TRANSCRIPT OF ENERJİSA ENERJİ Q1 2023 EARNINGS CALL

DATE:	05.05.2023
EVENT:	Enerjisa Enerji Q1 2023 Earnings Call
SPEAKERS:	Dr. Michael Moser – CFO
	Rawand Faraj – Head of Investor Relations, Tax & Corporate Office

PRESENTATION SESSION

Rawand Faraj: Dear investors and analysts, this is Rawand speaking.

Welcome to Enerjisa Enerji's Q1 2023 Earnings Results call. The call will be presented by our CFO Dr. Michael Moser and myself for 30 min, and thereafter we will open the line for Q&A.

Before starting our presentation, I would like to remind you about our disclaimer on the forward-looking statements and highlight that you can already now find all presented material on our investor relations homepage, in addition to the recording of this call which will be uploaded within the next coming days.

Now, without further due, I would like to give the floor to our CFO, Michael.

Dr. Michael Moser: Hello everyone. Thank you very much Rawand. This is Michael. Welcome to our first quarter 2023 financial results call. I hope everyone is healthy and doing well.

I would like to start today's call by again pointing out that my heart and thoughts go out to the many thousands of people still suffering from the consequences of the terrible events that happened in south east of Türkiye, at February this year. While time has passed, and for most people daily lives are continuing, our focus and energy still is with all affected people. I am proud to see that our organization is working tirelessly with rebuilding the region as quick as possible. Yet again, I state that Enerjisa is the company dedicated towards the people and future of Türkiye, and therefore you can always expect our company to serve all people, employees and families.

During my 4 years at Enerjisa, I have seen tremendous efforts within our company, whether it is breaking new grounds in product offerings, investment execution, sustainability activities, coping with natural disasters and material macroeconomic developments. Yet, the efforts I've seen in the last months, as our employees have put in sweat, blood and tears to help to rebuild the affected region, surpasses anything observed previously and sets for me the benchmark in how a company can overcome challenges. I start this call, as I ended the last one, with a huge "thank you" to our employees, customers and partners for their tireless support and loyalty.

Executive Summary: Pg. 2

Now moving to our presentation. Please let me provide you with a summary of the key developments of our Q1 2023 financial results on page 2:

First and foremost, a key development is that the first initial earthquake related regulation has been officially communicated by the regulator, with concrete short-term solutions to ease the situation for our customers in these times of need. Likewise, related measures have been introduced to support energy companies in order to ensure the sustainability of the system, and we are today sharing the details of these measures and will elaborate its financial impact in our Q1 financials.

And as more legislative actions are being introduced, we expect to see among other things, further compensation measures in the coming months. In the wake of these terrible events, Enerjisa's robust business model with its diversified geographical footprint throughout Türkiye, delivered a strong set of results, as Underlying Net Income grew by 159% year-over-year. Free Cash flow started positively, and generated 3 billion Turkish Lira due to lower energy costs and continued support mechanisms in our regulated businesses.

Our deleveraging journey continued successfully as our leverage ratio decreased to an all-time low 0.5x. Further on, we reiterate our newly introduced mid-term outlook for 2022-2025 and further enhance transparency for our investors as we also provide you today with a 2023 guidance:

- Operational earnings for 2023 is expected to come in at between 20 – 24 billion TL and Underlying Net income is expected to land in-between 4.5 – 6.0 billion TL.

And now, I hand over to you Rawand, for page 3.

Rawand Faraj: Thank you Michael.

Earthquake Impact: Pg. 3

Before elaborating on the financial highlights, let me show you the impact of the earthquake in our Q1 2023 financials on page 3.

Customers who are heavily affected by the earthquake, do not need to pay their outstanding old unpaid energy bills. These will be paid by the government to the energy companies, including the relevant interest charges. Moreover, any consumptions for customer in dedicated cities, from the time of the earthquake up until 31 of May, will be invoiced at the 1st of June and paid by these customers in six installments, without any interest charges. Such cities are Adıyaman, Hatay, Kahramanmaraş, Malatya as well as İslahiye and Nurdağı districts of Gaziantep. Hatay, İslahiye and Nurdağı are cities all within Enerjisa's Toroslar region.

As a countermeasure to not burden the energy companies for these postponements in invoice collections, a delay of all energy procurement costs for spot market purchases have been introduced until at least May 7, without any interest charges. This is relevant for the energy purchase of all volumes for customers in the whole of Toroslar region, and covering both the regulated and liberalized volumes.

Further on, Enerjisa has conducted several acute activities in order to safeguard peoples live, as for example providing back-up generation of electricity to critical locations and not the least provide continuous accommodation and food for our employees and their families who have lost their home in these terrible events. These costs are presented in our Q1 2023 financial results, as a negative pre-tax contribution to our OPEX outperformance of roughly 780 million TL, but is to the best of our expectations to be recovered by the regulator, via the tariff compensation structure.

Earthquake Impact: Pg. 4

On the next page, you will see the details around our assets and operational activities, which we conclude to be in a relatively good financial health, thanks to the supportive regulation as well as our conducted insurances for any force majeure disaster event. Elaborating on the energy infrastructure, we conclude that there is no impairment performed nor do we estimate that there are any identified risks for write-offs related to the earthquake. All insurances have been made to a maximum, in line with the regulatory criteria and we deem these and the related regulatory support mechanisms to be enough to compensate for the damages to our grid.

How these technically will be handled, and when compensation will be paid with interest, is yet to be determined by the regulator, but the normal tariff mechanisms for occurred costs, namely the price equalization mechanism of 2 years, sets a maximum horizon. An earlier repayment would not be unlikely, with the possibility of compensation already this year or the next.

Let me elaborate on the earnings structure of our regulation that might provide some comfort in how earnings are technically generated. While some portion of the asset base might be damaged, in the regulatory earnings accounts these are fully eligible for income generation. This is because the assets are leased to us via concession agreements, and as we have upheld all responsibilities of technically sound investments and an insured asset base, the criteria for future income remuneration have already been achieved. Going forward, we do not right now see any alteration to our capex plans, as the need for rebuilding the grid will be executed within the set investment lot, where these new rebuilding activities will replace other investment projects in the Toroslar region, which will be delayed to a future point of time.

With these activities, Enerjisa is doing all in its power to rebuild the area as fast as possible, with material and workforce resources being the pace-setter, as these are currently the limiting factor for going beyond the outlined activity levels. In case of a natural decision by the government to redistribute material and resources from other cities, industries and sectors in Türkiye, to the earthquake impacted cities, there might be a possibility for increased investments activities, and we will inform our investors if such a case emerges.

Now lastly, speaking about our operations, as we already communicated activities returned to normal business operations mode in all of our large cities, except for the Hatay region where the damages of the earthquake are the heaviest. Out of our 12 million customers, roughly 800,000 customers were located in Hatay. Only a portion of these where without energy weeks after the earthquake, as houses have collapsed beyond repair and a high degree of casualties are represented in this area.

Today, it is hard to estimate the numbers of customers without energy, as people have moved outside the region, and single connection point households now are consuming energy in accommodations where multiple people are sharing one connection point, as done in for example temporary shelter facilities. However, we can see from our grid surveillance systems that all demands for electricity are being connected to the main grid.

In the temporary transition toward rebuilding these areas, there will be a period of lower electricity consumption. Lower commerce, residential consumption and overall activity will translate to approximately 1-2 TWh of lower energy consumption in our Toroslar grid during 2023 according to our estimations, with recovery of volumes either in 2024 or 2025, as it looks right now. This means lower consumption by our customers, but also lower energy procurement costs, to a like for like basis, and thus only translates to a loss of regulated margin, to an immaterial degree. Other related areas that are impacted, like regulated tax corrections as well as theft and loss activities, requires further clarification from the regulator on how they will be treated. Depending on the adaption to current regulatory metrics, the impact can be partially or fully recovered. We see therefore, all in all, that the total financial impact of the earthquake for Enerjisa is in the roundabout magnitude of the expense booked in the Q1 2023 earnings results. With the possibility of a compensation up to the full amount.

Let me also add some reassurance about our long-term future, that these impacts limited to the magnitude just mentioned, is not expected to be a hit on reoccurring basis. This is predominantly a one-time expense. While we would like to provide you all the details around this right now, we have constantly mentioned that the proper channel and sequence is firstly a decision communicated from the regulator. We're cautiously querying for an early decision on these matters, in order to provide clarity for our investors as soon as possible, but are also realistic to the fact that we are currently in the middle an eventful year and this might delay certain actions in the upcoming period.

Financial Highlights: Pg. 5

Now let's turn to page 5 where I will walk you through the highlights and key developments of our financial results in the first quarter.

Despite the impact of earthquake, operational earnings were up by 41% year-over-year, reaching 3.8 billion TL, driven by higher inflation in regards to increased CAPEX Reimbursements and Financial income in our distribution segment. Please note that the Q1 2023, includes also the positive contribution of the updated IFRIC methodology, introduced already in Q3 last year, which thus was absent in the Q1 2022 comparison base. Underlying net Income, i.e. our adjusted net income figure, grew by 159% from 213 million TL in Q1 2022 to 551 million TL in Q1 2023, mainly on back of the higher inflation in combination with a decrease in net debt thanks to a positive cash generation in the first three months. This includes already the pre-tax 780 OPEX for the earthquake related spending, which is expected to be recovered within the year, upon additional announcements from the regulator in due time.

Free Cash flow performed strongly, in the tune of 3 billion TL, generated both from our distribution and retail segments, where the later experienced an elevated cash generation on back of the lower energy costs and continuous support mechanisms observed in the first quarter of this year. This isolated quarterly free cash flow generation, is predominantly a temporary gain, especially in the light of the tariff decrease announced by the regulator as of April 1st, and should thus not be seen as a metric of extrapolation in the coming quarters.

Our strong earnings developments, together with our positive cash generation also translates into a decrease in leverage, further strengthening our balance sheet, as our earnings trajectory outpaced our accumulated debt level. Thus, our leverage ratio, net financial debt over operational earnings, decreased from 1.5x in Q1 2022 to 0.5x in Q1 2023. This is a further decrease from the already low leverage achieved in December last year, which was 0.7x.

Operations: Pg. 6

Let's now have a look at our operations on page 6, starting with Distribution:

CAPEX increased to 976 million TL in Q1 2023 compared to 380 million TL in the same period of last year, mainly due to higher inflation and the low activity level at the start of 2022 due to the supply chain related topics, not the least the increased material prices compared to the regulated price list compensation. The increase is also driven by our higher investments level this year compared to previous years, and we will later on elaborate on the expected investment level for 2023. Our Regulated Asset Base reached 29.4 billion TL in Q1 2023 compared to 16.4 billion TL in Q1 2022, leading to an 80% yearly growth rate. Efficiency and Quality earnings were negative to the tune of 702 million TL in Q1 2023 mainly due to negative OPEX outperformance as a result of the already mentioned higher spending in the Toroslar region due to the earthquake.

Besides the direct earthquake effects, the negative OPEX outperformance in Q1 is partially also reflecting the increased price levels for material, wages and fuel costs. These are currently, in the current regulatory calculation methodology, compensated with inflation, which is not enough to cover certain baskets of expenses that are increasing beyond CPI. The total impact of these negative effects are 258 million TL in our Q1 2023 results. We are currently in discussions to find a more granular indexation methodology that compensated for these beyond-inflation increasing expenses.

Now over to our retail and customer solutions segments. In our regulated retail segment, the gross profit margin increased to 7.9% in Q1 2023 compared to 6.1% in Q1 2022, predominantly due to working capital compensation by the regulator for spot market energy purchases. Regulated volumes increased by 3% year over year, mainly due to an inflow of liberalized customers on back of a lower regulated tariff which incentivizes a shift for the eligible customers who are free to choose energy providers outside the incumbent regional player. The opposite effect is seen in our liberalized volumes, which decreased due to the same reason, leaving Enerjisa's total combined volumes for both segments at a parallel level with Q1 2022. In our liberalized segments, margins reached 4.8%, compared to 2.4% in the same period of last year, mainly due to the base effect of a low comparison base in Q1 2022 where the liberalized margins were suppressed due to the then introduced Feed In Tariff mechanism.

Our Customer solutions segment experienced substantial delays in installations due to the shift of construction resources from several areas across Türkiye, to the earthquake region. This meant that our projects which were planned to be finalized in Q1 now are delayed to the coming quarters, thereof a decline in gross profit instead of the substantial increase previous envisaged. Accordingly, our solar capacity for customers increased from 22.6 Mega what peak in Q1 2022 and reached to 24.1 in Q1 2023.

Rest assured that this does not mean any lack of capabilities or reduced growth going forward in our Customer Solutions business, as these projects are not lost, but only delayed and we therefore envisage to see a substantial growth as expected during 2023. Our E-mobility business took a substantial leap forward in the last 12 months, as the charging plug base increased more than twofold from 501 to 1,030 plugs on back of the fast growth delivered, not the least thanks to the tender agreement secured in the second half of 2022.

Operational Earnings Development: Pg. 7

Operational earnings on page 7 increased by 41% to 3.8 billion TL. Our distribution business generated growth, both from its return on assets and investments activities, resulting in a segment growth of 40% on back of its contribution of 861 million, with the breakdown as follows:

- Financial income increased by 1 billion and 116 million TL on back of higher inflation and investments.
- CAPEX reimbursement, which is a part of our Operational Earnings, but not included in the Underlying Net Income increased by 822 million TL.
- Partially offsetting these positive contributions in our distribution segment was the already mentioned effect of increased OPEX cost, resulting in a 906 million year-over-year drop due to the earthquake expenses occurred in the first quarter as well as the increasing commodity prices and employee related wages and costs.

Our Retail segment also contributed with a significant growth rate of 55% year over year, resulting in 288 million increase, generated equally from our regulated and liberalized portfolios.

- The gross profit contribution from the regulated segment was 314 million TL on back of higher energy prices and volumes, as well as the working capital compensation for spot market purchases.
- The gross profit contribution from the liberalized segment was 308 million TL in Q1 2023, due to effective sales price and cost management as well as the lower comparison base of Q1 2022.

These positive operational earnings generations were partially offset by other costs totaling 544 million TL, whereof of roughly three quarters are related to operational costs and bad debt expenses in our retail business, where as one quarter is attributed to Market to Market effects of investment related hedges in our distribution segment.

Underlying Net income Development: Pg. 8

Now, let me elaborate on the bottom-line development on page 8. Our Underlying Net Income increased by 159% and reached 551 million Turkish Lira in Q1 2023. Below the line item Operational Earnings, which I've just mentioned, the main effects were as follows:

- Financing net interest expense (including FX and bonds) decreased by 162 million TL year over year due to lower average financial debt and slightly lower financing rates.
- Especially our loan interest expenses decreased significantly, year-over-year due to a lower financial debt position, net of cash and derivatives.
- The average loan interest rates for Q1 were 28.5%.
- Our average bond rates decreased significantly compared to last quarter as the CPI linked bonds, acquired in the past, matured in the last quarters leading up to Q1. As such the average bond rate decreased from 60.1% down to 27.9%.
- All together our total average financing rate in Q1, including bonds, loans and cash positions, was around 29.3%, roughly 1.5% lower than the same period last year.

- This is something that we estimate to increase in the coming quarters, in line with market expectations of increased rates post the election.

Further on, the deposit revaluation expenses of customer deposits were lower year-over-year, as this year's quarterly inflation increase was relatively lower than the increase observed in the same period last year. Please remember that the calculation metric for indexing our customer deposits is the two-month lagging inflation rate, meaning that Q1 2023 deposit revaluation are incorporating the quarterly inflation rate as of January 2023, which was 11%. Other financial expenses increased by 136 million TL mainly due to the absence of the financial income generated in the retail business in Q1 2022, due to the then negative situation of outstanding price equalization receivables from the regulator in the first months of last year.

Economic Net Debt: Pg. 9

Now lastly, before handing back to Michael, let me turn to page 9 and present you our net debt development.

Our Economic Net Debt decreased from 15.2 billion TL in December 2022 to 12.7 billion TL at Q1 2023. Thus, our leverage ratio decreased prudently to 0.5 times of our operational earnings. Free cash flow before interest and tax was strongly positive and reduced the debt level by 4.2 billion TL year to date. Net interest payments increased our debt with 1 billion TL. Likewise, our tax payments increased by 207 million TL on back of our higher earnings base. Change in customer deposits were 641 million TL, mainly due to the revaluation of our customer deposits with inflation as well as addition of new deposits from customers. Lastly, our economic net debt decreased due to a mix other various financial effects, and thus contributed positively to our deleveraging with 136 million TL.

Please note that the dividend related to the fiscal year of 2022 was approved and paid out to our shareholders in April, and is thus not reflected in the first quarter results net debt position. Before turning over to the next page, let me underline that we continue to target a diverse funding base, and has since many years not financed our business in any other currency than Turkish Lira. This is a measure to eliminate risks and have pure translation between our earnings capacity and financing expenses. With a low liquidity of available funds in the Turkish loan market, we have successfully conducted a handful of bonds in the last quarter, overall in line with our de-risking strategy, which we also observed in the financing transactions presented at our last quarterly results back in February.

As such, we have in addition to the sustainable financing deals and new bonds already communicated in the last quarter results, issued several new financings in the last 3 months. In March this year, we issued a new bond of 1.4 billion Turkish Lira, with a fixed rate of 33% and a maturity of 24 months. Subsequently, on the 6th of April we issued an additional new bond of 950 million Turkish Lira with a fixed rate of 35% and a maturity of 24 months. We also closed refinancing deals with banks with maturities ranging from 4 months to 1 year worth 1.6 billion Turkish Lira with quite attractive rates. This underpins Enerjisa's prudent and professional financing strategy, to continuous deleverage and reach attractive rates at an early stage, not the least during highly volatile times with heightened uncertainty ahead.

Let me now please give back the floor to Michael to walk us through Guidance.

Guidance: Pg. 10

Dr. Michael Moser: Thank you, Rawand. Let me now finally walk you through our reiterated and enhanced guidance which you can find on page 10.

Firstly, we reiterate our mid-term outlook for 2022 to 2025. We confirm a compounded average growth rate of 30-40% for our operational earnings and 25-35% for our bottom line, namely Underlying Net income. In addition, we provide you now an absolute nominal range for our 2023 financials as follows:

- Operational earnings in 2023 is expected to range between 20 – 24 billion TL.
- 2023 Underlying net Income, the adjusted bottom line, is expected to reach 4.5 – 6.0 billion TL.
- Our Regulated Asset Base guidance for 2023 is 30 – 35 billion TL.

Lastly, we provide you also with an investment guidance, as we guide CAPEX between 11-15 billion, whereof roughly 80% are RAB related investments in our distribution business, and the remaining 20% are related to our new fast-growing Customer Solutions Business.

Our new guidance shows that Enerjisa's equity story is intact, as we will continue to provide substantial growth going forward despite volatile conditions and temporary hardships. As we already demonstrated, the effect of the earthquake is a constant weigh on our hearts, but thanks to constructive dialog with our regulator and related authorities, we expect that occurred expenses will be more or less fully compensated, despite details around timing and compensation framework still to be officially declared by the regulator at a later stage of time.

Before closing the call, I would like to extend a big thank you to our CEO Murat Pinar and his team, who have since day one managed the earthquake crisis with full empathy, pious professionalism and dedication, not the least in the regulatory relationships that requires tactical patience and communication in order to safeguard the best long-term outcome for our company.

Thank you very much for listening and now I hand over for the Q&A.

Rawand Faraj: Thank you, Michael. We can now start the Q&A session.

To all participants,

For your verbal questions please press the 'Raise Hand' button at the bottom of your screen.

You can also convey your written questions through Q&A section which is located next to the "Raise Hand" button.

Q&A SESSION

Cenk Orçan – HSBC

Q1: Does your 2023 profit guidance assume any recovery of earthquake expenses?

Rawand Faraj: Thank you Cenk for your question and I hope everything is well on your side. Yes, the guidance that we have presented includes all of the effects mentioned today with our expectations as outlined. So, while we have been clear that we expect compensations, the magnitude and timing still to be decided. The growth rate that we have presented and ranges are including the earthquake affect as well. Thank you.

Q2: Do you also retain your 2025 Customer Solutions targets? 4 – 6 billion TL revenue and 10% margin? What are key drivers for CS targets?

Rawand Faraj: Thank you Cenk again for the follow up question. We reiterate again also these targets. As we have not mentioned anything else since our last earnings call, this stands. The key drivers are, as we building up this new segment, is the pace of sales and execution. We see great potential in all areas and have built strong foundation for this segment. I think that as explicit we can be at this point of time. This will also be more visible in our full year earnings. We will see the Customer Solutions earnings to higher degree this year.

Ondrej Slama – WOOD & Co.

Q1: Could you briefly describe what P&L drivers would have to change so your Underlying Net Income growth guidance (both 2023 and 2025) outpaces operational earnings growth guidance? In other words, what would be the ideal mix of WACC, interest costs and inflation, among other factors?

Rawand Faraj: Thank you very much Ondrej for your question. I think that the question you are asking is a bit more detailed than the guidance we have provided. So, from a general perspective, the combination is the growth of our earnings that is heavily dependent on energy prices, investments and also growth in our new Customer Solutions segment which depends on our sales activities. How this is then reconciled to an outpaced underlying net income growth depends on the financial position of our debt. We have currently stated that the debt in Q1 was lower and we have not provided further net debt guidance. So, interest rates and debt will be heavily dependent on cash generations and the economic situation in Türkiye going forward in the coming nine months.