2018 Q1

EARNINGS RELEASE

Beating the Expectations

Combined Net Sales

MILLION TL	Q1 2017	Q1 2018	% Change
TOTAL*	14.102	18.719	33%
BANK	6.159	7.962	29%
NON-BANK*	7.943	10.757	35%

- **Strong Demand**
- **Pricing Power**

Combined EBITDA*

MILLION TL	Q1 2017	Q1 2018	% Change
TOTAL*	2.972	3.704	25%
BANK	1.906	2.257	18%
NON-BANK*	1.066	1.447	36%

- **High Asset Utilization**
- **Regulatory Support**
- **Better than Expected Operational Performance**

Consolidated Net Income*

MILLION TL	Q1 2017	Q1 2018	% Change
TOTAL*	722	894	24%
BANK	596	691	16%
NON-BANK*	126	202	61%

- **Deleveraging Continues**
- **Capital Increase of Enerjisa Üretim (Generation)**
- **Financial Income from High Cash Position**

Excludes non-operational one off items. * Holding dividend income is excluded

■ Sales growth was driven with strong demand mostly in B2B products, such as cement and industrials. Pricing power in these products ensured margin improvements as well.

■ Regulated businesses, particularly energy, have been positively impacted with supportive incentives and regulatory changes.

■ At the bottom line, with cash generation focus, de-levering continues strongly, in early March, a capital increase has been executed in Energy Upstream business, which is aimed to speed up its IPO process.

■ Thanks to rigorous hedging policies that has been employed, fx long position was maintained at Consolidated level, Also high cash position supported the bottom line with interest income.

Net Sales

MILLION TL	TOTAL BEFORE CONSOLIDATION ADJUSTMENTS (COMBINED) Q1 2017	Q1 2018	% Change
TOTAL*	14.102	18.719	33%
BANK	6.159	7.962	29%
NON-BANK*	7.943	10.757	35%
ENERGY	3.482	5.158	48%
CEMENT	547	748	37%
RETAIL	1.736	1.957	13%
INSURANCE	728	1.073	47%
INDUSTRIALS	1.416	1.761	24%
OTHER*	34	61	77%

** Holding dividend income excluded*

- The key driver of the top line growth were Energy, Insurance and Industrials, with 48%, 47% and 24% growth y-o-y respectively.

- For Energy segment growth was driven by downstream business on the back of supportive regulatory changes.

- Insurance segment top line posted 47% growth with strong premium generation in MTPL and Motor Own Damage segments.

- In Industrials, Local demand pick-up in tyres, fx denominated revenues coupled with stronger pricing have driven the 24% growth in the top line.

- Retail top line posted 13% growth on the back of improved customer like for like and basket size.

- Cement segment revenues increased by 37% with high demand in domestic market and price improvements in grey cement.

EBITDA

MILLION TL	TOTAL BEFORE CONSOLIDATION ADJUSTMENTS (COMBINED) Q1 2017	Q1 2018	% Change
TOTAL*	**2.972**	**3.704**	**25%**
BANK	1.906	2.257	18%
NON-BANK*	**1.066**	**1.447**	**36%**
ENERGY	615	895	45%
CEMENT	96	161	67%
RETAIL	43	8	-81%
INSURANCE	70	104	49%
INDUSTRIALS	254	291	15%
OTHER*	-12	-12	-1%

Excludes non-operational one off items.

* Holding dividend income is excluded

■ Energy segment has boosted its performance strongly with the help of supportive regulatory changes, ongoing investments in the grid as well as efficiency improvements on the downstream side. Upstream side benefitted from better output levels across the fleet and recently introduced capacity payment mechanism. With this performance, Energy composes 62% of total non-bank EBITDA in Q1.

■ With strong domestic demand, price improvements, FX income generating exports and successful pass-through of costs, Cement segment EBITDA posted 67% growth vs 2017 Q1.

■ Industrial segment benefitted from stronger demand both in domestic and export markets. Combined with reflection of increased raw material costs over prices, segment EBITDA posted 15% growth.

■ In Insurance segment, strong premium generation was accompanied with successful claims management and segment EBITDA posted 49% growth.

■ Retail segment profitability was challenged with some of the promotions and operational expenses that were incurred to improve customer traffic.

CONSOLIDATED NET INCOME

MILLION TL	Q1 2017	Q1 2018	% Change
CONSOLIDATED NET INCOME*	**722**	**894**	**24%**
BANK	596	691	16%
NON-BANK	**126**	**202**	**61%**
ENERGY	-27	30	212%
CEMENT	22	31	43%
RETAIL	-26	-60	-129%
INSURANCE	23	31	34%
INDUSTRIALS	103	91	-11%
OTHER	31	78	152%

*Excludes non-operational one off items.

■ Energy segment benefitted from strong operational profitability growth in both Upstream and Downstream businesses. In addition to that, lower financial expenses in Upstream have helped bottom line and lifted the segment from red territory compared to last year.

■ Cement segment enjoyed strong growth in operational profitability and posted 43% growth.

■ Insurance segment bottom-line supported with strong operational performance and additional financial income with elevated interest rates.

■ Other segment with interest income from strong net cash position contributed to consolidated figures

SEGMENT HIGHLIGHTS

Energy

MILLION TL	Q1 2017	Q1 2018	% Change
SALES	3.482	5.158	48%
EBITDA*	615	895	45%
NET INCOME*	-54	99	283%
EBITDA* MARGIN	17,7%	17,4%	

**Excludes non-operational one off items.*

■ Energy segment delivered significant increase in EBITDA in Q1 2018, and all business segments contributed to this development.

■ Favourable regulatory changes in Downstream businesses as well as the introduction of capacity payment mechanism at the beginning of the year for Upstream drove the 45% EBITDA growth.

■ In Distribution business,

Regulated WACC increased to 13.61% from 11.91%, leading to a positive revaluation of the RAB in 2018.

In addition, incentives regarding theft detection activities improved.

And finally, one element of quality bonus mechanism, namely bonus for CAPEX realization, was introduced in 2018.

■ In the retail business, two regulatory changes effective from the beginning of 2018 and positively affected both liberalized and regulated customers profitability.

National tariff increase by 7% which led to an improved profitability in liberalized customers;

Regulation change that allows 2.38% margin on top of regulated feed in tariff cost contributes to the regulated customers’ profitability.

■ Despite the increase in national tariff, due to high procurement costs in the market, retail business mostly focused on regulated segment in the first quarter of 2018.

■ For Upstream business,

- The most important regulatory change is the introduction of capacity mechanism that is effective from the beginning of 2018. Capacity payments for natural gas and lignite plants contributed positively to the generation business profitability in the Q1 and partially compensated the negative effect of increase in natural gas price.

- Also, fx based renewable tariff and lignite incentive continue to impact 2018 positively.

- On the financial front, downstream IPO proceeds were used for a capital increase, which helped lowering net debt.

- **As a result;**

  - Both Distribution and Generation business benefit from Supportive regulatory environment
  - Successful capex execution and operational efficiencies in distribution business, coupled with higher asset utilization in Generation business and improvement in coal power plant have been the main drivers of strong operational profitability and improved bottom line performance.

Enerjisa Üretim Santralleri A.Ş.

MILLION TL	Q1 2017	Q1 2018	% Change
Net sales	907	1.087	20%
EBITDA*	202	283	**40%**
EBITDA* margin (%)	**22%**	**26%**	**3,8pp**
Depreciation	-102	-108	-7%
Financial Income/(expense)	-270	-291	-8%
Net income*	**-135**	**-94**	**30%**

** One off items excluded based on Sabancı Holding one off definition*

- 40% EBITDA increase driven by performance improvements in Tufanbeyli, capacity payments, higher renewable generation and also higher electricity prices compared to 2017.

- Overall, Generation volume was slightly higher in the first quarter of 2018 y-o-y. However, as the natural gas prices has increased since December 2017, composition of generation by source has changed from natural gas to renewable and lignite which favors incentivized prices.

- Renewable Generation was 13% higher in the first quarter of 2018 and resulted in an additional 18 MTL EBITDA compared to the same period last year.

- Tufanbeyli Lignite Power Plant generation increased by 41 % y-o-y in the quarter. Operational improvements allowed us to capture higher availability in the plant, which contributed EBITDA 37 MTL in the first quarter of 2018 on top of last year.

- With the natural gas price hike, Natural Gas Power Plants worked less hours and reduced their generation by 5% compared to last year.

■ +32 MTL EBITDA additional EBITDA was recorded from Capacity Payments. This has compensated the negative effect of natural gas price increase in Q1 2018 and will continue to contribute to the profitability of natural gas and lignite power plants.

■ The Company's loans are mainly Euro-denominated resulting in FX losses. However, with active hedging policies, FX loss have been kept considerably limited.

Cement

	BEFORE CONSOLIDATION ADJUSTMENTS (COMBINED)		
MILLION TL	**Q1 2017**	**Q1 2018**	**% Change**
SALES	547	748	37%
EBITDA*	96	161	67%
NET INCOME*	43	65	51%
EBITDA* MARGIN	17,6%	21,5%	

**Excludes non-operational one off items.*

■ Based on Turkish Cement Manufacturers Association data, Turkish domestic cement demand posted 32% growth vs last year as of February 2018.

■ Cement business posted a 19% increase in domestic volumes with New Afyon Plant capacity and improved demand due to good weather conditions in Q1.

■ In addition to that, export volumes posted 9% decrease as a result of domestic demand increase. Export destinations are grey cement exports to US, grey clinker to West Africa and white cement globally. On the white cement front, exports continued to increase during Q1 (+18%)

■ Overall, cement segment total volume posted 11% increase vs last year's Q1.

■ A combination of this high demand, grey cement price improvement and FX based pricing for exports resulted in 37% growth in the segment topline.

■ Although production costs increased due to higher fuel prices, successful reflection of these onto the sales price has led to 4 pps improvement in EBITDA margin vs last year.

■ Looking forward, key focus areas will be cement prices, production costs (especially fuel) and new demand driven by infrastructure investments and mega construction projects.

Retail

MILLION TL	BEFORE CONSOLIDATION ADJUSTMENTS (COMBINED) Q1 2017	Q1 2018	% Change
SALES	1.736	1.957	13%
EBITDA*	43	8	-81%
NET INCOME*	-51	-117	-130%
EBITDA* MARGIN	2,5%	0,4%	

**Excludes non-operational one off items.*

■ Both companies reached double digit LfL growth based on positive customer LfL and basket size growth.

■ EBITDA margin in food retail was negatively impacted by promotions offered and also due to increase in operational expenses related to initiatives taken to improve customer traffic and retention.

■ Initiatives that have been taken in our retail companies are expected to improve profitability over the longer term although we have experienced mostly the costs so far.

■ The numbers shown at the table excluding one offs. Carrefoursa sold one of its real estates in Istanbul with a price tag of 134 MTL and recorded 47 MTL net profit from this. The company still works on various options to monetize its real estate portfolio.

■ Both of retail companies are working on a number of projects to improve operational profitability through increased customer traffic, optimization of supply chain and reduce opex. By the end of 2018, it is expected to see improvements in the financial results.

Insurance

MILLION TL	BEFORE CONSOLIDATION ADJUSTMENTS (COMBINED) Q1 2017	Q1 2018	% Change
SALES	728	1.073	47%
EBITDA*	70	104	49%
NET INCOME*	62	83	35%

**Excludes non-operational one off items*

■ Non life insurance posted strong growth in motor related product sales, MTPL and MoD in Q1, MTPL especially achieved near 5 times growth in Q1 (market 19% growth). Combined ratio was maintained at 95% level creating strong technical income outcome from premium generation. Elevated interest rates helped achieving a strong growth in financial income and bottom line posted 40% growth as a result.

■ On the life and pension side, pension technical profit posted 16% growth in Q1 while life protection technical profit posted 26% growth. With general expenses increasing only 14%, net technical profit posted 43% increase in Q1 compared to last year. Overall, with the help of strong operational profitability and solid financial income, bottom line increased by 29% in Q1 compared to last year.

Industrials

MILLION TL	BEFORE CONSOLIDATION ADJUSTMENTS (COMBINED) Q1 2017	Q1 2018	% Change
SALES	1.416	1.761	24%
EBITDA*	254	291	15%
NET INCOME*	147	124	-16%
EBITDA* MARGIN	17,9%	16,5%	

**Excludes non-operational one off items*

■ In the Industrials segment, all companies have recorded higher revenues compared to Q1 of 2017. Top line growth of 24% was mostly driven by Brisa and Kordsa. Brisa’s sales performance increased with effective pricing strategies, increasing sales of higher value added products and growing volume of the exports. Kordsa enjoyed hard currency income generation.

■ On the EBITDA side, 15% growth achieved with successful topline growth and supportive operational excellence of the companies. However, due to increased raw material costs and lagging pass through over prices, EBITDA growth remained below topline growth.

■ Depreciation of TL and other EM currencies against USD and EUR is a positive for export businesses and Kordsa in general.

■ Despite strong operational performance, net profit decreased by 16% in Q1 mainly due to financial expenses and additional depreciation stemmed from end of capitalization for New Tire Plant, which became successfully online at the beginning of this year

FX Position

CONSOLIDATED NET FX POSITION (excl. Bank)	MILLION EURO	
	Dec 31, 2017	Mar 31, 2018
ENERGY	-240	-198
INDUSTRIALS	1	-2
CEMENT	4	-2
RETAIL	0	3
INSURANCE	7	8
HOLDING & OTHER	327	232
TOTAL CONSOLIDATED FX POSITION AFFECTING PL	**99**	**40**

■ Holding only cash position stands at 2.6 Billion TL.

■ As a reminder, Sabanci Holding's Cimsa share purchase of 5.1% (88 MTL) is not deducted from this amount as it was carried out in April.

APPENDIX-CONSOLIDATED FINANCIALS

Balance Sheet (000 TL)

	31.03.2018	31.12.2017
ASSETS		
Current Assets	**171.533.886**	**163.547.705**
Cash and Cash Equivalents	14.256.682	14.519.064
Financial Assets	8.038.214	8.832.334
- Financial assets measured of fair value through profit or loss	157.336	39.890
- Financial assets measured of fair value through other comprehensive income	4.752.431	4.190.446
- Financial assets measured of amortised cost	3.119.990	4.593.808
- Time Deposits	8.457	8.190
Trade Receivables	1.901.582	1.881.888
Receivables from Finance Sector Operations	104.026.350	97.520.756
Reserve Deposits with the Central Bank of the Republic of Turkey	33.889.643	33.055.479
Other Receivables	3.071.605	2.464.026
Derivative Financial Instruments	1.933.759	1.812.017
Inventories	2.657.949	2.312.094
Prepaid Expenses	954.297	749.214
Current Tax Assets	3.589	9.093
Other Current Assets	778.095	370.559
	171.511.765	**163.526.524**
Assets Classified As Held for Sale	22.121	21.181
Non-current Assets	**192.192.541**	**190.587.046**
Financial Assets	49.368.725	52.944.726
- Financial assets measured of fair value through other comprehensive income	41.339.625	38.655.381
- Financial assets measured of amortised cost	8.029.100	14.289.345
Trade Receivables	95.928	121.678
Receivables From Finance Sector Operations	117.403.036	114.186.246
Other Receivables	1.023.970	998.184
Derivative Financial Instruments	9.568.115	7.698.970
Investments Accounted Through Equity Method	6.297.895	6.439.214
Investment Property	283.707	282.506
Property, Plant and Equipment	5.620.649	5.529.745
Intangible Assets	1.690.785	1.690.195
- Goodwill	873.097	873.097
- Other Non Current Assets	817.688	817.098
Prepaid Expenses	22.362	23.098
Deferred Tax Assets	692.486	552.671
Other Non Current Assets	124.883	119.813
Total Assets	**363.726.427**	**354.134.751**

LIABILITIES		
Short Term Liabilities	**250.637.488**	**247.467.413**
Financial Liabilities	11.932.478	13.917.173
Current Portion of Long-Term Financial Liabilities	12.313.862	16.018.279
Trade Payables	2.599.388	2.882.349
Payables from Finance Sector Operations	212.720.320	204.692.399
Short Term Employee Benefits	97.587	75.997
Other Payables	6.035.293	5.401.108
Derivative Financial Instruments	1.569.829	2.138.123
Deferred Income	190.974	217.393
Income Taxes Payable	583.879	802.451
Short Term Provisions	657.011	651.217
- Short Term Provisions for Employee Benefits	278.920	318.279
- Other Short Term Provisions	378.091	332.938
Other Short Term Liabilities	1.932.207	665.662
	250.632.828	**247.462.151**
Liabilities Classified As Held for Sale	4.660	5.262
Long Term Liabilities	**60.556.059**	**54.669.399**
Financial Liabilities	32.165.097	25.322.315
Payables from Finance Sector Operations	21.374.009	23.664.909
Other Payables	1.707.201	1.541.534
Derivative Financial Instruments	4.518.154	3.375.454
Deferred Income	131.649	143.793
Long Term Provisions	420.440	416.977
- Long Term Provisions for Employee Benefits	415.735	412.364
- Other Long Term Provisions	4.705	4.613
Deferred Tax Liabilities	159.334	149.352
Other Long Term Liabilities	80.175	55.065
EQUITY	**52.532.880**	**51.997.939**
Equity Attributable to the Parent	**27.048.810**	**26.591.788**
Share Capital	2.040.404	2.040.404
Adjustment to Share Capital	3.426.761	3.426.761
Share Premium	22.237	22.237
Adjustments to Share Capital due to Cross Ownership(-)	(190.470)	(190.470)
Accumulated Other Comprehensive Income or Loss That Will Not Be Reclassified to Profit or Loss	(72.096)	(76.380)
- Actuarial Gains/Losses	(72.096)	(76.380)
Accumulated Other Comprehensive Income or Loss That Will Be Reclassified to Profit or Loss	137.391	64.615
- Currency Translation Reserve	847.365	724.660
- Hedge Reserve	(331.952)	(349.708)
- Revaluation Reserve	(378.022)	(310.337)
Restricted Reserves	1.039.842	1.032.916
Retained Earnings	19.578.353	16.790.619
Net Income for the Period	1.066.388	3.481.086
Non-controlling Interests	**25.484.070**	**25.406.151**
TOTAL EQUITY AND LIABILITIES	**363.726.427**	**354.134.751**

Income Statement (000 TL)

	31.03.2018	31.03.2017
CONTINUING OPERATIONS		
Sales (net)	3.407.160	2.951.759
Cost of Sales (-)	(2.704.894)	(2.306.822)
Gross Profit From Non-Financial Operations	**702.266**	**644.937**
Interest, Premium, Commission and Other Income	7.914.655	6.148.268
Interest, Premium, Commission and Other Expense (-)	(4.325.367)	(3.159.441)
Gross Profit From Financial Operations	**3.589.288**	**2.988.827**
GROSS PROFIT	**4.291.554**	**3.633.764**
General Administrative Expenses (-)	(1.480.864)	(1.251.838)
Marketing, Selling and Distribution Expenses (-)	(464.465)	(408.130)
Research and Development Expenses (-)	(2.429)	(1.508)
Income From Other Operating Activities	242.784	272.230
Expense From Other Operating Activities (-)	(167.085)	(163.886)
Interest in Income of Investments Accounted Through Equity Method	149.873	(46.141)
OPERATING PROFIT	**2.569.368**	**2.034.491**
Income From Investment Activities	181.518	27.668
Expense From Investment Activities (-)	(352)	(397)
OPERATING PROFIT BEFORE FINANCIAL INCOME / (EXPENSES)	**2.750.534**	**2.061.762**
Financial Income	6.712	55.815
Financial Expenses (-)	(151.403)	(147.121)
NET INCOME BEFORE TAX FROM CONTINUING OPERATIONS	**2.605.843**	**1.970.456**
Tax Income / (Expense) from Continuing Operations		
Current Income Tax Expense	(351.683)	(470.615)
Deferred Income Tax Benefit / Charge	(163.086)	72.869
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**2.091.074**	**1.572.710**
DISCONTINUED OPERATIONS		
Net Income After Tax From Discontinued Operations	25	-
NET INCOME FOR THE YEAR	**2.091.099**	**1.572.710**
ALLOCATION OF NET INCOME		
- Non-controlling Interests	1.024.711	903.308
- Equity Holders of the Parent	1.066.388	669.402
Earnings per share - thousands of ordinary shares (TL)	5,23	3,28
Earnings per share from continuing operations - thousands of ordinary shares (TL)	5,23	3,28

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