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<u>Speakers:</u>
Orhun Köstem, CFO
Şule Gençtürk Kardıçalıoğlu, IR Manager

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: Hello, Good afternoon everyone, and welcome to Sabancı Holding Third Quarter 2024 Financial Results Call. For those of you I haven't met, I am Şule Kardıçalıoğlu, IR manager of Sabancı Holding. Kerem was of course supposed to be here, but he couldn't make it today. I have our CFO, Orhun Köstem with me here. And before I hand it over to him, please pay attention to our disclaimer. And please also note that this call will be recorded and uploaded to our IR website. Now it's my pleasure to hand over to Orhun bey.

Mr. Orhun Köstem, CFO: Just to be clear, Kerem is on a roadshow, so he can't make it today. However, I'm in the capable hands of my colleagues. Welcome to our third quarter results webcast meeting. Again, you know, I'm going to talk about what's happened since we last were together in the third quarter of the year. And looking from a 50,000 feet point of view, we're not reporting a net profit. Basically, however, as you remember, when we were closing the second quarter call, we said we were expecting on the non-bank side, especially of the rest of the year, to be markedly better than the first two quarters of the year, which I'm happy to report that we've seen. As you saw in the third quarter, on the non-bank side, we have a breakeven bottom line that may not be very exciting, but nevertheless shows a very serious quarter and quarter improvement since the start of the year. Our EBITDA margin has expanded by 120 basis points. We had a massive cash flow, you know, operating cash flow generation. I'm going to walk you through those details. And we still have a very, you know, robust level of cash at the holding company, which is a blessing and at the same time a little bit negative because it has implications on our monetary position. But nevertheless, as we plan to direct them to investments, that's our position as of the third quarter. In the period, obviously, we continue to execute on our strategy of investing in, you know, net zero transition in the new economy. Cimsa, as I'm sure you must have followed, acquired the business in Ireland called Manok. Bulutistan is acquired by Sabancı DX. That's the, you know, expected to be the one of the unicorns out of the Turkish market and one of the few cloud service providers that's now part of Sabancı business and, of course, part of our growing digital business. We have been expanding capacity in the generation business in Turkey. On one hand, we have announced that we've secured a billion-dollar funding for 750 megawatts of, you know, a thousand-megawatt expansion that Enerjisa Üretim is conducting. And at the same time, Enerjisa Üretim also does, you know, a bolt on acquisitions. So, both are in progress and continues quite healthily. Outside of Turkey, now we've completed the funding package of Oriana, our second project in the U.S. for solar, including the tax equity piece. So, the whole package is now completed, and we expect that to become operational by the second quarter of next year. And again, in our capital market days that was held in London, we've announced our medium-term targets until 2020. So, I'm not going to go through them today. On the ESG side, you know, nothing necessarily changes, at least for the negative. On the positive side, obviously, Akbank have provided an additional 126 billion Turkish Lira of sustainable finance. I think that puts, you know, makes about 44% of our 2030 commitment. So, basically, that is also, you know, in a healthy, healthy progress.

Now, if I can take you, first of all, to the backdrop of our results. You know, on the left top corner of this page, you see the energy and, you know, commodity prices, obviously, you know, after 2021 and 2022, energy and commodity prices have been normalizing in 2023. So, this year is not necessarily very different, which is obviously good for some of our businesses, like industrial businesses. It's a relief for commodity and energy prices to remain low. Having said that, you know, as we have seen generation in our portfolio, that impacts that side of the portfolio negatively, but that's how the trend has been going since the start of the year. On the bottom left corner, you see the CPI versus the change in the FX basket rate and obviously, you know, the inflation has been significantly higher than the devaluation. Now, the significance of that, and I'm sure you must also be following that as well, the export-oriented businesses are underperforming only because of this, you know, change, and that is continuing and expected to continue until the end of the year, but we need to remember that when we, you know, look at the mobility side of our business, material technology side of our business, most of which are important exporters, that's a factor to remember. And again, in general, this is what most impacts the bottom line. I think we must highlight the fact that on the top right corner, the payroll increases are quite significant. So, you know, between the nine months of 2023 and nine months of 2024, we're looking at about a 71% increase. And of course, on the bottom right corner, we showed you the policy rate there, you know, with the monthly change of the basket, but just to remember that the interest rates are seriously higher versus last year, the same quarter, which is a factor to consider when we look at the bottom line of the businesses for this specific year. And when I say for the specific year, obviously, I'm referring to the disinflation program. And one other impact of which is, as you have been following, the GDP growth was at 5.3% in the first quarter, at 2.5 in the second quarter. So, we see a deceleration of economic activity. And that's our backdrop in general for 2024.

Now, coming to the financials, if you look on, top to top basis, we see combined revenues in the first nine months growing by 5% and contracting 46%. And our bottom line has turned from positive to negative. On one hand, obviously, and I trust you must be following from our colleagues on Akbank as well, the whole, you know, banking sector's performance this year is not necessarily very positive. With the disinflation program in place and the macro prudential measures in place, the net income margin generation this year is challenging. And even though, as far as Akbank is concerned, the, you know, customer acquisition and expansion is pretty much in line with our expectation, that results in positive, you know, commission revenues that are generated. Nevertheless, we see a marked, you know, a marked slowdown in performance of the banking sector in general. So, leaving that aside, when you look at the non-bank business, you see the revenues contracting by 15%, EBITDA by 19%, and a net loss on the bottom line. Now, some of you, I'm sure, must have made the comparison versus the first half of the year, where we were showing a 17% revenue contraction, a 28% EBITDA contraction, and a very similar number on the bottom line as a net loss of our non-bank business. As I was trying to point out, the non-bank business performance had been improving since the second quarter, and that shouldn't be coming as a surprise, because we've already talked about this and discussed about this as we were closing the second quarter call. And when it comes to the bottom line, about 60% of the losses on the non-bank side comes from the monetary loss of the holding. So, if you exclude the holding piece and the impact of some non-operating elements, like the impact of the tax revaluation, that especially is influential in our energy business, the bottom line though, operationally, the bottom line of the non-bank business goes north of 2 billion Turkish Lira, positively. Now, what I'm trying to say in a nutshell is the momentum in our non-bank business is positive, we were expecting this and we see it now flowing into our numbers.

Just to show you in a bit more detail on the next page, we show you the third quarter basically, where on the top line combined you see a flat revenue contraction of EBITDA and then a loss on the bottom line. If you look at the non-bank business, revenue contraction is about 11%, EBITDA is almost flat, about 2% decrease, which suggests that the EBITDA margin has expanded by 120 basis points. We look at a break-even bottom line on our non-bank business and again, if we exclude holding or other non-operating elements, obviously we're looking at a positive number on the bottom line for the non-bank business on a consolidated basis. So, in short, as we were expecting the momentum for our non-bank business to turn positive, second half of the year we were expecting to be better than the first half, which is now flowing into our numbers.

On the next page you see the return on equity, which is coming down of course versus last year and about, it was 2.5% at the end of the nine months. But again, for some of you who are comparing with the first half, that number was very low, about 3.3% basically. That again, in addition to other elements as I was suggesting, also gets impacted by the level of interest rates that have been increasing significantly versus last year. So, this year in that sense is mostly transitionary. If you look at the net financial debt to EBITDA, it was at 1.1 times. Again, this was 1.3 times at the end of the first half. And between the EBITDA generation and the working capital management, we've seen a very strong cash flow generation.

You're going to see on the next page where the operating cash flow you see in the middle is 40 billion TL versus 39. Now again, at the end of the first half, what we're showing you was a contraction from 26 billion TL to 9 billion TL. So, basically, there has been a massive improvement in operating cash flow generation, which positively impacted the net EBITDA numbers. Obviously, our holding only net cash position is quite high, about on a nominal basis more than 100% compared to the same period end of last year. Now that is, as I said, that is also transitionary. So, we're not necessarily want to hold on to this cash. We want to allocate it and it's going to be allocated into investments going forward. So, hopefully, the impact on the monetary position will get less because that fortunately results in monetary losses, but that's the conscious decision that we're taking. And CAPEX already have been increasing, referring to my remarks at the opening of the session of the investments that we have been undertaking on the non-bank side, CAPEX to net sales have increased to 12.6% from 9.4% the same period of last year.

As we continue, I'm going to again show you the NAV piece. NAV in terms since the start of the year has grown by 7%. Well, if you look at the NAV discount, we still see a very high discount. I mean, it has improved from 52% to 45%. In fact, since the end of the second half, what we see, the minimum that we've seen in 2024 was about 36%. So we’ve seen a massive contraction. And part of the expansion that we see now obviously is a function of what's happening in the market in general. And if you see the NAV breakdown, I think for those of you who have been following us and listening to us, one of the things that we are looking to hopefully deliver is a more balanced NAV composition. And between the energy and climate technologies versus banking and financial services technologies, these are now quite balanced in our portfolio. And again, our aim going forward is to make sure that we grow other parts of our portfolio as well from an NAV contribution point of view. And in that, of course, the digital piece, which is almost non-existent today, is going to play an important part. Now, with that, I will hand it over to Şule and she'll start her remarks to talk a bit in more detail about the segment financials. Şule? Thank you.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager:

Thank you Orhun bey. Let me first start with the bank and before I start, please note that banking figures are based on BRSA financials as banks are exempt from inflation accounting for this year. Akbank’s expertise in flexible balance sheet management, along with its rapid adaptation in navigating the tight regulatory environment as well as sustained excellence in fee performance continued to underpin its profitability in the third quarter. Despite sector-wide headwinds, including high borrowing rates and macroprudential restrictions, Akbank has remained committed to enhance its recurring revenues, and ensure sustainable profitability. While identifying areas for sustainable growth, Akbank maintained prudence in risk management and cost control. Akbank’s active customer base exceeded 14 million in the third quarter, marking a net increase of 5.8 million since the end of 2021. This growth has solidified the bank's market position and set a strong foundation for long-term resilience. Moreover, Akbank's ongoing success in customer acquisition contributed to a remarkable improvement in the fee-to-opex ratio, which has increased by 26 percentage points over the past 7 quarters to 84%, with even a higher quarterly figure of 91%, thanks to all time high fee chargeable customer base and strong cross-sells. Additionally, with a total capital adequacy ratio of 17.2% and Tier1 ratio of 14.6%, Akbank continues to maintain a solid capital structure, providing a buffer against market volatility and supporting sustainable growth. Its strong capital position, well-structured balance sheet to prosper in a disinflationary environment along with a low TL LDR of 82% offers considerable potential for enhancing margins and profitability going forward.

Let's move on our largest non-bank segment: Energy.

In generation business, despite the challenging market conditions, the company achieved a 10% year-on-year revenue increase in the third quarter, much better than in previous quarters and driven by higher generation volumes. Even though EBITDA performance improved, it was still below that of last year due to a combination of factors, including lower electricity prices and reduction in generation volumes, as well as decline in trading activities in the current market, which is less liquid and more stable. On a more positive note, net income almost tripled in the third quarter compared to last year, driven by higher monetary gains and a lower corporate tax expense. With regards to Enerjisa Enerji; operational earnings in distribution business increased by 7% year-on-year in the first 9 months, mostly driven by higher financial income and CAPEX reimbursements. Operational earnings in customer solutions segment has significantly improved compared to last year mostly driven by increasing the solar PV projects. Yet, retail segment's operational earnings declined as expected, by 30% year-on-year due to lower sourcing costs in both regulated and liberalized segments. In the first nine months, investments stood at TL9bn, which matches the seasonal Capex pattern of the Distribution business and in line with full year targets. As a result, underlying net income declined to TL3.1bn on a year-on-year basis, fully in line with 2024 guidance. This development is as expected due to lower earnings contribution from the retail activities and increase in financial expenses on higher debt and interest rates.

On Material Technologies segment,

Volume growth has accelerated in cement, driven by domestic sales while contraction in exports and weaker pricing in the domestic market pressured revenues. The recovery in the tire reinforcement has not materialized as competitive pricing at the global scale remained challenging. EBITDA performance improved, but still remained lower than the previous year, due to price pressures within the overall segment and discrepancy between inflation and depreciation in exports. Yet, margins increased over 300 basis points in the third quarter compared to last year thanks to favorable energy and fuel prices. Segment's net income has more than doubled compared to last year, mainly due to enhanced operating profitability, reduced financial expenses and higher monetary gains spefically achivied in the cement business. As a separate note, Çimsa's acquisition of Mannok, a UK based company with an extensive product range including cement-based products, insulation materials and recycled plastic packaging, completed at the beginning of October. This is the largest overseas acquisition in the history of Sabancı Holding and will be fully consolidated under Çimsa with the fourth quarter results.

In Mobility Solutions,

Tire business managed to increase its market share, particularly in Original Equipment market during the first 9 months of the year, despite the contraction in the overall market. However, segment revenues declined on an annual basis, affected by pricing pressures. The decline in EBITDA was primarily due to lower revenue generation. While operational efficiency and favorable raw material and energy costs helped to mitigate losses to some extent, the prevailing inflationary pressures continued to weigh on operating performance. Even though net monetary gains had a positive impact on net income, impact of higher financial expenses resulted in TL249mn net losses in the third quarter.

Financial services segment's inflation-adjusted topline slightly dropped by 2% y/y in the first 9 months, primarily driven by non-life business, despite the healthy growth in life business. EBITDA of both businesses demonstrated a notable increase in the third quarter, which is attributable to the continued success of the long-term credit life product (Kredim Güvende) and a robust RoP performance in life business, as well as a strategic focus on high margin segments in non-life business to improve capital adequacy ratio. However, segment's EBITDA dropped in the first 9 months, mainly due to lower premium generation on lower financial income in non-life. As a nature of insurance business with high levels of monetary assets, the negative impact of inflationary accounting was largely reflected in net income level, yet this impact eased in the third quarter thanks to higher interest income in life business. It is worth mentioning that our life company has reinforced its leadership position in terms of Private Pension assets under management and gross written premiums in life and personal accident.

Digital Segment's revenues dropped by 2% y/y in the third quarter, which resulted in 6% growth in the first 9m year-on-year, despite the slowdown in the overall market, thanks to the strong execution of omnichannel strategy and the strategic focus on digitalization and consistently enhancing customer experience in our technology retailer. E-commerce sales performance also remained solid. Gross Merchandise Value dropped 2% year-on-year to maintain a sustainably high EBITDA performance in a challenging pricing environment. In the third quarter, EBITDA recovered sharply compared to the same period last year and brought nine months annual growth to four-folds. The margin expansion is also notable thanks to ongoing cost optimization, and effective inventory management. Despite the significant improvement in margins, the segment's net income heavily pressured by high financing costs and credit card expenses. Please also note that, we raised our share in Bulutistan to 75.5% through DxBV and started to consolidate under Sabancı Holding as of August 2024.

On retail, the segment’s topline remained unchanged over the previous year, while EBITDA increased substantially driven by ongoing cost optimization. The negative impact of high financial expenses continued to weigh on the bottom line, resulting in a net loss.

This concludes our presentation. Please type your questions to the Q&A section of the Zoom.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: And I think the first question we have is from Muharrem Gülsever. In this second quarter earnings poll, we were expecting 500-million-dollar EBITDA from energy generation units. Is this projection still relevant? In the second question, Umut Bey is also asking for, do you still maintain your 500-million-dollar EBITDA guidance for Enerjisa Üretim given there are 200 million dollar EBITDA generation in 9 months?

Mr. Orhun Köstem, CFO: I think, I realize, first of all, if you look at our release, the details referring to energy-related financials obviously are how it gets consolidated into Sabancı holding consolidated results. So, therefore, when we talk about dollar-on-dollar numbers that is generated by the current setup of the portfolio of Enerjisa Üretim, the outlook really does not necessarily change. Obviously, we said it can produce about 500 million dollars of EBITDA. This year, we expect, I think, at least to the tune of a 10% decline in the overall EBITDA that's generated by the business compared to last year. That is primarily a function of how the economy is contracting or decelerating this year, not contracting but decelerating this year, and the electricity prices are low. Now, having said that, I'm holding my breath at this point in time because the market does not necessarily improve or we get any relief from the market on that. And we will still land, at the worst-case scenario, quite near 500 million dollars of EBITDA. Now, if we miss that, and I'm going to come back to you and tell you about this when we close here, I don't expect that to be no more than low single digits, basically. So, more or less, we still expect to deliver something in close there. But if you walk from the details that in our release, you need to add back the impact of the hedging, you need to account for the one-off items. So, I admit, I acknowledge it becomes quite difficult to start from those numbers and get to something closer to 500. But when you do those adjustments, yes, this is more or less what we still can look at for the time being.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: And next, we have a question. There were recently some news in the media claiming that Enerjisa Uretim's IPO is planned to take place in Spring 2025. Do you confirm this? How do you see the outlook for 2025? Do you expect a recovery in your business segments assuming some easing in interest rates?

Mr. Orhun Köstem, CFO: When it becomes formal, you're going to hear that. We already know the intention. We already referred to the company's capability, which is in a great position. Today, as you heard from us, we are expanding our footprint, we're expanding the capacity, we're making more acquisitions.

And yes, unfortunately, 2024 is a transition year in the economy where we have the disinflation program that slows down the economic activity with low electricity prices. And yes, hitting at least a $500 million EBITDA is not very easy this year. But I'm pretty sure we're going to get quite close to that worst-case scenario. So, on that basis, we're continuing with the same intention. I can therefore neither confirm nor, let's say, reject any specific timing for the IPO. Now, the outlook for 2025, again, on one hand, we're going to see the disinflation program continuing, obviously, because the mid-term target continues to see a reduction in the inflation on a year-on-year. So, that needs to continue. But hopefully, if you see the policy rates start coming down or some of the macro-prudential measures getting eased or altogether being lifted off, that could result back to the question, obviously, in a reduction in the interest rates in general. And yes, of course, I mean, the outlook for next year must be more positive than what we see this year. And we're in the process of drawing up our budgets. But that's the outlook should look like. And I'm happy to talk more about this when we get together again next time when we have a clearer outlook for 2025.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: Thank you, Orhun Bey. Muharrem Bey has a couple of more questions. Under what circumstances would you consider resuming share buybacks? And the next question is, is there an asset divestiture plan? There are some assets that the holding is not able to receive any dividends for a year. Considering the capital allocation strategy of the group, what would trigger an asset sale?

Mr. Orhun Köstem, CFO: Thank you, Muharrem Bey. One, as you remember, we did the share buyback, started the share buyback at the last quarter of 2021. And I'm aware, and that's where you may be looking at, that the discount to NAV was also quite high at that time. That was about 50%. The difference between now, obviously this time the discount to NAV comes from basically the revaluation of the non-listed assets, mainly Enerjisa Üretim. So therefore, in reality, on a like-for-like basis, the discount has now gone down quite significantly and now only naturally is widening again. Now, we did a lot of heavy lifting when we first started the buyback program. But now the NAV has grown, I think, about from 6 bn to close to 10 bn. Now it's about 9 point bn something. And then we'll see how non-listed assets do, going forward, that still requires some support from the share buyback, we can still reintroduce or restart the program basically. But good for us that I don't expect us to do much of a heavy lifting as we did at that point in time. As I said, the discount this year has come as low as 36%, even with this high net asset value. So hopefully, the portfolio will do much better this time.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: Thank you, Orhun Bey. Hanzade's question; With a 9-month EBITDA of $190 m in the generation asset, it appears you're quite distant from your previous guidance of $500 m. Could you explain the reasons for this deviation from your guidance? Do you foresee any potential for recovery?

What is the comparable EBITDA realization in 9M on generation in USD terms that can be compared to the guidance metrics?

Mr. Orhun Köstem, CFO: I was trying to refer to that, if you work from the release on the inflation accounted numbers, it's a little bit difficult to move from there. Because when we talk about the guidance for that, for an asset, we're talking about dollar-to-dollar figures. So you need to add back the impact of the hedges, you need to account for one-offs, as I was trying to refer to. Compared to last year, this year, again, we'll definitely see a slowdown in the EBITDA. But as I was trying to say exactly, I'm holding my breath because although the market is not necessarily supporting us, we still are going to land somewhere quite close to $500 million EBITDA mark. If we're lower than that, and I told you that we were going to be at around those levels anyway at the end of the second quarter, I think we're not going to miss that. Not more than a low single-digit percentage, basically. So we're pretty much on track. But I'm happy to come back to you and report back once we close here. But again, if you walk from the inflation-adjusted numbers that you see in the release, it's quite difficult, and I admit that. And I refer to you, to our teams, to actually get to the components of that.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: Thank you, Orhun Bey. Uğur bey's question is What do you think about Trump and his approach to renewable energy? Does it affect the US market or your investment appetite?

Mr. Orhun Köstem, CFO: Look, again, there has been obviously a lot of talk and commentary about what President Trump would do in terms of the Renewable Energy and the Inflation Reduction Act when he comes to the office. For us, I think one thing is certain that's going to happen is with President Trump's policies of making America first or great, obviously the energy demand in America will not necessarily slow down and will continue to grow. And of course, I'm pretty sure if you're following up on the impact of AI on the general cloud computing, that energy requirement continues to grow. I think the AI piece adds up somewhere between 8% to 10% to that demand every year. So, the energy demand is going to be there on one hand, and I'm pretty sure it's going to be, everyone is going to try to meet that with supply coming from every source, including renewable. So, that demand will hardly change. For us, I think the real thing was, as you remember, we leveraged tax equity at the start of our investments and that justifies our cost of capital. Otherwise, it becomes quite difficult to justify Turkey market risk investing there now. And the tax equity piece was introduced long before the IRA, basically. So, it's not necessarily relevant to what happens to IRA. So, if you put those two together, we don't necessarily expect a significant change. And I must tell you something from what I've been hearing from the commentary as well. Our investments are in Texas in solar, and there are other big investments in Texas as well in terms of solar because there's massive land. And our facility is like nine football fields large, and there are larger facilities there, which provides labor work to that region, which primarily works for Republicans. So, I hardly expect any change coming from those positions going forward, frankly speaking.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: The next question from Furkan Bey is almost similar with the one with the previous one. It's again about the government policies in the U.S. and its impact on our US subsidiary Sabancı Renewables. So, the next question from Ögeday bey, are you currently benefitting from Biden era green energy subsidies? If so, how will you be impacted if they are rolled back under the new administration?

Mr. Orhun Köstem, CFO: Yes, I mean, thank you for these questions. Obviously, there is a change in the U.S. However, as I was trying to explain, with the risk of repeating myself, we don't see a change in the energy demand in the U.S. It can even increase with what Trump says he wants to do. With the inclusion of AI, etc., that requirement will further increase. So, there will continue to be a demand for energy. And with every resource available, I'm pretty sure that they're trying to continue meeting that. It's not the renewable energy piece, it was tax equity that we were pointing out that makes it interesting. But that component was introduced long before IRAs. So, basically, we don't expect a massive change into this. And in closing, I was saying where most of these investments are being made in renewable are usually coming from places that also votes for Republicans. So, I don't necessarily expect any serious change in those positions.

Mrs Şule Gençtürk Kardıçalıoğlu, IR Manager: Thank you. We do not have any more questions online. I think now it brings us to the end of the Q&A.

Mr. Orhun Köstem, CFO: Yes, thank you everyone for joining us. We hope to be able to report back to you after the closing of the fourth quarter, which I hope will continue, you know, showing you an improvement on a quarter-by-quarter basis. Many thanks for participating and see you until next time. Thank you