TRANSCRIPT OF ENERJİSA ENERJİ Q1 2024 EARNINGS CALL

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SPEAKERS:	Dr. Philipp Ulbrich – CFO
	Cem Gökmen Gökkaya – Treasury, Risk, Investor Relations and Tax Director

PRESENTATION SESSION

Cem Gökmen Gökkaya: Dear Investors and Analysts, this is Cem speaking.

Welcome to Enerjisa Enerji's Q1 2024 Earnings call. We are here with our CFO Philipp Ulbrich who will run you through the financial and operational performance of the first quarter and also share details about the 2024 outlook that we have published yesterday.

Before handing over to Philipp some housekeeping topics.

First, I am happy to share that we also have Martin Jaeger with us today who has joined Enerjisa Enerji as our new Head of IR in April. Martin brings broad capital market experience to our company as he worked for around 10 years in German utilities in several IR roles, recently with E.ON Investor Relations.

And second, I would like to remind you that we will present and discuss the Q1 financials today based on inflation accounting and thus will show the respective 2023 data with 2024 purchasing power. We have highlighted those metrics where inflation accounting does not have any impact such as Distribution Investments, Free Cash Flow or Financial Net Debt developments. Also, the outlook is now fully based on inflated numbers. This equips you with the most comparable picture possible. With that, over to you Philipp.

Page 2: Highlights

Dr. Philipp Ulbrich: Thank you, Cem and a warm welcome also from my side. I will be crisp and will focus on the most important developments. Here are my three most important messages of today.

First, Enerjisa continues delivering on its promises in a challenging market environment. We have strongly grown our Operational Earnings and also our Underlying Net Income increased with a similar pace. This is a clear proof that also in an inflated comparison we deliver on our growth path. Especially our target of financial discipline is of utmost importance in a high-inflation environment. On that note we have reached an important milestone in May regarding the Collective Bargaining Agreement negotiations with Türkiye's Energy, Water and Gas Workers' Union for all our Electricity Distribution Companies in Istanbul Anatolian side, Başkent and Toroslar. We have been able to conclude a fair agreement, which is respecting our cost targets. The agreement is valid for a period of 2 years, effective as of March 2024. Thus, it is providing certainty regarding our most important cost driver besides interest cost for the full remaining tariff period.

Second, the temporary mismatch between costs and tariffs, I have talked about this in our last earnings call, is still heavily influencing our Free Cash Flow. However, on the retail side this gap started to close by EUAS procurement at lower prices. On top there is a second and now more important tariff burden in distribution, due to mismatch between the Revenue Ceiling we are entitled to and the tariff. However, this development is coming without P&L impact and is also being cash-neutral over time once the tariff will be adjusted again. Still, it requires substantial financing and is impacting the Free Cash Flow adversely. Given our strong balance sheet and our various funding sources we can respond to this financing need, however would like to clearly state the need for cost-based tariffs also on the distribution side in order to ensure the long-term healthiness of the system.

And third, our business model allows us, to continue with a visibly strong investment and earnings trajectory also for 2024. Our new outlook is targeting for 40 to 45 billion TL Operational Earnings and 3.5 to 4.5 billion TL Underlying Net Income. In 2024 we are planning to invest 15 to 17 billion TL, the main part of it into our regulated infrastructure business. By this we expect our RAB, the foundation for future earnings of Enerjisa Enerji, to grow at least to 55 to 60 billion TL.

Centerpiece of our guidance remains a strong dividend policy for our shareholders. To maintain an attractive remuneration for you also under inflation accounting, we have increased the targeted payout ratio now to at least 80% of Underlying Net Income.

Let us now run you through the performance of the first quarter on the following pages.

Page 3: Financial Highlights

Dr. Philipp Ulbrich: You might remember that in Enerjisa's case, the biggest difference between non inflation accounting and inflation accounting comes from the fact that the financial assets arising from our distribution investments, which are of major importance for us, are treated as monetary assets and are therefore not escalated in the balance sheet with inflation. However, our equity which is higher than our non-monetary assets is escalated. The difference between both has to be readjusted via a P&L effective booking. This is the major reason why Operational Earnings are growing at a faster pace than Underlying Net Income (UNI). However, indexation of Equity is beneficial for those companies that have built up a high equity position as it strengthens the company's balance sheet structure like in the case of Enerjisa even further.

Operational Earnings under IAS 29, grew by 45% to 9.4 billion TL and UNI grew by around 30% to now 360 million TL. For the first quarter, both metrics are in line with the usual seasonal pattern in our industry. This significant inflation adjusted growth is mainly driven by earthquake related negative effects from Q1 2023 in Distribution and Retail, more on that in a minute.

Compared to last year, investments are only up by 5% in nominal terms and stand now at close to 1.3 billion TL matching the seasonal pattern of our investments during the year. Be reminded that last year we decided for an overspending of CAPEX in the distribution business due to the expected revaluation of our asset base. Even it is too early to fully judge we see clear indications that this strategy will create significant value. For 2024 we currently envisage investments according to our long-term plan. We will judge during the year, if interest and inflation will again allow for increasing the spend. For all further details on our Q1 results I now hand over to Cem.

Page 4: Operational Earnings Developments

Cem Gökmen Gökkaya: The strong year over year growth of our Operational Earnings on inflated basis spreads out to 3.1 billion TL from our Distribution segment, a negative 0.7 billion TL from our Retail business, and a positive 0.5 billion TL from customer solutions.

Our distribution business growth in the first quarter is driven by a higher Regulated Asset Base which leads to higher financial income and higher CAPEX reimbursements. Another significant part of the year over year change comes from the fact that we couldn’t book income accruals for earthquake related expenses as of Q1 2023 in our distribution business since we didn't have an official announcement from the regulator on how those expenses would be treated. However later on EMRA made its decision which clearly shows that it accepts disaster expenses as a passthrough within the scope of the “extraordinary circumstances” section of the Electricity Market Tariffs Regulation. Accordingly, this effect will phase out over the coming quarters.

Our Retail segment is suffering from the lower price environment year over year. Lower sourcing costs impact both, the regulated market as the margin is directly related to these, as well as the liberalized margins.

In Customer Solutions we have achieved a gross profit up by more than 0.5 billion TL due capacity additions in solar PV which have been more than doubled within one year to almost 55-megawatt-peak as end of Q1 2024.

Let’s now move to page 5 and our bottom-line earnings.

Page 5: Underlying Net Income (UNI)

Cem Gökmen Gökkaya: Our Underlying Net Income, increased by more than 30% adjusted for inflation and reached around 360 million TL in the first quarter. The 2.9 billion TL positive impact from Operational Earnings, excluding CAPEX reimbursements, was partly offset by financial results driven by the high interest rates.

A compensating effect was recorded by lower other financial expenses due to interest income from uncollected tariff receivables.

And finally, the P&L effect that I was mentioned earlier is a higher monetary loss due to a higher equity growth than the non-monetary asset position on the balance sheet.

Page 6: Operations

Cem Gökmen Gökkaya: Let’s now have a look at our operations on page 6, starting with Distribution:

- CAPEX came in at 0.8 billion TL in the first quarter. Compared to last year this is slightly down. 2023 investments during the year have been extraordinarily high. For the full year, we have seen a 80% CAPEX overspending compared to the level that we have agreed with the regulator. One of the key factors behind the high investments in 2023 was the anticipated advantage from the revaluation of our Regulated Asset Base with higher inflation figures in the initial years. As of today, we see clear indications that this revaluation will take place at the end of Q2 as expected.

As investments in 2024 will not benefit from this advantage we now returned to our long-term plan which is still aiming at a continuous growth of our regulated asset base.

- As a consequence, our Regulated Asset Base increased beyond inflation. Year over year RAB has almost doubled reaching 58 billion TL now. The share of inflation is 25 billion TL.

Now over to our retail and customer solutions segments.

- Both regulated and liberalized retail volumes have increased year over year. Especially in the liberalized segment we see a volume increase of almost 40% due to Türkiye's increasing electricity consumption and our competitive advantage leveraging on this development. Enerjisa remains the first choice in electricity supply for customers. With our very strong brand reputation we actively manage a very high retention rate in the liberalized segment. However, the gross margin has more than halved as power prices have come down to a large extent.
- Our Customer Solutions gross profit increased significantly from 24 million TL in Q1 last year to now almost 2 billion TL. This extraordinary increase is mainly coming from growing sales of solar PV capacities to B2B customers that I have mentioned earlier.
- Also, in our e-mobility business we are constantly growing. Only in one year we have almost doubled our charging plugs to shy of 2,000 in entire Türkiye, and we will continue to grow this business in balance with the EV development in the market.

Page 7: Free Cash Flow

On page 7, you can see the breakdown of our FCF development, investments and tariff impact on retail and distribution.

- Free cash flow decreased from 3.0 billion TL in Q1 2023 to minus 3.7 billion TL in Q1 2024. This decline is in line with our expectations. Let me remind you that the main reasons for this decrease are the delay of tariff changes to reflect energy costs, the distribution revenue ceiling and the significant investments we have made especially in 2023.

- The mismatch between the energy costs and tariff prices have been the reality in the last two years. The negative cash impact from the retail tariff that we had last year will disappear over time with the expected tariff increases. Be reminded that we will also get compensated for the interest costs.

Page 8: Economic Net Debt

Let's quickly look at Economic Net Debt on page 8.

- Our Economic Net Debt is increasing by more than 5 billion TL compared to end of 2023. This is mainly driven by higher interest and CAPEX payments in the first quarter

- Financial net debt has slightly increased and stands now at sharp 33 billion TL.

On the next page I will explain how we continue to actively manage our debt.

Page 9: Financing Developments

Enerjisa continues with a successful broad financing strategy in a very challenging financial market environment in Türkiye.

- We extended bond issuances, which remain a highly effective source of financing for us. In 2024 until today, we issued more than 9 billion TL worth of bonds. Our average interest rate for the first quarter increased to around 45% following the current market dynamics, this remains however well below today's interest levels.

I'll now hand back to Philipp for sharing our updated guidance.

Page 10: 2024 Outlook

Dr. Philipp Ulbrich: Thank you, Cem. As promised for today's earnings call I am happy to present you our updated outlook for the year 2024 now fully incorporating Inflation Accounting.

- As you can see on page 10 we are still guiding with the same level of detail on our financial targets as Enerjisa has done before and I promise that we will continue to do so.
- The current growth environment and the strong performance of our businesses allows us to set attractive and ambitious year-end targets. On Operational Earnings we are now targeting for a range of 40 to 45 billion TL compared to 27 billion TL at year end 2023 and respectively for UNI a range of 3.5 to 4.5 billion TL compared to 3.4 billion TL for 2023.
- On the investment side we will continue with our long-term CAPEX program into our distribution assets and target for a range of 15 to 17 billion TL for the full year leading to a RAB target of 55 to 60 billion TL. Please be reminded that both Investments and Regulated Asset base are not subject to Inflation Accounting in our guidance, as the majority of investments has a RAB effective character.
- Also, with guiding now fully on Inflation Accounting for our earnings metrics, Enerjisa stays committed to pay attractive dividends in the future. For that reason, we have increased our payout ratio target from formerly 60 to 70 % of UNI to now at least 80% of inflated UNI. This is the most important message to our shareholders today as we target to smoothly increase the dividend per share independent of the structural changes due to inflation accounting.
- The entire management team and I will fully focus on delivering on our promises. I am convinced that the high transparency on our operations and also our targets are setting a benchmark amongst our peers.

With this let me pass to Martin to open the Q&A session.

Q&A Session

Q1: Cenk Orcan – HSBC

Are dividend payments subject to or limited by cash at hand? Your cash position looks insufficient for the time being. Do you expect it to improve in coming quarters?

Dr. Philipp Ulbrich: Thank you very much for the question. The answer is a clear no. Dividend is not limited to the cash at hand position. We rather navigate currently our cash position. You can imagine that it is also the most economic way to do it. In the high interest environment, we take up on the financing side, what is needed in order to fund our investments and we certainly also consider in our funding need the dividend payment.

Q2: Alihan Gürleyen – İş Yatırım

For Underlying Net Income Calculations, could you explain briefly why impact of asset revaluation is added on net income? Is it a non-recurring item? I could see it almost in every financials.

Cem Gökmen Gökkaya: Thank you for the question, it is a very good question that will help everyone understand better. This asset revaluation right was given to the companies in Türkiye and Enerjisa also chose to do it and benefited from it, but this is not a part of our underlying business, that is why we are now, every year, taking the impact of asset revaluation out of our underlying net income. This year, you see that there is a positive impact of it. In the last years, if you remember, without this item being taken out of our underlying net income, we had very weak net incomes. In those years, we excluded this impact from our underlying net income. Now, the impact is negative, we are again taking it out of our underlying net income, keeping the consistency of our results.

Q3: Can Alagöz – QNB Finansinvest

Do you evaluate hard currency borrowing for financing your CAPEX requirements?

Cem Gökmen Gökkaya: Thank you Can for your question. I am hearing this question even internally from time to time. We have a very clear FX risk management policy. Since our business is in Türkiye and based on Turkish Lira, we are borrowing in Turkish Lira. From time to time, we are borrowing hard currency but we immediately convert it to Turkish Lira and don't take any FX risk.

Q4: Cenk Orcan - HSBC

What overall impact should we expect from your KPIs, operational earnings and underlying net income when inflation turns down? When should we expect that impact, H2 2024 or 2025, assuming inflation starts falling starting Q3 this year?

Dr. Philipp Ulbrich: That is getting us to some really special topics of inflation accounting. First of all, I would like to repeat that we will not give any prognosis now on future inflation. We also don't need to do so because our underlying business is pretty much inflation-protected, especially due to the revaluation of our asset base by inflation. Still, certainly, we are looking at this from two angles. First angle is, you see that our underlying net income is impacted by inflation accounting as we have this difference between equity and non-financial assets, leading to the correction of our underlying net income downwards, not cash effective, which will diminish over time with the reduction of inflation. More importantly, we are certainly not looking at inflation on an isolated basis. It shall go together with the reduction of the interest and if you look at the magnitude of interest costs on our P&L, you can extrapolate that we have a strong relief with the reduction of the interest rates as we will not have this hurdle anymore between operational earnings and UNI. So, with the reduction of interest rates, we expect a growth of UNI compared to operational earnings and its share and this is exactly also why we are investing in our future.

Q5: Cenk Orcan – HSBC

Is the strong rebound in Customer Solutions results sustainable?

Dr. Philipp Ulbrich: What we see is, especially also on the back of tariff discussions, there is a really broad interest amongst B2B customers, not only for Solar PV projects but for example also for energy efficiency projects. If these tariff increases happen, this will put customers, especially B2B customers, in a position to rethink their energy sourcing and energy efficiency measures, so, it all depends the environment. What I can assure you is that Enerjisa is well prepared with a full bundle of solutions to respond to these customer requirements.

Q6: Cenk Orcan – HSBC

Is the negative Free Cash Flow in Customer Solutions temporary?

Dr. Philipp Ulbrich: Yes. Why so? Because all customer solutions projects are evaluated, due to their size, on a stand-alone basis. All are following clear NPV calculations and certainly need to respond to a hurdle rate on top of the financing costs. That is why each project in itself has overall a very significant FCF as you can imagine in the current interest environment. So they have to earn cost of capital plus the hurdle rate. That means, certainly, also if you take a combination of these projects, they also only show temporary Free Cash Flows here, same as in distribution and I mentioned in the last Earnings Call, a negative Free Cash Flow especially driven by investments is always a positive sign. Because, it shows that here at Enerjisa Enerji, we have sufficient possibilities to do profitable investments.

Closing

Martin Jäger: With that, we will finish our call today. It seems we have no further questions at the time being. Thank you so much for attending today's Earnings Call. Everybody, if you have any further questions, please do not hesitate to reach out to the IR team. Have a nice evening and thank you very much. investorrelations@enerjisa.com