4th Regulatory Period

Update

ENERJISA

January 2021

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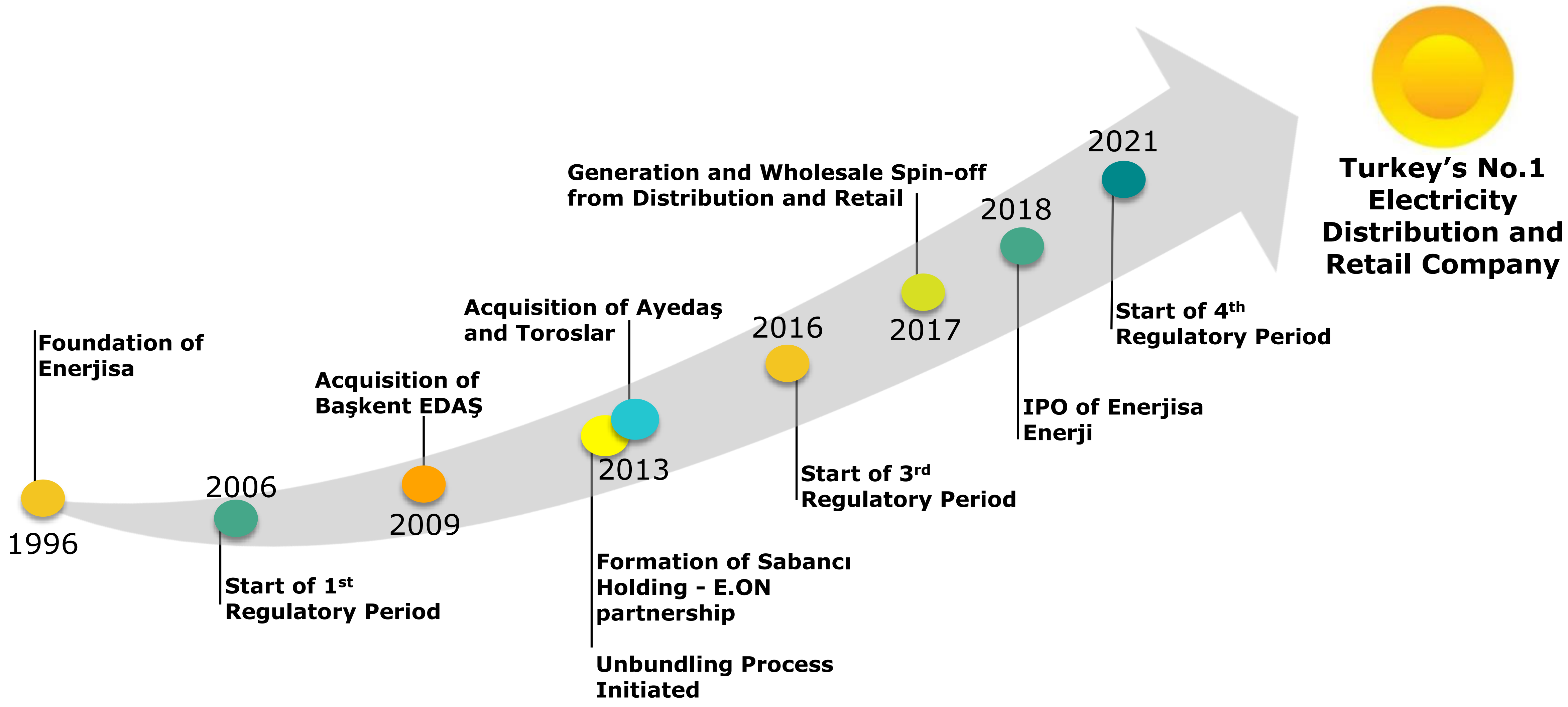
Successful Track-record of Expansion and Improvement of Legacy Regional Companies



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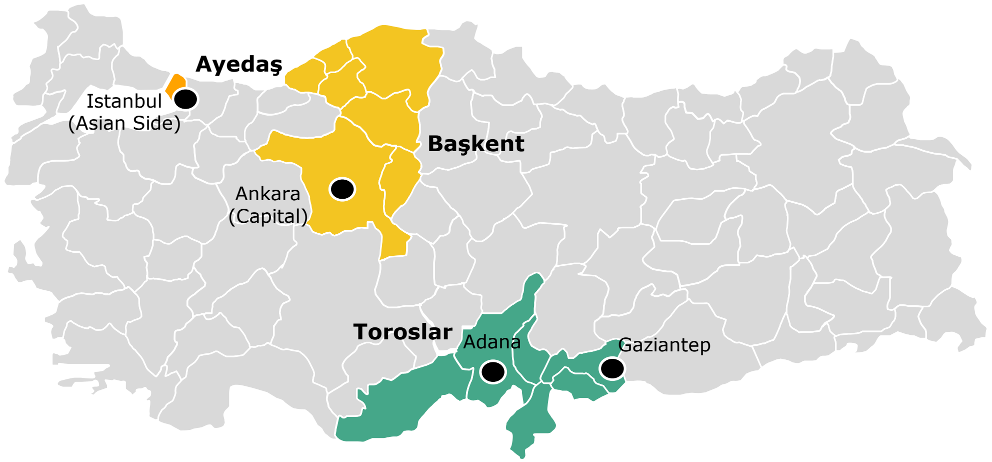
Enerjisa at a Glance



No.1 Electricity Distribution and Retail Player in Turkey

Distribution

11.4m
9M 2020 Connection Points

234,191 km
9M 2020 Network Length

Retail

25.6 TWh
9M 2020 Sales Volume

10.0m
9M 2020 Customers

Overview

- Turkey's **leading electricity distribution** and **retail** company with **consolidated revenues of c. TL 17 bn** as of 30 September 2020
- **Successful partnership** between **E.ON** and **Sabancı**, since 2013[1]
- **Fundamental growth** from incumbent regions (Başkent, Ayedaş and Toroslar)
- Successfully completed **operational and financial improvement** post privatizations
- **Retail customer base of 10.0 million** (representing **22% market share**)

[1] Post IPO E.ON and Sabancı own 40% each

Enerjisa Operational Earnings Breakdown

Enerjisa Operational Earnings
(9M2020)

85%
Distribution

Retail
15%

Distribution Operational Earnings
(9M2020)

76%	Investments
17%	Efficiency & Quality
7%	Other

Retail Operational Earnings
(9M2020)

63%	Regulated
35%	Liberalised
2%	Customer Solutions

4th Regulatory Period Overview

Overall stable regulatory framework supporting investments, governance and quality

Key confirmations

Distribution

- WACC calculation methodology unchanged.
- Capex reimbursement period unchanged (10 years).
- Theft usage accrual retention rate at detection unchanged (55%).
- Efficiency incentives continue.

Retail

- No change in retail margin (2.38%).
- Inclusion of Feed-in-tariff costs in retail margin continue.

Key changes

Distribution

- Pretax real WACC changed from 13.61% to 12.30%.
- Increase in Initial Capex allowance (72% increase for Enerjisa in real terms vs. 3rd regulatory period).
- Increase in Opex allowance excluding scheduled maintenance (8% increase for Enerjisa in real terms vs. 3rd regulatory period).
- Theft usage accrual retention rate at collection reduced to 50% from 75%.
- Theft and Loss target threshold rate reduced from 8.0% to 7.5% for Cluster 1 (best performers).

Quality & Transparency Focus

Incentives to support **quality, in-house sourcing, transparency governance, and sustainability:**

- Bonus/malus mechanism introduced for quality parameters and increase in % quality parameter ceiling.
- General Quality Indicators introduced for:
  - Public companies. Companies with direct shareholders listed on Borsa İstanbul, incentive equal to 0.3% of the revenue requirement (Distribution and Retail).
  - In-house sourcing. If in-house sourcing is above 50%, incentive up to 1% of the revenue requirement (Distribution).
- For scheduled maintenance a new scope is defined and a new opex allowance is introduced to incentivize improvement in continuity of supply and customer satisfaction (Distribution).

DISTRIBUTION

Well-established Incentive-based Regulatory Framework

	First Regulatory Period (2006–2010)	Second Regulatory Period (2011–2015)	Third Regulatory Period (2016–2020)	Fourth Regulatory Period (2021–2025)
Mid-year WACC (real, pre-tax)	9.35%	9.97%	11.91% - 13.61%	12.30%
Evolution	▪ "Transition period" designed to provide smooth shift to a cost-based tariff structure post-2010. ▪ RAB-based tariff calculation methodology introduced with RAB set to zero in 2006. ▪ Private Operator Model (Transfer of Operating Rights - TOR) established for privatisations.	▪ WACC revised up to 9.97%. ▪ Unbundling of distribution and retail operations.	▪ WACC revised up to 11.91%, for 2016-2017 and 13.61% for 2018-2020. ▪ T&L methodology revised. ▪ Significant increases in Opex and Capex allowances. ▪ Introduction of Quality Incentives. ▪ Increase in retention rate for theft usage detection accrual.	▪ WACC revised to 12.30%. ▪ Enhanced quality incentives (bonus/malus mechanism with higher % bonus ceiling). ▪ Further increases in Opex and Capex allowance. ▪ For scheduled maintenance a new scope is defined and a new opex allowance is introduced to incentivize improvement in continuity of supply and customer satisfaction. ▪ New Quality Indicators introduced for in-house sourcing and listed companies.
Capex Reimbursement	5 years	10 years		

Revenue components and incentives

RAB-based framework with incentives given to outperformance

Regulated Revenue cap

- Real WACC return: Average RAB x Average WACC
- Capex reimbursement
- Opex allowance
- Tax correction mechanism on Capex
- No volume and inflation risk

Incentives

- Capex outperformance
- Opex outperformance
- Theft & Loss margin
- Theft accrual & collection
- Quality related incentives
- Other revenue (Advertisement, rent, lighting margin)

Distribution: Earnings Breakdown

Investments

76%


Efficiency & Quality


17%

Other


7%

	9M20 Operational Earnings[1]	Drivers	
Financial Income & Capex Reimbursements	76%	▪ Capex (initial allowed & actual) ▪ RAB development ▪ Regulated WACC ▪ Inflation	▪ Capex reimbursement period: 10 years ▪ Reimbursement amounts indexed by CPI
Capex Outperformance	2%	▪ Capex (actual) ▪ Capex unit prices ▪ Procurement performance	▪ Capex unit prices updated by the regulator to reflect prevailing prices
Opex Outperformance	4%	▪ Opex allowance ▪ Actual Opex ▪ Operational efficiency	▪ Outperformance on allowed controllable expenses
Theft & Loss Outperformance	2%	▪ T&L target rates set for each region separately ▪ T&L performance ▪ Consumption growth ▪ Procurement prices ▪ Distributed energy	
Theft Accruals	9%	▪ Theft accrual detection & collection	
Quality Parameters	0%	▪ Quality Bonus reflected in 4th quarter of every year. In 4Q2019:160 mTL	
Other	7%	▪ Tax correction ▪ Other income (e.g. rent & advertisement, lighting margin)	

[1] EBITDA + Capex reimbursements excluding exceptional items

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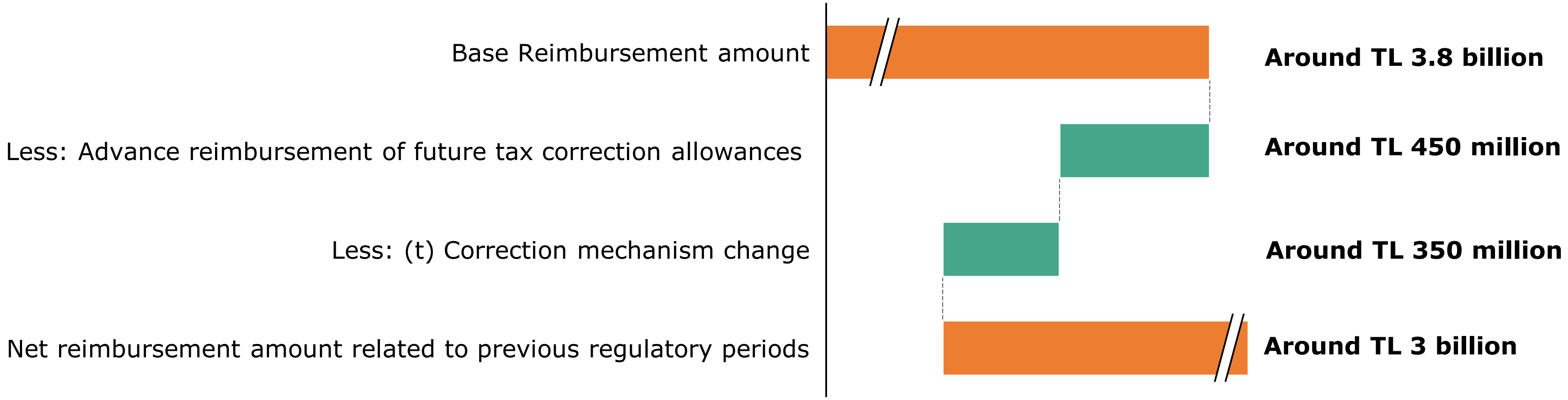
Distribution: Reimbursements Related to Previous Regulatory Periods

Reimbursements for 2021 & 2022
(Real June 2021, Index: 529.32 CPI)



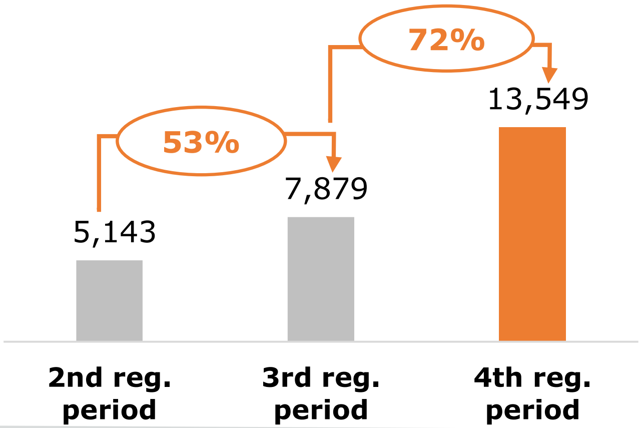
- Expected reimbursements related to previous regulatory periods to be made to Enerjisa Enerji distribution companies through distribution tariffs around TL 3 billion TL during the 24 months of 2021 and 2022 (based on 529.32 CPI, June 2021). This includes:
  - Negative cash flow impact of in advance reimbursement of future tax correction allowances due to previous statutory losses of some subsidiaries (around TL 450 million negative impact according to the estimates of our Company).
  - The impact of change in (t) correction mechanism (around TL 350 million negative impact).
  - The two negative cash flow impacts discussed are only timing differences, rather than additional absolute cash outflows in the long-run.

Distribution: Regulation Incentivises Investments

Investments

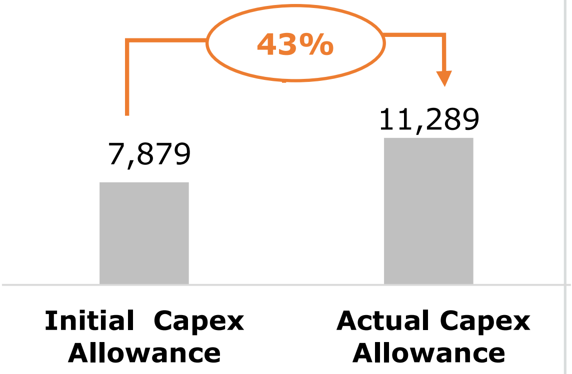
Initial Capex Allowance

(TLmn, real Oct 2020, Index: 487.38)



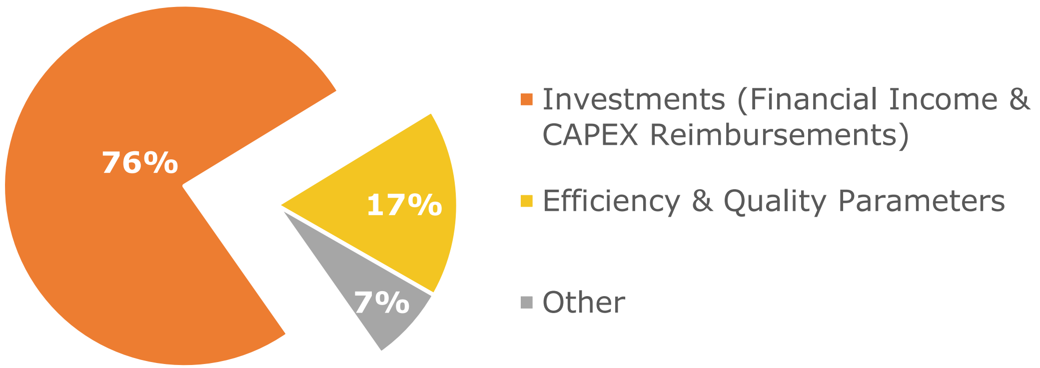
3rd Tariff Period Capex Allowance

(TLmn, real Oct 2020, Index: 487.38)



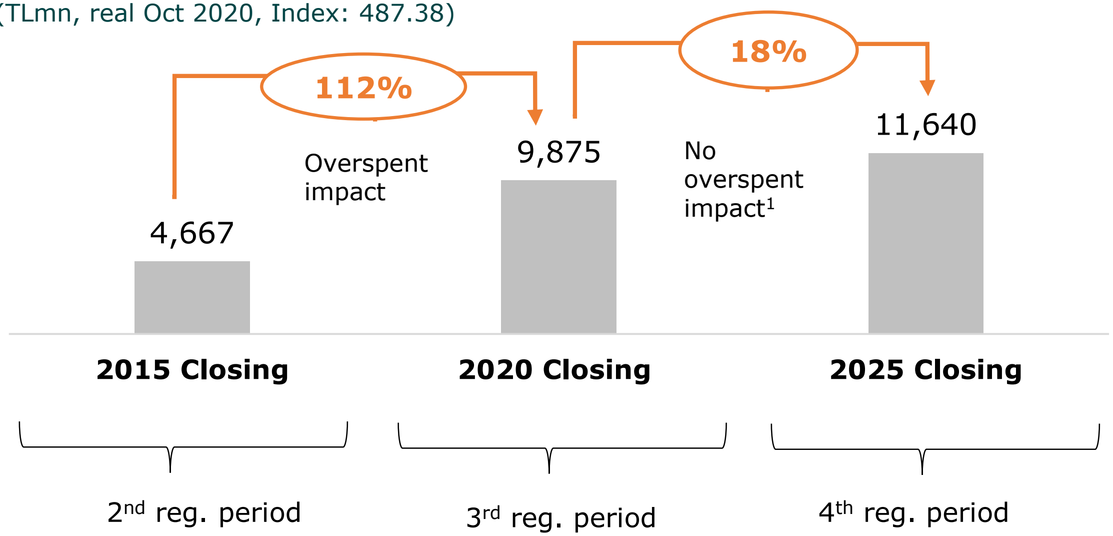
Distribution Operational Earnings Breakdown

(9M 2020)



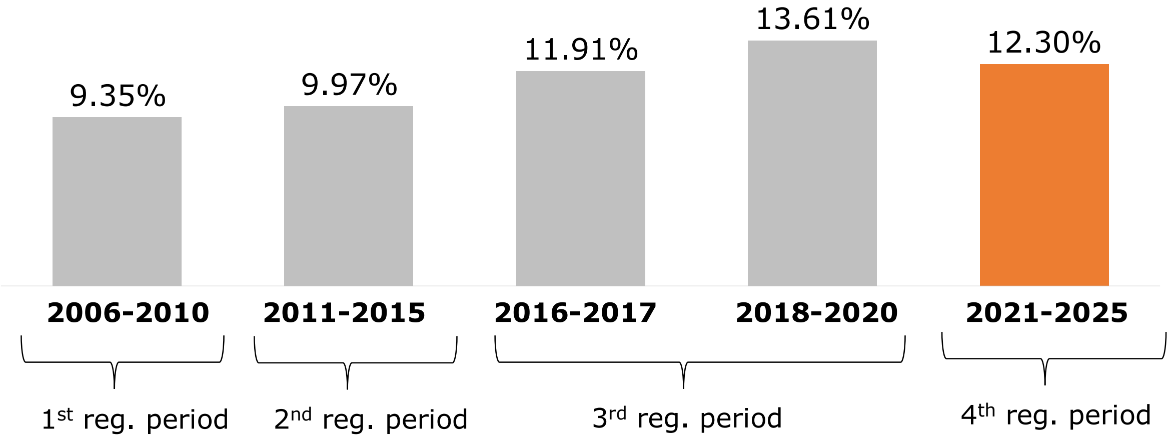
Statutory RAB Development

(TLmn, real Oct 2020, Index: 487.38)



Regulated WACC

(Real, pre-tax, mid-year adjusted)



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[1] This is not a guidance. In line with regular implementation, EMRA calculation assumes no Capex overspend in the fourth regulatory period.

Distribution: Regulation Incentivises Investments

Financial Income Mechanism

Simplified & illustrative calculation logic of IFRS Financial Income

IFRS Financial Income = **Average IFRS RAB** (nominal)[1] X (**Regulated mid-year WACC** (real) + **Inflation rate**) ≈

IFRS Financial Income

(Nominal, TLm)

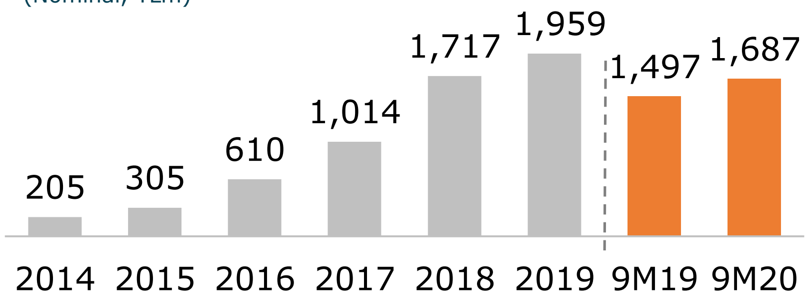


Illustration of difference in cash-effective Financial Income in IFRS vs. Statutory

- Revaluation omponent on RAB basis → Cash-effective within the 10 years Capex reimbursement period
- Financial Income on Overspending → Cash-effective starting with beginning of next regulatory period
- **Statutory Financial Income** → Directly cash-effective

(**Average Statutory RAB (real)** X **Regulated mid-year WACC (real)**) X **Adjusted with cumulative Inflation Index**

IFRS Financial Income

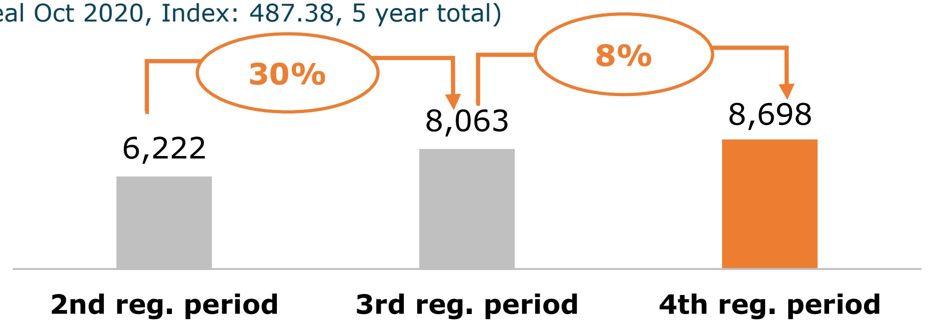
Source: EMRA, Company
The models in this slide are simplified illustrative representations. The corresponding line items in Enerjisa Enerji financial statements may deviate significantly vs. the simplified models.
[1] Adjusted for scrap sales + new connection fees.

Distribution: Regulation Incentivises Efficiency and Quality

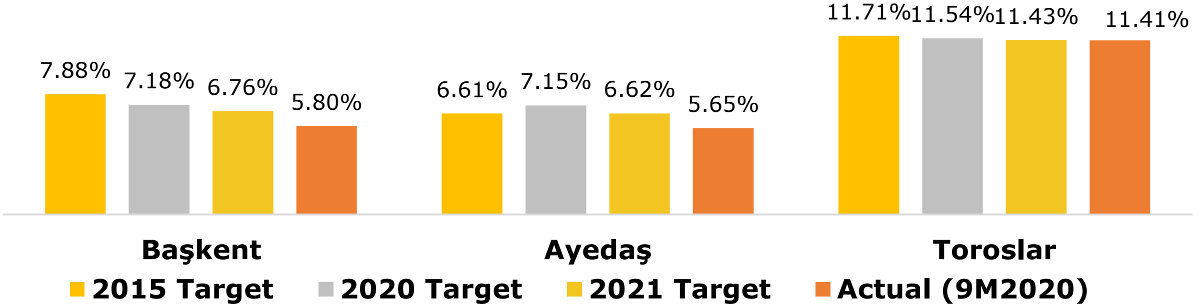
Efficiency & Quality Metrics

Initial Controllable Opex Allowance

Excluding scheduled maintenance
(TLmn, real Oct 2020, Index: 487.38, 5 year total)

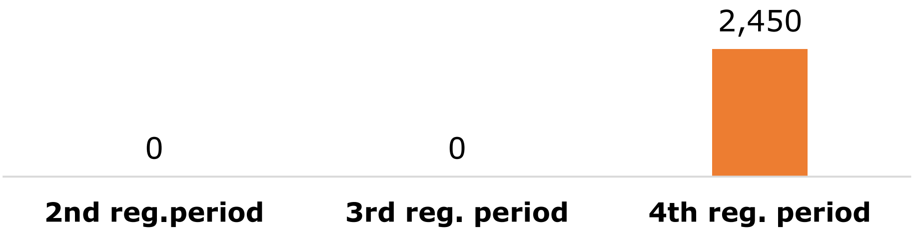


Theft & Loss Targets and Realization



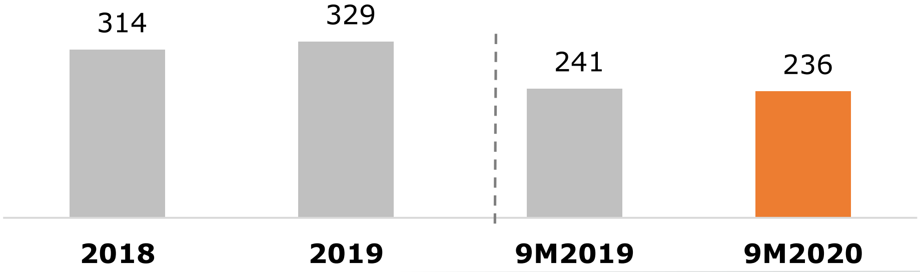
Initial Scheduled Maintenance Opex Allowance

(TLmn, real Oct 2020, Index : 487.38, 5 year total)



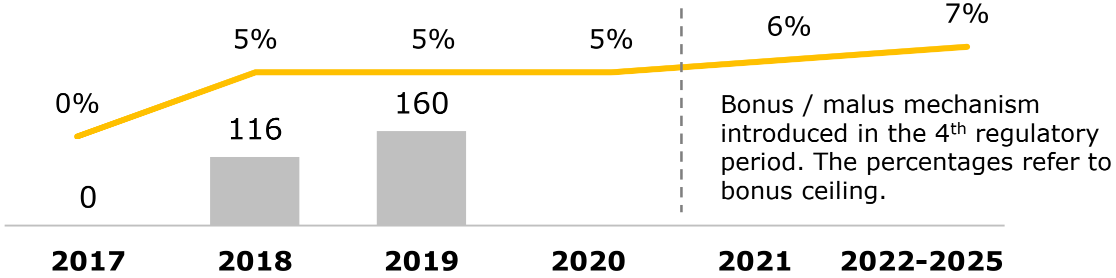
Theft Usage Detection Accrual

(TLmn, Nominal)



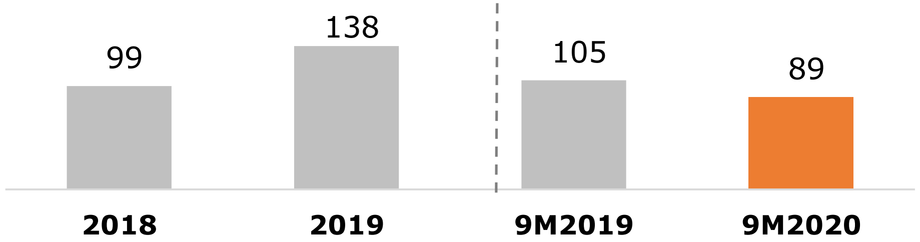
Quality Parameter Realized and Quality Parameter Ceiling

(TLmn, Nominal & % of Regulated Revenue Requirement)



Theft Usage Accrual Collection

(TLmn, Nominal)



Source: Company and EMRA.

Distribution: Regulation Incentivises Efficiency and Quality

Capex and Opex Outperformance Mechanism

Capex Outperformance

Overspending

Inflation adjustment

Initial Capex allowance of ~TL **2.7 bn** p.a. * in 4th period

Actual allowed Capex (nominal)

X Capex outperformance (%) ≈ Capex outperformance (abs)

* Real at index of 487.38 (Oct 2020)

- **Capex Outperformance** = Unit price based investments x (Σ Regulated unit price-Σ purchasing unit price).
- If a distribution company realises its mandated investments in a given year at a cost less than the unit prices determined by EMRA, then it will have its revenues based on Capex realization calculated with unit prices set by EMRA. In that case, the company retains the difference.
- Outperformance is included in EBITDA and reduces Capex.
- In spite of increased Capex, majority of investments continue to be spent for mandatory network expansion. Considering network quality needs, significant investment needs is expected in the years to come.

Opex Outperformance

Inflation adjustment

Controllable Opex Ceiling (Fixed and variable Opex) allowance of ~TL **1.7 bn** p.a. * in 4th period

Opex allowance (nominal)

X **Opex outperformance** (%) ≈ **Opex outperformance** (abs)

* Real at index of 487.38 (Oct 2020)

- **Opex Outperformance** = Controllable Opex ceiling - Controllable Opex spending.
- Fixed and variable opex component is not subject to adjustment based on realizations, allowing for outperformance through efficient processes and cost management and digitalization. In case of outperformance, the distribution company can retain the difference.
- Majority of Opex is related to Personnel expenditure: payroll, employee benefit expenses and social security premiums.
- Material expenses mainly for conducting maintenance and repair operations and health & safety equipment.

Distribution: Regulation Incentivises Efficiency and Quality

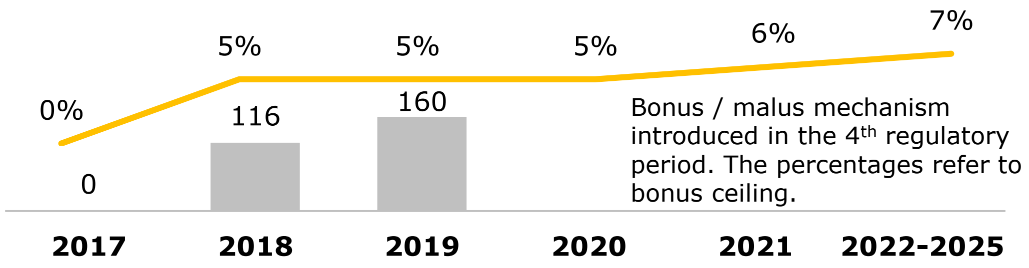
Quality bonus mechanism

Revenue requirement (exc. Non-controllable opex, and inc. scheduled maintenance opex) X **Quality parameter realization** (%) ≈ **Quality Bonus** (abs)

- EMRA implements quality parameters to incentivize continuity of supply, technical quality, customer satisfaction, transparency, corporate governance and HS&E.
- **Start date:** 2018, new parameters in the fourth regulatory period.
- In the fourth regulatory period, a bonus/malus mechanism for quality parameters is introduced. Under the quality factor and general quality indicator headings, total quality parameter bonus ceiling is set as 6% of regulated revenue requirement for 2021 and 7% of regulated revenue requirement for 2022-2025 and penalty ceiling is set at minus 2.05% for 2021 and minus 2.8% for 2022-2025

Quality Parameter Realized and Quality Parameter Ceiling

(TLmn, Nominal & % of Regulated Revenue Requirement)



- The quality parameters are applied on revenue requirement (excluding non-controllable Opex, including scheduled maintenance Opex)*
- **New (within the ceiling):** In-house sourcing incentive. If the share of in-house sourcing is above 50%, there will be a general quality indicator equal to in-house sourcing share. Maximum incentive is set at 1% of revenue requirement for each year. All Enerjisa distribution companies has above 50% in-house sourcing share.
- **New (within the ceiling):** Incentive for public companies. Distribution companies with parents (direct shareholders) listed on Borsa İstanbul will be eligible for 0.3% of the revenue requirement
- Continuity of Supply
- Technical Quality
- Customer Satisfaction
- HSE

* Exclusion of non-controllable Opex, inclusion of scheduled maintenance Opex starts with 4th regulatory period

Distribution: Comparison of 3rd and 4th Regulatory Period

		3rd Regulatory Period	4th Regulatory Period
Quality Parameters	**Calculation base**	▪ Uncontrollable OPEX is included in revenue requirement for calculating base of quality parameters.	▪ Uncontrollable OPEX is excluded, while scheduled maintenance Opex is included to revenue requirement for calculating base of quality parameters.
	Quality parameter (Quality factor and general quality indicator) ceiling	▪ Bonus mechanism based on performance (bonus ceiling:5%, penalty ceiling:0%)	▪ A bonus/malus mechanism is introduced. Under the quality factor and general quality indicator headings, total quality parameter bonus ceiling is set as 6% of regulated revenue requirement for 2021 and 7% of regulated revenue requirement for 2022-2025. Penalty ceiling is set at minus 2.05% for 2021 and minus 2.8% for 2022-2025.
	General quality indicator: In-house sourcing incentive		▪ **New (within the ceiling)**: Companies will be incentivized in case the share of in-house sourcing is above 50%. The maximum incentive is set at 1% of revenue requirement for each year, while bonus amount will depend on in-house sourcing share. All Enerjisa distribution companies have above 50% in-house sourcing share.
	General quality indicator: Incentive for public companies		▪ **New(within the ceiling)**: Electricity distribution and incumbent retail companies directly listed on Borsa İstanbul will be eligible for 1.0% of their revenue requirement as an incentive. If their parent companies (direct shareholders) are listed on Borsa İstanbul, there will be 0.3% incentive on the revenue requirement for the year.
Opex Allowance	**Scheduled maintenance**		▪ For scheduled maintenance a new scope is defined and a new opex allowance is introduced to incentivize improvement in continuity of supply and customer satisfaction.
	X-Factor (Opex efficiency)	▪ Regulated efficiency parameter implementation, reducing opex allowances. Annual efficiency parameter was 1.28% for Başkent Region, 0.61% for Toroslar region and 0% for Ayedaş region.	▪ No efficiency parameter in the fourth regulatory period.

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Distribution: Comparison of 3rd and 4th Regulatory Periods

		3rd Regulatory Period	4th Regulatory Period
Theft and Loss	**Theft and Loss (T&L) targets**	▪ Target theft and Loss threshold rate **8%** for the first cluster in target setting.	▪ Theft and Loss target threshold rate **7.5%** for the first cluster (Başkent and Ayedaş is in the first cluster) as a part of dynamic T&L targeting. ▪ T&L target is based on previous 3 years performance. ▪ For the first cluster, the T&L target formula is ((**7.5%**+w.avg (Y-2, Y-3, Y-4))/2.
	Theft accrual: Retention rate at detection	▪ 55%	▪ 55%
	Theft accrual: Retention rate at collection	▪ 75%	▪ 50% in regions where T&L rate<=Turkey average (effecting all Enerjisa regions).
Other Income	**Retention rate for income items such as renting distribution network items**	▪ 75%	▪ 50%
	Retention rate for case, court, advocacy, enforcement and conciliation income	▪ 100%	▪ 50%
	(t) correction mechanism of other income/ theft accrual from revenue requirement	▪ Actual amount deducted at year (t+2).	▪ Forecasted amount deducted at year (t). This will have cash flow impact at IFRS financials.

RETAIL

Retail: Comparison of 3rd and 4th Regulatory Periods

	3rd Regulatory Period	4th Regulatory Period
Retail Margin Regulated gross profit margin	▪ 2.38%	▪ 2.38% (no change)
Retail Margin FIT cost treatment	▪ Retail margin calculation base includes feed-in-tariff (FIT) costs (since 2018).	▪ Retail margin calculation base includes FIT costs (no change).
Retail Margin base Letter of Guarantee commission expenses Market Clearing Price- PTF (1+X) Mechanism	▪ No profit margin on PTF (1+X) mechanism used to cover the financing costs related to energy procurements. ▪ Letter of Guarantee Commission Expenses through 2.38% profit margin.	▪ For PTF (1+X) mechanism used to cover the financing costs related to energy procurements, 2.38% profit margin is applied. ▪ Letter of Guarantee Commission Expenses will be covered from the tariff as pass through.
Retail Service Revenue Doubtful risk compensation mechanism		▪ The collection risk mechanism related to doubtful receivables will remain unchanged.
OPEX Requirement Management and support service procurement expenses from same holding/group COs		▪ Management and support service procurement expenses will be included in regulated OPEX requirement.
Other Income Retention rate for case, court, advocacy, enforcement and conciliation income	▪ 100%	▪ 50%
Quality Parameters (Quality Factor and General Quality Indicator)	▪ Uncontrollable OPEX included in revenue requirement for calculating base of quality parameters. ▪ Bonus mechanism based on call center performance (ceiling:1%).	▪ Uncontrollable OPEX excluded from revenue requirement for calculating quality parameter base. ▪ Bonus/malus mechanism is introduced. Quality Factor bonus ceiling is set at 1.23% and penalty ceiling is set at minus 1.23%. ▪ **New (General Quality Indicator):** Electricity distribution and incumbent retail companies directly listed on Borsa İstanbul will be eligible for 1.0% of their revenue requirement as an incentive. If their parent companies (direct shareholders) are listed on Borsa İstanbul, there will be 0.3% incentive on the revenue requirement for the year.

Retail: Sales Market

Market Type	Customer Type (By Eligibility)	Consumption Volume (kWh/ year)	Purchase Conditions	Supplier
Regulated Market	**Non-eligible Customer** Can not Choose Procurement Company	0-1,200 kWh	National Tariff (Compulsory)	Incumbent Energy Retail Companies
Free Market	**Eligible Customer** Can Choose Procurement Company	≥ 1,200 kWh	National Tariff (Optional)	Incumbent Energy Retail Companies
			In the Free Market Retail Energy Sales Price	Incumbent Energy Retail Companies Other Energy Retail Companies
	Last Resource Tariff Customer Can Choose Procurement Company	≥ 7 Million kWh	Energy Costs (Including Feed-in Tariff) x 1.0938% (If free market procurement company is not chosen)	Incumbent Energy Retail Companies
			In the Free Market Retail Energy Sales Price	Incumbent Energy Retail Companies Other Energy Retail Companies

APPENDIX

4th Regulatory Period for Distribution

Regulatory Period	▪ 5 years between 2021 and 2025
Opex Allowance	▪ 2017-2019 realizations and regional differences are taken into account for 2021-2025 period preparations ▪ 5 categories: Fixed Opex, Variable Opex, non-controllable costs, scheduled maintenance, R&D Opex ▪ Growth (# of customers, population, network size) ▪ Adjustment for variable and uncontrollable expenses
Capex Allowance	▪ 5 categories in Capex ▪ Unit price application. Capex outperformance in scope
WACC	▪ 2021-2025: 12.30% (Pre Tax, Mid-Year) WACC is applicable to all distribution companies
Reimbursement Duration	▪ 10 Year reimbursement, which is shorter than most international examples
Demand Forecast	▪ Reports and analysis submitted to EMRA every year until end of June ▪ Includes: # of customers, distributed energy volume, peak energy volume ▪ TEİAŞ merges its own demand forecast with distribution companies and submits final forecast report to EMRA
Theft & Loss	▪ Dynamic T&L target determination methodology ▪ Targets based on performance of y-4, y-3, y-2 ▪ 3 different clusters for Theft& Loss targets (<7.5%, 7.5%<T&L<Turkey Avg, Others)
Quality	▪ Quality parameters to incentivize continuity of supply, technical quality, customer satisfaction, transparency and HS&E ▪ Starting year of application: 2018 ▪ Continuity of supply, technical quality, customer satisfaction, HSE, in-house sourcing incentive (new), incentive for public companies (new) ▪ In the fourth regulatory period, transition to bonus/malus mechanism from bonus only mechanism
Additional Income	▪ Theft Usage Accrual (at detection and collection), maintenance and repair service revenue, advertisement and rent revenues, litigative income, consultancy and R&D income, Punishment, warrant and compensation income etc.

Distribution: Revenue Cap Components

Revenue Cap

Fixed and Variable OPEX

- Failure related expenses
- T&L detection expenses
- Project construction and supervision expenses
- Metering
- New connection expenses
- Customer relations
- Call Center
- Payment notification expenses
- Service connection & disconnection
- Technology expenses
- General administration and other administrative expenses

Non-Cont OPEX

Pass through items

- Transmission tariff expenses
- Expenses related to utilization of forest areas
- License fees for public services
- Severance payments
- Taxes and dues (except for VAT, corporate tax, BITT and SCT)
- License and similar expenses
- Regulatory mandatory insurance expenses
- Letter of Guarantee expenses to EPİAŞ, EÜAŞ, TEİAŞ
- Bad debt provision costs

Scheduled Maintenance OPEX

- First level (observation)
- Second level
- Third level (network refurbishment)

R&D OPEX

- 2% of OPEX Allowance (excluding non-controllable OPEX)
- Determined with a project based approach

CAPEX

- **Inputs:** Capex allowance, CAPEX reimbursement period (10 years), WACC and inflation
- **Outputs:** Capex reimbursement, regulated return amount and tax correction

Quality Parameters

- Continuity of supply
- Technical quality performance
- Customer satisfaction
- HSE
- In-house sourcing incentive
- Incentive for public companies

Theft and Loss

- Theft & Loss targets set by EMRA

Additional Income

- Theft usage accrual (at detection and collection)
- Maintenance and repair service revenue
- Advertisement and rent revenues
- Litigative income
- Automatic Meter Reading (AMR) income
- Consultancy and R&D income
- Punishment, warrant and compensation income
- Income from unlicensed generation facilities
- Project approval and acceptance fees

Distribution: Revenue Build-up:

Capex Allowance and Tax Correction

Capex Reimbursement

- Reimbursement duration is 10 years

+

Real Return on RAB: 12.30%

- RAB was set to “zero” by the regulator in 2006.
- Initial allowed Capex is included in both statutory and IFRS RAB as soon realized.
- Additional Capex included in IFRS RAB after EMRA approval, included in the statutory RAB in the next regulatory period.
- Yearly indexation of RAB by June Consumer Price Index (CPI).
- Higher Capex allowance results in greater RAB leading to additional financial income.

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Tax correction

- Compensation item for the tax difference arising from the timing difference between principal reimbursement and the depreciation periods defined in the Tax Law and Electricity Market Regulation. This reverses through the end of concession period and net effect becomes zero at the end of concession period.

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Total Capex Allowance

- Capex is reimbursed in 10 years.
- 5 Capex categories eligible for regulated distribution system investments 1) network investments, 2) legally obligatory investments, 3) network operational system investments, including AMR, GIS or SCADA systems 4) R&D project expansion investments, or 5) other expenses in the Capex category (land, fixed asset, building investments with useful life longer than one year).
- Calculated return is based on average RAB and nominal return **(real pretax WACC of 12.3% plus June CPI)** for the 2021-2025 period.
- The value of network investment is calculated according to the unit prices determined by EMRA. Current framework allows outperformance for certain investment components through efficient procurement and supply chain management.

Capex Outperformance

- By the end of a tariff year, if a distribution company realises its mandated investments at a cost less than the unit prices determined by EMRA, then it will have its revenues based on Capex realization calculated with unit prices set by EMRA. In that case, the company retains the difference.

Distribution: Revenue Build-up:
Opex Allowance

Fixed Opex	+	Variable Opex	+	Non-Controllable Costs	+	Scheduled Maintenance	+	R & D Opex
▪ Fixed opex component not affected by variable factors such as the number of customers, population, network size	+	▪ Variable opex component affected variable factors such as the number of customers, population, network size	+	Pass through items ▪ Transmission tariff expenses ▪ Expenses related to utilisation of forestry areas ▪ License fees for public services ▪ Severance payments ▪ Taxes and dues (except for VAT, BITT, corporate tax, SCT) ▪ Bad debt provision costs ▪ Distribution license fee and letter of guarantee expenses	+	▪ First level (monitoring) ▪ Second level ▪ Third level (network refurbishment)	+	Pass through item ▪ 2% of fixed and variable Opex ▪ R & D Expenses reimbursed through Revenue Ceiling

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Total Opex Allowance

- 2021-2025 period preparations took 2017-2019 realizations and regional differences into account.
- Key growth drivers of opex allowance: number of customers, population, network size.
- Scheduled maintenance opex is included in total opex allowance as a separate category to incentivize improvement in continuity of supply.

Opex Outperformance

- As per current regulatory framework, fixed and variable opex component is not subject to adjustment based on realizations and allows outperformance through efficient processes and cost management and digitalization. In case of outperformance, the company can retain the difference.

Distribution: Revenue Build-up:

Other Revenues

Theft & Loss Margin	▪ **All eligible and ineligible customers** (except for those consumers connected directly to the transmission network), pay the **theft and lost tariff.** Distribution companies are obligated to procure energy to compensate for energy theft and loss based on the theft and loss target. ▪ The theft and loss tariff is **determined** at the **national level** and the **revenue imbalances** between the distribution regions are corrected via the **price equalization mechanism.** Accordingly, the cost burden calculated according to the theft and loss target, does not fall on the consumers in a specific region alone, but distributed across all consumers in the country. ▪ If actual performance of distribution companies is below the target, there is outperformance, if it is above there is underperformance. ▪ T&L target is determined using **3 different clusters:** 1) T&L<7.5% 2) 7.5%<T&L<Turkey Avg 3) Others ▪ EMRA approach for 2021-2025 is a dynamic T&L target **based on previous 3 years**. ▪ For the first cluster, the T&L target formula is ((threshold rate+w.avg (Y-2, Y-3, Y-4)))/2
Quality Parameters	▪ EMRA implements quality parameters to incentivize continuity of supply ,technical quality, customer satisfaction, transparency and HS&E on revenue requirement (excluding non-controllable Opex, including scheduled maintenance). ▪ In the fourth regulatory period, a performance based bonus/malus mechanism is introduced. Under the quality factor and general quality indicator headings, total quality parameter bonus ceiling is set as 6% and 7% of regulated revenue requirement for 2021 and 2022-2025 respectively. Penalty ceiling is set at minus 2.05% for 2021 and minus 2.8% for 2022-2025.
Additional Income	▪ Additional income is kept by distribution companies base on predetermined ratios and the rest is deducted from revenue cap. ▪ 55% of detected and invoiced theft usage accrual is kept by distribution companies as additional income. In addition, 50% of actual theft usage accruals after legal proceedings is kept by electricity distribution companies as additional income. ▪ Maintenance and repair service revenue (75%), advertisement and rent revenues (50%), consultancy revenue (75%), AMR income (75%), litigative income (50%) etc. are kept by distribution companies.
Lighting Revenues	▪ As per the current regulation, distribution companies must supply electricity from EÜAŞ and carry out general lighting activities. The energy cost is compensated from the budget of MENR and the budgets of municipalities and provincial administrations. ▪ The general lighting tariff is calculated by adding the retail profit margin (2.38%) over the energy procurement costs of the distribution company.

Retail: Revenue Cap Components

Revenue Cap						
OPEX Allowance	Non- Controllable OPEX Allow	Collection Risk Mechanism	Financial Cost Compensation	Quality Parameters	Others	Retail Margin & Energy Costs
▪ Fixed OPEX are cost component not affected by factors like demand or the number of customers ▪ Variable OPEX are cost components affected by demand level and the number of customers. ▪ Efficiency parameters	Pass through items ▪ Fees and license fees ▪ Severance payments ▪ Taxes and dues (except for VAT, BITT and corporate tax) ▪ Depreciation costs	▪ Bad debt provision costs (determined by multiplying the average of company risk and country risk with the net invoiced sales revenue of the retail company)	▪ For PTF (1+X) mechanism used to cover the financing costs related to energy procurements, 2.38% profit margin is applied ▪ Letter of Guarantee commission expenses will be covered from the tariff as pass through	▪ Call Center and customer satisfaction parameters ▪ Incentive for public companies	▪ Litigative income (50%) ▪ Penalty income (75%) ▪ Income from credit cards collection (100%) ▪ Other income from unlicensed producers (50%)	Retail margin:2.38% Energy costs cover ▪ Energy procurement costs from EÜAŞ or EPİAŞ ▪ Cost of energy imbalance ▪ Feed-in Tariff Costs ▪ Expenses resulting from energy imbalances

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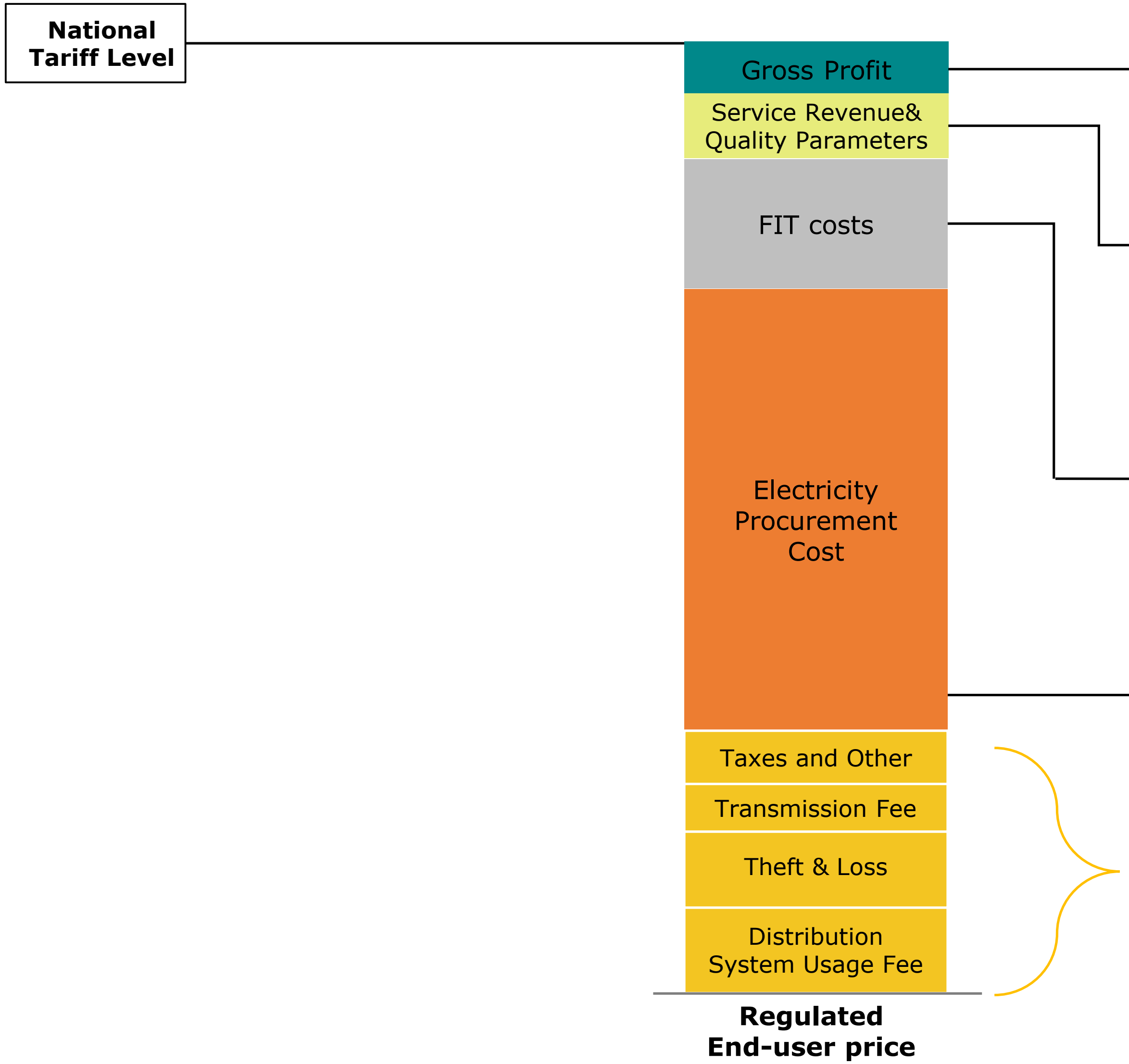
Components of National Retail Tariff



Regulated Gross Margin

- **2.38%** margin on electricity procurement cost (including FIT costs) and financing costs for purchases from EPİAŞ

Retail Service Revenue

- **Invoicing** and **collecting** for regulated sales
- Has variable, fixed and non-controllable cost component, collection risk and financial cost compensation

Quality Parameters to incentivize service quality

YEKDEM mechanism to incentivize renewable investments. Renewable electricity generated by YEKDEM participants is purchased via a dollar based guaranteed price and costs are reflected to all end-users via feed-in tariff (FIT).

Electricity Procurement Cost

- EÜAŞ as primary source
- EPİAŞ as secondary source

Pass through for the retailer

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THANK YOU