HACI ÖMER SABANCI
HOLDİNG A.Ş.

MERKEZ
SABANCI CENTER
4. LEVENT 34330 İSTANBUL
TEL: 0212 385 80 80
FAKS: 0212 385 88 88
www.sabanci.com

Sabancı Holding
Q4 2022 Financial Results
Webcast

March 2nd, 2023 18:00 TR Time

Speakers:
Cenk Alper, CEO
Orhun Köstem, CFO
Kerem Tezcan, IR Director

Mr.Kerem Tezcan, IR Director: Good morning good afternoon everyone welcome to Sabancı Holding's Q4 earnings webcast. Please refer to our disclaimer before we are starting to go through our presentation. Today, I have our group CEO Cenk Alper and group CFO Orhun Köstem with me. I now would like to leave the floor to our CEO for his opening remarks and for providing details on 2022 highlights.

Mr.Cenk Alper, CEO: Thank you, Kerem. Hello everyone welcome to our 2022 webcast. I'm Cenk Alper, Sabancı Holding CEO. This time I am speaking to you with a great sadness giving the tragic earthquake our nation has faced in the eastern part of turkey where the thousands of lives are lost or permanently changed. We have been working to ensure the safety of our employees and our families first at these very difficult times and of course supporting all citizens in the region both directly and indirectly. We have so far allocated TL12 billion of resources to the region and we are continuously working in the region from the first day on. It is a long journey to reconstruct 11 cities but we will be on the ground until all ones are healed. I now kindly ask a moment of silence for the ones who lost their lives in the tragedic event before going ahead with our earnings call.

Thank you. Let me start with our groups 2022 highlights from my perspective. Orhun and Kerem will provide more details on our financials. 2022 was a year of dramatic changes in the world that affected global economy. The pandemic's continued impact in certain regions, Russian invasion of Ukraine resulted in sharp inflationary pressures on commodities, raw materials, energy prices, wages and further detoriated global supply chains. Given this background and adding up with Türkiye's own issues we showed an extremely strong resilience in 2022. We managed to model through the volatility with a very strong financial performance and by successfully executing our transformation strategy and by deepening our ESG approach. As you can see the number speaks for themselves. Our financial performance remained strong with further improvement in earnings quality by also out facing inflation across the board in 2022. Our balance sheet and cash levels remained solid, ensuring us to strategically position ourselves not only against potential headwinds for this year but also continue to reap the benefits of new investments as well. In 2022 we have been very active on portfolio movements as we made various new investments following our exit from tobacco business at the beginning of the year. We have raised TL 3.1 billion PMI from PMI divestments and deployed 4.9 billion TL particularly in new economy which is perfectly in line with our transformation strategy. We also managed to size several opportunities in venture capital which will contribute to the diversification of our growth portfolio build know-how and expertise on destructive and digital technologies and develop an ecosystem of innovative partners with Sabancı Group. We were also active on ESG which is now fully embedded in our investment strategy and in our day-to-day management in the group level. I touch upon ESG more detail in the following slides.

Let's start with Investments. As I mentioned in 2022 was a very busy year in terms of portfolio management, we started the year with the divestment of PMI and captured various investment opportunities which paves the wave to raise our exposure in new economy which we define as Energy and Climate Technologies, Advanced Material Technologies and Digital Technologies. As promised we have deployed 76 percent of the invested amount for the investments that are falling under new economy which is in line with our commitment to invest 75 percent of total capex in the new growth platforms. In Energy and Climate Technologies 2022 was a milestone for Sabancı Group's commitment to energy business unit through an expansion to the U.S. We have made our first renewable capacity investment in the U.S with 272 megawatts solar power plant project located in Houston Texas. We have also invested directly in two of the world's leading startups originating from MIT, Commonwealth Fusion systems and Quasie Energy. Commonwealth Fusion systems has been developing an Innovative magnet technology that aims to fundamentally change the global energy industry through Fusion Energy and Quasie Energy has been developing a deep drilling technology to better realize worldwide geothermal energy potential and convert thermal power facilities into geothermal power plants.

In our generation business in Türkiye we have launched the new thousand megawatts wind capacity investment in Turkiye, worth at amount of USD 1.2 billion. This is one of the major greenfields renewable energy capacity investments undertaken in Türkiye and across Europe in 2022. Our Generation company's total capacity will reach 4.7 gigawatts and share of renewables will reach 57 percent once the project completed by 2026. Energy generation business also started the first green hydrogen production at our Bandırma energy base which will be used in generator cooling first. This pilot study was a critical step for our Group’s to boost its capabilities further in possible actions on green hydrogen. In 2022 E-şarj won the national charging tender for 495 fast charging units in 53 cities in key regions with more than 90 percent of electrical vehicles in Türkiye aims to reach thousand stations in 81 cities by the end of 2023. Temsa our commercial vehicle manufacturer, restructured its international network and bolstered Sabancı Groups electric bus journey by providing e-busses to Sweden. In 2022 Temsa reached 18 percent market share in North America. It also became one of the world's leading manufacturers by providing electric bus models to the U.S and European markets. Temsa is also diversifying its renewable streams revenue streams by producing battery packs and Battery Management Systems, these new product portfolio take us one step further into the fast growing world of electrification. Under advanced material technologies, microtex acquisition was an important step to diversify our composites portfolio. Two new R&D centers in Munich started operations to provide tailor made building and advanced materials technology solutions. Meanwhile, calcium aluminate cement investment has initiated to double Groups capacity.

2022 was a year of transformation for our digital businesses as well, aiming to create a global player in the digital world by focusing on business model based on next generation technologies. We invested in Radiflow and SEM, active in cyber security and digital marketing respectively. Similarly with the acquisition of Arvento in our tire business the aim is to create higher value while involving more telematics in our business. Teknosa took a major step forward in our digital transformation journey by successfully launching Türkiye's first consumer electronics specialized marketplace at the beginning of the year. In just 11 months of operations Teknosa marketplace has increased its product offering by 22 times, traffic on digital channels has risen by 38 percent and the platform's overall performance has reached global benchmarks. We were also very active to strengthen our leading positions in core businesses with capacity and efficiency investments mainly in building materials and tire reinforcement businesses.

Sabancı Ventures has completed five new deals in 2022 with a total investment amount of USD 6 million. These are all separate from our other venture investments that I mentioned before in energy and climate technologies. Corporate venture capital investments are a crucial part of our growth strategy as well as an instrumental tool to foster innovation and create value in our existing businesses.

ESG, as you followed we were also very active on ESG, which is now fully embedded in our investment strategy and in our day-to-day management in the group level. We are already 35 percent ahead of our number of actions in our sustainable roadmap. Our transformation in ESG is currently driven by four main initiatives. First main initiative is our responsible investment approach. We developed a groupwide responsible investment policy to guide the entire value chain of our group companies. Second, we started a groupwide decarbonization project to identify key Improvement areas related to our Net Zero emission targets. We are now 60 percent of our scope 1 and 2 emissions that are subject to decarbonization plans that are aligned with science-based target initiative for the remaining part we have identified absolute or intensity emissions reduction targets. Third we have integrated ESG in every aspects of our business, from strategy and capital allocation decisions to executive management performance and daily operations. The fourth one is sustainable innovation. For this reason we prioritize sustainability as one of the major themes in all our internal and external entrepreneurship programs and innovation platforms. We are proud of the acknowledgments by ESG rating agencies after our long-lasting efforts in this area. We have received rating of "A" in MSCI ESG rating assessment, three notches increase in three years. We became the first conglomerate from Turkey to be included in Bloomberg gender equality index for two consecutive years. We are also included in the BIST 25 sustainability index. We received an "A" ratings among more than 50 companies in the investment holding companies category in the refinitive ESG assessments. We are also categorized as low ESG Risk by Sustainanalytics. These are all achieved in just one year and I believe it will continue as we increase our efforts to transform our businesses. Now I will hand over the call to Orhun to discuss our financial performance more in detail.

Mr.Orhun Köstem, CFO: Thank you, Cenk. Good morning good afternoon everyone this is Orhun Köstem speaking. Now before we go into discussion of the financial performance in detail I would like to first draw your attention to the macro backdrop in 2022. Obviously, the microbackdrop was also quite volatile as I'm sure we've all experienced. Now if you look at the commodities on one hand we could argue that the rate of change has been somewhat behind the previous year, having said that the build up throughout the quarters in the year have been different. We have strong commodity index price growth in the first half which has eased in the second half of the year. A similar picture and even an amplified picture is true for the energy, as you see the energy prices have gone quite significantly and this time the growth throughout the quarters in the year have been longer the energy prices have only come down beginning from the last quarter of 2022 which obviously was an important factor when looking at the performance of some of our business units. If you look at the Consumer Price Index in Turkey the change in the average CPI was 72 percent, you know a massive increase compared to 2021 of course and if we look at how the basket of effects have changed it was at 75 percent. Of course within this, the dollar devaluation was over 80 percent and Euro was lower at about 60s and given the how the parity has moved through the course of the year as you all know. Now with this I'll get to talking about the financials.

We're quite happy as Cenk was underlining that we've left behind another year of successful financial performance delivery and a healthy one. A healthy one suggests for us that growth of our top-line should follow the growth of our bottom-line so the profit should be growing ahead of the top-line which you seen on our performance this year. On one hand of course, Akbank's performance have been very very strong and that's quite understandable given that the whole banking sector performance in Turkey in 2022 was strong. Without only looking at the numbers, I would also like to draw your attention to the fact that, some of the fundamental banking performance was also quite well. The net customer growth through digital onboarding of the bank has exceeded 2 million, which is a very significant number. The cost income ratio has been very very satisfactory, the capital adequacy ratio was very satisfactory so we should keep in mind that beyond the numbers the fundamental performance was also satisfactory for

Akbank which I'm sure you must have heard from my colleagues in their own webcast last week.

Looking at the non-bank performance again we're quite happy that the net income has grown faster than the top-line, having said that the EBITDA growth although was strong versus 2021 was behind the net revenue growth primarily impacted by as I've tried to underline the rate of increase in the energy prices and the commodity prices, fuel prices in some of our business units. Again we're referring to mainly the underlying business but what impacted our bottom line also this year was about 9 billion TL of one-off primarily coming from the revaluation of energy assets and then the gain on sale of the divestment of the tobacco business. Now obviously this strong performance has led up to good return metrics. Return on Equity overall and a consolidated basis was 45 percent and whereas a non-bank ROE was up to 31 percent which obviously was a massive growth and the banks ROE was 54.7 percent and as they have indicated even on an inflation accounted basis the bank has achieved a low teens of ROE. We could argue with the numbers versus the impact of inflation. However, for us it's important that we continue with this healthy trend of return performance going forward as well. Our holding only net cash position has increased from 2.5 at the end of 2021 to 3.1 Therefore we continue to maintain a healthy cash position in our balance sheet at Sabancı Holding only. The operational cash flow if you look outside of the bank for our non-bank business has been very very strong and has reached to almost 30 billion TL in the period and hence our net financial debt to EBITDA on the non-bank businesses has come down to 0.4 times. That's obviously important because, as you're trying to mention we've closed the year where we have seen a very important number of strategic investments as we stepped up our capex and at the same time have been able to meet that with our cash flow growth in our dynamic portfolio management so that we still maintain a healthy balance sheet which we hope will enable us obviously in managing our business beyond 2022 both in a volatile environment but at the same time allows us flexibility to continue investing for growth. When we talk about capex as you see, we have stepped up our capex as we have committed to you back in 2021. Our non-bank capex to sales was at 10.3 percent so moving closer to our midterm guidance, as we've indicated then a quarter about 76 percent of the capex has gone to the new economy investments and a quarter roughly went to our core business. If you look at the strategic investments that we at Sabancı Holding and our group companies were making to support our portfolio transformation, it was actually about 11 billion TL without accounting for the renewable capacity investments of Enerjisa Üretim in Türkiye that's going to kick in, in the years to come as we've disclosed. Therefore if you look at the composition of the capex of course the majority went to the energy business especially with the new investments that we're undertaking in U.S on renewable as well as our acquisition of renewable capacity in Türkiye within 2022. If you look at the last quarter our combined revenues was up over 150 percent of course the primary contributor was the bank followed by the energy business as I'm sure you've seen that the bank's share in the overall revenues has grown disproportionately this year but we believe this is especially fueled by the special conditions within 2022 and going forward we would obviously expect a more normalized distribution of revenue among our business units.

If you look at the EBITDA again grown by 212 percent a major contributor was the bank followed by energy and the building materials businesses. From the financial services both on here and you see at the net income there is an impact coming from Aksigorta although finished the years on a satisfactory note from a capital adequacy point of view. Nevertheless, delivered a net loss in the last quarter of the year as we were seeing but I would very much like to draw your attention to the performance of our financial services business quarter on quarter throughout the year which has improved towards the back end of 2022. If you come to the net income again the next income has grown by 171 percent again bank was a major contributor followed by energy and building materials here we also see a reduction coming from the industrial side. Although, our business there has delivered a net profit of course that was lower than the last quarter of 2021. This was primarily coming from our Kordsa business where we already have started to feel the slowdown of the economies outside of Türkiye in the international markets where we operate or sell our products. If you come to the how Sabancı Holding stock has performed in 2022. Now first of all we're obviously quite happy that the discount on our net asset value has shrank to about 26.6 percent of course that's significantly more the past you know years averages and if you look at the net asset value, the contributors to our net asset value as we present to you in our major investment areas as Cenk was underlining the Banking and Financial Services obviously is a big part of our business followed by Material Technologies which is industrial and building materials business the energy is another important contributor but just to underline here of course we have Enerjisa Üretim which is not listed so I'm sure as you've seen in our disclosure we account for that by the book value so that's traceable which suggests some more upside to the current contribution to the net asset value of Sabancı Holding portfolio and at the same time you see a reduction coming from mainly disposal of the tobacco business within 2022 but we've grown our net asset value quite satisfactorily throughout the year which has obviously been reflected on the stock performance vis a via the index BIST30 with significantly outperformed index which is very nice but we could still argue whether the investments that we're making and the value that we've been creating whether it has sufficiently have been reflected on to the stock performance which is indicated by the PE performance of our stock in the course of the year that suggests some more value appreciation potential hopefully. Now with this I will hand over to Kerem and he's going to walk us through the details of the business units.

Mr.Kerem Tezcan, IR Director: For the business units, let’s start with energy. We continue to benefit from having a diversified portfolio in our energy business in terms of generation and distribution and retail. In Q4, energy segment delivered a robust performance as EBITDA growth doubled y/y thanks to both Enerjisa Enerji and Enerjisa Generation’s contributions. Enerjisa Enerji recorded a strong performance as the distribution segment’s EBITDA jumped by 89% y/y in Q4 thanks to higher financial income and thanks to higher inflation trend and change in financial asset model approach, leading to higher IRR. The strong growth in financial income, higher quality bonus as a result of increased quality customer satisfaction scores and lower outages in addition to higher theft accrual and collection more than compensated for lower

OPEX and CAPEX outperformance due to high commodity costs during the period. As of end of 2022 Regulated Asset Base growth reached 77% y/y mainly reflecting revaluation of opening balance with inflation. In the retail side of the business, gross profit more than quadrupled in Q4 driven by volume growth, impact of increase in procurement costs and inflation and to some extent the base impact in liberalized segment. Higher gross profit in core business supported EBITDA despite higher OPEX spending as a result of high inflation.

In the first half of 2022, the cash flow was negative to a large extent due to high electricity procurement prices were not supported by national tariff levels and the fact that yearly inflation assumption incorporated to national tariff calculations were below realized inflation. The cash flow in second half of 2022, recovered due to numerous measures introduced by the regulator to address the sustainability of the system. Financing costs increased year-over-year driven by both higher debt and interest rates, also the increase in revaluation expenses of customer deposits due to elevated inflation. Thanks to strong operating performance, the company's net income surged by 135% year-over-year, more than offsetting higher financial expenses.

Looking at generation's performance, Enerjisa Generation's revenue increased by 112% y/y driven by higher spot electricity prices as well as weaker Turkish Lira despite lower generation & sales volume. Even though hydro and wind generation volume increased compared to last year, total generation volume declined by 3% y/y as a result of the efforts to optimize natural gas plants' production to reach highest profitability level as far as the spark spreads are concerned. EBITDA growth reached 108% y/y as natural gas profitability increased on higher spark due to higher market prices in addition to higher renewable volume in Q4. Moreover, our team's ability on energy trade, which led us to capture market opportunities and higher dispatch contribution supported EBITDA growth in the quarter. Despite increase in tax, net income registered solid returns y/y thanks to robust EBITDA contribution.

By the end of Q4, Net Debt dropped to 231 million EUR, indicating a Net debt/EBITDA of 0,5x compared to 289 million EUR net debt by the end of 2021. The q/q increase in total debt is mainly due to 1.000 MW wind investments, as we have already announced in October.

Coming to Industrials segment. Segment's combined revenues grew by 89% y/y in Q4 thanks to well managed pricing strategy and higher volumes in tire business driven mainly by local market. Segment's EBITDA margin deteriorated due to inflationary pressures both in tire and tire reinforcement businesses. In addition to this, tire reinforcement business negatively affected from relatively stable TRY against USD and higher-priced raw material inventories impacted pricing flexibility.Coming down to the bottom line, net profit declined by 18%, led by higher net financial expense due to lower FX denominated cash and increasing debt on completion of Microtex and Arvento acquisitions.

Moving on to the Building Materials, Segment's revenue growth was driven by sales mix optimization from foreign to domestic market and FX linked revenue contribution from Sabancı Building Solutions previously known as Cimsa Sabancı Cement. Despite negative impact of higher fuel, electricity, raw material and transportation costs, substantial increase in alternative fuel usage provided a better energy margin. Better sales and improved efficiency led to a roughly 5 times EBITDA growth, which resulted in 5 percentage points improvement in EBITDA margin. Finally, segment's net income grew more than 5 times thanks to operational performance pass through despite lower FX gains.

On retail, segment's combined revenues increased by 145% y/y thanks to strong contribution from both electronics retail and food retail, which was well above the average inflation driven by like for like traffic and basket growth. Both companies recorded strong performances in online sales thanks to increased investment and advertising activities. Segment's IFRS-adjusted EBITDA increased by 85% y/y in Q4. Despite the improvement in segment's opex/sales ratio, EBITDA margin declined by 2 percentage points y/y, due to contraction in gross margin. Decline in gross margin in electronic retail business is attributable to relatively lower price escalation due to stable exchange rate. In food retail, on the other hand, product and channel mix led by higher e-commerce and franchise sales were the main drivers of the gross margin contraction. Despite higher financials expenses, segment's bottom line improved with positive contribution from both companies.

Financial services segment had another quarter with robust performance as top-line growth reached 99% y/y driven by life and non-life businesses. Segment's EBITDA declined by %75 as a result of the weakness in the non-life businesses. In life business, thanks to the life protection volume growth and pension assets under management, EBITDA increased by 8% y/y. On the other hand, in non-life business, underwriting results and combined ratio were adversely affected by: Ongoing increase in inflation on claims costs, year-end minimum wage increase of %55, update of Underlying Loss Ratio of risky driver pool. Consequently, despite the improvement in technical profitability with new business portfolio written in 2022 on Motor Own Damage product, higher MTPL losses driven by the increase in minimum wage, higher pool loss ratio and higher cost of claims negatively affected the segment's profitability.

On banking, despite all the volatility and challenging market conditions Akbank's strategic priorities have always remained intact. Akbank is one of the best-positioned banks in this environment with its robust capital – highest among peers –, solid liquidity, highest level of efficiency and low operating cost base. Akbank's 2022 net income was up fivefold to a record level of TL 60 billion, a record high historical income even adjusted for currency. The Bank achieved an eye-cathing full-year ROA of 6.2% and

54.7% ROE with a low leverage of 7.5x in 2022, ahead of its guidance. Akbank's advanced analytical and digital capabilities along with its state of art infrastructure resulted in a record 2.3 million net customer growth in 2022. Strong market share gains in small tickets, stellar customer acquisition, across the board fee performance and agile asset liability management contributed to solid core operating performance in 2022. The bank also further built capital during the year, reaching a robust figure of 20.8% (excluding forbearances) with main contribution coming from internal capital generation. The sound solvency ratios will continue to provide the bank significant competitive advantage going forward**.**

I now would like to floor for Orhun Bey to go through the midterm guidance.

Mr.Orhun Köstem, CFO: Thank you, Kerem. Our midterm guidance in essence have not changed from what you have seen earlier. On revenue and EBITDA growth we could argue that we had a good performance in 2022 because we have actually grown ahead of CPI comfortably but we will need to check these over the long run obviously. On other elements you know capex to revenue run rates, FX Revenue share, net debt/EBITDA and the share of new economy in the overall revenue I'm happy to say that we are pretty much moving in towards our guidance one important change in this page since the last time you have seen is that all funds allocated for a share buyback program which I'm sure you have seen that we have increased to 3.25 billion TL at the end of December 2022 and we continue to run a successful share buyback program. With this I will hand over to Cenk for his closing remarks.

Mr.Cenk Alper, CEO: Thank you, Orhun. Thank you, Kerem. To summarize, our results were extremely strong in 2022. Despite faster pace in investments, we kept our cash level stable and further de-lever our balance sheet. Therefore, we are very well prepared for potential headwinds but also ready to seize growth opportunities to continue to transform our portfolio.

We divested a major asset in 2022 and invested in various businesses that we classify as new economy that are hindering high growth potential and match our ESG roadmap. We accelerated our ESG efforts, and fully aware of solid ESG commitment is a strong lever for additional value creation.

Finally, we will continue to focus on improving our shareholder return by continue to focus on value creative investments while ensuring to sustain our dividend policy and by continuing to manage our buyback program actively as we have done in 2022, thank you.

Mr.Kerem Tezcan, IR Director: Thank you, Cenk Bey. Now the floor is open for questions. If you have any question please write it in the Q&A part of Zoom.

Question: Thanks for the presentation. How do you see the profitability of Enerjisa Üretim in Q1 2023, giving the continuing drought conditions and recent cuts in electricity prices by EMRA?

Mr.Orhun Köstem, CFO: Thank you. Obviously, we are now living through the impact of climate change and therefore, it has an impact on hydrology year on year. So far we see that this year hydrology will be lower than what we would experience in 2022. There were cuts in prices also, reductions in natural gas prices for electricity generation. So again, we are quite confident giving the fact that Enerjisa Üretim has the most complimentary portfolio in the market. From renewable to natural gas of course as you know partly lignite. We are pretty sure that we would be able to deliver still quite satisfactory profit results for the Q1. The margins year on year could change. Thats dependent on, especially the level of hydrology but still there is no reason why we shouldnt see strong profit performance.

Question: What about the total capex required in the earthquake affected region for Enerjisa?

Mr.Cenk Alper, CEO: Thank you very much for the question. Well, for sure you know the infrastructure of the 11 cities affected, will increase our capex investments but the city plans are not fixed yet. There are alternative plans to change the places of the cities or rebuild the cities in their orginal places. Depending on that we will sharpen our numbers. As of today, we can not give you a certain figure.

Question: I have a follow up question on the banking industry. Do you share any sensitivity for the sector under potentially higher interest rate environment?

Mr.Orhun Köstem, CFO: Thank you. As far as I know we haven't shared any specific work around macro environment where the interest rates could be higher. So therefore I'm pretty sure that you will be looking at or calculating a number of different scenarios. Going forward, we have our internal scenarios that we work on. That's how we manage our business but its too early to make an estimation publicly.