Gönen Kayhan	8.90	2,813,903.00
Muharrem H.Kayhan	8.25	2,610,072.00
E.Hilmi Kayhan	8.25	2,608,091.00
Other	43.20	13,727,632.00
Total	100.00	31,620,000.00

As per the board of directors' resolution dated 16 May 2014; in order to minimize the additional resource requirements needed in the present competitive conditions and the resulting operating loss, it was decided to cease the production of one of the Group subsidiaries, Moova Gıda Sanayi ve Ticaret A.Ş., who engaged in the production of cheese and dairy processing business.

As a result of negotiations which have been conducted with various investors and following the board resolution reached on July 1st, 2014, all of the 99.99% shares held at Moova Gıda were sold to Tat Gıda Sanayi A.Ş. (a Koç Group company) and a share transfer agreement was signed. Share transfer was approved by the Competition Authority on July 18, 2014 and the share transfer was performed as of August 20, 2014. A Closing Payment of TL 32,271,190 has been collected in cash and in advance.

There are no more loss-generating operations within the Group following the sale of Moova Gıda.

Meters sold in the textile sector in Turkey increased by 4% in 2014 compared to the same period last year. Turkish Lira sales revenue increased by 18% compared to the same period last year thanks to the average sales price protection and the increase in Euro/USD rate.

Textile Sector (Domestic)	2014	2013	Change (%)
Sales Amount (km)	8,066	7,739	4
Revenues (TL million)	133.1	112.8	18

The amount of the Group's sales and profitability at its factory in India was realized at similar levels to last year.

Raw milk sales volumes increased by 4.5% with growth in the average number of milch cow in the agricultural sector in Turkey in 2014 compared to the same period last year.

Agricultural Sector (Domestic)	2014	2013	Change (%)
Raw Milk Sales Amount (tons)	23,005	22,009	4.5

The Group has completed fixed its assets and biological assets investments initiated in 2008-2009 in dairy farming, milk processing and fabric production in India. Total investments reached to 148.8 million USD as of 31 December 2014. Annual realization of these investments is as follows:

Amount Invested (USD Million)	2008	2009	2010	2011	2012	2013	2014
	79.5	13.4	9.6	29.3	7.5	5.5	4.1

Consolidated Balance Sheet and Income Statement of Söktaş (TL)

ASSETS	31 Dec. 2014	31 Dec. 2013
CURRENT ASSETS	123,515,470	129,059,205
CASH AND CASH EQUIVALENTS	16,857,617	7,614,775
ACCOUNTS RECEIVABLE	30,499,141	38,660,545
OTHER RECEIVABLES	2,894,997	451,586
INVENTORIES	55,667,587	61,415,998
BIOLOGICAL ASSETS	216,700	227,700
PREPAID EXPENSES	2,669,055	3,092,465
CURRENT TAX RELATED ASSETS	1,165,596	127,031
DERIVATIVE FINANCIAL INSTRUMENTS	272,570	577,108
OTHER CURRENT ASSETS	13,072,207	16,891,997
FIXED ASSETS	302,269,368	349,171,148
FINANCIAL ASSETS AVAILABLE FOR SALE	8,299	8,299
BIOLOGICAL ASSETS	54,069,058	47,999,299
TANGIBLE ASSETS	237,234,519	278,921,510
INTANGIBLE ASSETS	7,070,829	5,170,680
OTHER RECEIVABLES	169,380	153,677
OTHER CURRENT ASSETS	16,434	5,061,570
DEFERRED TAX ASSETS	3,700,849	11,856,113
TOTAL ASSETS	425,584,838	478,230,353

LIABILITIES	31 Dec. 2014	31 Dec. 2013
SHORT TERM LIABILITIES	194,185,817	193,811,832
SHORT-TERM DEBT	86,260,803	67,659,243
SHORT TERM PORTION OF LONG TERM DEBT	38,672,303	67,988,229
OTHER FINANCIAL LIABILITIES	27,245,163	7,950,656
TRADE PAYABLES	34,311,943	40,368,296
OTHER LIABILITIES	7,695,605	9,845,408
LONG TERM LIABILITIES	145,563,876	157,303,844
LONG-TERM DEBT	120,249,651	138,358,652
OTHER FINANCIAL LIABILITIES	1,519,723	942,283
DERIVATIVE FINANCIAL INSTRUMENTS	1,949,420	1,701,314
OTHER LIABILITIES	21,845,082	16,301,595
TOTAL LIABILITIES	339,749,693	351,115,676
EQUITY	85,835,145	127,114,677
PAID-IN CAPITAL	31,620,000	31,620,000
CAPITAL RESERVES	18,395,552	18,395,552
OTHER	79,424,911	88,574,425
RESTRICTED RESERVES	9,672,341	9,672,341
ACCUMULATED LOSSES / PROFITS	(8,761,473)	34,588,883
NET LOSS	(44,516,186)	(55,736,524)
TOTAL LIABILITIES	425,584,838	478,230,353

INCOME STATEMENT	31 Dec. 2014	31 Dec. 2013
REVENUE	229,815,147	196,504,951
BIOLOGICAL ASSETS SECURITIES VALUE DIFFERENCE	11,708,893	12,658,921
COST OF SALES	(173,529,580)	(150,407,296)
GROSS PROFIT FROM COMMERCIAL ACTIVITIES	67,994,460	58,756,576
GENERAL AND ADMINISTRATIVE EXPENSES	(23,186,974)	(19,678,013)
MARKETING EXPENSES	(16,937,116)	(12,951,688)
RESEARCH AND DEVELOPMENT EXPENSES	(1,540,132)	(1,708,688)
OTHER OPERATING INCOME	10,210,661	10,100,226
OTHER OPERATING EXPENSES	(5,522,802)	(3,407,870)
OPERATING PROFIT	31,018,097	31,110,543
INCOME FROM INVESTING ACTIVITIES	4,301,443	1,138,517
EXPENSES FROM INVESTING ACTIVITIES	(5,672,154)	(3,236,932)
FINANCE INCOME / EXPENSE BEFORE OPERATING PROFIT	29,647,386	29,012,128
FINANCIAL INCOME	14,494,705	5,730,576
FINANCING COSTS	(34,376,498)	(40,601,286)
CONTINUING OPERATIONS BEFORE TAX PROFIT / LOSS	9,765,593	(5,858,582)
CONTINUING OPERATIONS TAX EXPENSE / INCOME	(5,614,465)	687,994
CONTINUING OPERATIONS NET PROFIT / LOSS	4,151,128	(5,170,588)
LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS	(48,439,366)	(50,653,633)
NET LOSS	(44,288,238)	(55,824,221)

When the consolidated balance sheet of Söktaş is examined it is seen that assets have shrunk by 11% due to sale of Moova Gıda. Trade receivables account represents 7% of the assets as of 31 December 2014. Total trade receivables are TL 30,499,141 but only TL 35,083 portion is due from related party receivables. Close to half of the total amount of receivables consists of checks and notes and the remainder is secured by credit insurance and letters of guarantee.

The Group benefits from vendor and bank credits along with factoring agreements to finance raw material purchases. Almost all of commercial debt is in the form of open account and this is considered to be a positive aspect by us.

When total financial liabilities are examined; reported financial loss of TL 274,006,124 as of 31 December 2013 has decreased to TL 245,182,757 as of 31 December 2014. Approximately 40% of this total consists of Turkish Lira loans and the rest are borrowings in Euro. However, about 80% of total financial liabilities consist of fixed rate loans.

As of 31 December 2014 about 43% of sales are exports. Export revenues of Söktaş are mostly Euro-denominated and import expenses are mainly in USD. The balance of the company's foreign exchange position is provided through forward transactions.

The Group provides banks with surety and mortgage collateral against long-term loans.

The Group has been reporting net loss on Moova Gıda activities in recent years. The disposal of this entity in August 2014 was followed by a sustainable activities net profit of TL 4,151,128 for the operating period of 2014, which is deemed positive by us.

Ratio Analysis

FINANCIAL RATIOS	2014	2013
1- Net Working Capital (NWC) / Total Assets	-0.17	-0.14
2- Market Value Leverage (Mkt. Value / Total Liabilities)	0.29	0.27
3- Net Sales / Total Assets	0.54	0.41

The increase in the market value leverage and asset turnover compared to the previous year is deemed positive by us. However, the company has negative net working capital and NWC / Total Assets ratio appears to decline. Nevertheless, maturity of receivables is shorter than that of payables in working capital management of Söktaş. This is a risk-reducing factor in business volume changes.

I-Liquidity Ratios	2014	2013
1- Current ratio	0.64	0.67
2- Acid Test	0.28	0.26
3- Cash Ratio (Liquid Assets / ST. Liabilities)	0.09	0.04
4- Inventory / Assets	0.45	0.48
5- Inventories / Total Assets	0.13	0.13
6- Stock Dependency Ratio	2.27	2.05

Short-term Liabilities of the company were close to previous year levels and result of the decrease occurred in the company's current assets caused a decline in the current ratio. However, more liquid indications such as acid test and cash ratios were increased and sale of Moova Gıda might be the reason behind. Assets of the company have decreased compared to the previous year. Although the increase in the company's stock dependency ratio is considered to be negative, the increase in inventory turnover rate compared to the previous year is mitigating the negative impact of the increase in the stock dependency ratio.

II-Financial Structure Ratios	2014	2013
1. Financial Leverage (Equity / Total Liabilities)	0.25	0.36
2. Short-Term Liabilities / Total Assets	0.46	0.41
3. Long-Term Liabilities / Total Assets	0.34	0.33
4- Tangible Assets / Equity	2.76	2.19
5. Long-Term Liabilities / Continuous Capital	0.63	0.55
6. Tangible Fixed Assets / Long-Term Liabilities	1.63	1.77
7-Tangible Assets / Total Assets	0.56	0.58
8-Fixed Assets / Total Debt	0.89	0.99
9-Fixed Assets / Equity	3.52	2.75
10-Fixed Assets / Continuous Capital	1.31	1.23
11 Short-Term Liabilities / Total Liabilities	0.57	0.55
12-Bank Loans / Total Assets	0.58	0.57
13-Bank Loans / Total Short-Term Debt	0.44	0.35
14-Bank Loans / Liabilities	0.72	0.78
15-Current Assets / Total Assets	0.29	0.27

In terms of financial structure ratios we can see that Söktaş recorded an increase in leverage ratio compared to the previous year and it is above the sector average in general. The share of Short-Term Liabilities in total assets and total liabilities has increased slightly. Nevertheless, a small increase in the share of current assets in total assets is found positive by us.

III-Profitability Ratios	2014	2013
1- Return on Equity-I (BTP / Equity)	0.11	-0.05
2. Return on Equity-II (ATP / Equity)	-0.52	-0.44
3- After Tax Income / Total Assets	-0.10	-0.12
4- Operating Profit / (Total Assets-Tangible Assets)	0.16	0.16
5. Operating Profit / Net Sales	0.13	0.16
6. Gross Profitability	0.24	0.23
7- After Tax Profit / Net Sales	-0.19	-0.28
8. Operating Expenses / Net Sales	0.18	0.17
9. Financing Expenses / Net Sales	0.09	0.18

There are no more loss-generating operations within the Group following the sale of its subsidiary, Moova Gıda. Profitability ratios showed improvement overall compared to the previous year.

IV-Cash Ratios	2014	2013
1- Operational Cash / Debt	0.07	-0.21
2- Operational Cash / Interest	1.20	-2.16

Cash ratios as of 31 December showed a considerable improvement compared to the same period last year. The Group has the operational cash-generating capacity as of end 2014.

V-Annual Ratios and Turnover	2014	2013
1- Inventory Turnover	3.12	2.45
2- Receivables Turnover	7.54	5.08
3- Working Capital Turnover	1.86	1.52
4- Net Working Capital Turnover	-3.24	-3.03
5- Total Debt Turnover	5.06	3.73
6- Tangible Fixed Assets Turnover Ratio	0.97	0.70
7- Fixed Assets Turnover Ratio	0.76	0.56
8- Equity Turnover	2.68	1.55

Looking at end 2014 data, turnover rates increased in general compared to the same period last year. The company has eliminated cumbersome operations as of August 2014 and accelerated its activities. Nevertheless, net working capital turnover rate performance is below the industry average.

VI-Growth & Volatility	2014	2013
1- Real Growth	0.10	-0.005
2- Sales Volatility	0.06	0.10

In real terms Söktaş showed a growth performance close to the previous year's level in 2013. The company showed a growth rate close to 10% (adjusted for inflation) by 2014. Also the decrease in sales volatility compared to the previous year has been evaluated positively by us in terms of sustainable and steady growth indication.

Strengths

Variable interest rate risk on the balance sheet is minimized:

Interest rate risk arising from floating rate financial liabilities are minimized. Only 20% of total liabilities carry variable interest rate on the balance sheet of 31 December 2014. Company officials are capable of taking action on fixing the rate of interest on variable interest rate loans when deemed necessary.

The Group has completed its investments and put an end to loss-generating activities:

Söktaş largely completed its investments ongoing since 2008. A total close to 150 million USD is invested on fixed assets for fabric production and on live asset purchases for milk production. New technology and machinery used in production plants are considered as factors that provide a competitive advantage.

Also the loss-generating Moova Gıda has been disposed of as of August 2014.

Söktaş is institutionalized, possessing highly experienced management skills:

Founded in 1971, Söktaş has sufficient experience in domestic and overseas markets. In addition, the company is listed on Borsa Istanbul with its established corporate structure and efficient and qualified senior management.

Risks

The overall trend of parity change adversely affects the cost structure and gross profitability:

Export revenues of Söktaş are mainly in Euro and imports and input costs are realized mainly in US dollars. The parity change has been in favor of USD and against Euro in the current conjuncture and indicating to a long-term trend. This might adversely affect the Group's gross profit. The company will have to manage this change on its cost structure in 2015.

Leverage use is at high levels:

The company mainly financed its operations with foreign borrowing and its Liabilities / Total Debt ratio stood at 80% as of 2014 which is quite high compared to the sector (2013: 73%). The net foreign currency liability position amounted to TL (-) 120,962,728 as of 31 December 2014. 80% of its foreign currency financial liabilities are denominated in Euros, 6% in US dollars and 14% are denominated in Indian Rupees. Considering that parity change is against the Euro, this change will significantly have positive impact on the company's financial situation.

Capacity utilization is below sector average:

The average capacity utilization rate of the Group's textile business in 2014 was around 71%. This rate is below the average in the textile sector which reached 78% in 2013 and in an increasing trend in 2014.

Corporate Governance

The company has provided substantial compliance with the Capital Markets Board's (CMB) Corporate Governance Principles and has implemented most of the necessary policies and measures. Even though a small number of improvements are needed, management and internal control mechanisms have been created effectively and are in operation. Majority of the corporate governance risks are identified and managed actively. The rights of shareholders and stakeholders are respected in a fair manner and public disclosure and transparency is at superior levels. Structure and operation of the board of directors is built on sound basis. Though it does not pose a great risk, certain improvements in one or more of these areas are required.

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 textile industry 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.

<u>Short Term</u>	<u>Long Term</u>	
(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

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