Arçelik A.Ş. Fourth Quarter 2023 Financial Results Conference Call

Friday, 1st March 2024, 19:00 (TR Time)

***Conductors*:**

Mr. Özkan Çimen, Chief Financial Officer
Ms. Mine Şule Yazgan, Finance & Enterprise Risk Executive Director
Mr. Öktem Söylemez, Investor Relations Senior Lead

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos your Chorus Call operator. Welcome and thank you for joining the Arçelik Conference Call and Live Webcast to present and discuss the 2023 Financial Results.

At this time, I would like to turn the conference over to Mr. Özkan ÇİMEN, Chief Financial Officer, Mrs. Mine Şule Yazgan, Finance & Enterprise Risk Executive Director and Mr. Öktem Söylemez, Investor Relations Senior Lead.

Mr. Çimen you may now proceed.

ÇIMEN Ö: Good morning, and good afternoon, Ladies and Gentlemen. Welcome to our 2023 Financial Results Webcast.

Before we go into details, I would like to inform that this presentation on 2023 Year-End Financial Results contain the Company's audited financial information prepared according to TFRS by application of IAS 29 Inflation Accounting Provisions. Since the Guidance information and 2023 Interim financial results announced so far were presented without the application of inflation accounting, in order to enable investors and analysts to conduct a full-fledged analysis, supplementary historical information for Key Performance indicators used in prior periods' investor presentations were provided as Full Year numbers in the appendix section of this presentation.

Such supplementary information is made available only for this period and contains unaudited financial information prepared for management's reporting purposes. I will start with the Highlights of 2023. We generated TRY257 billion revenue in 2023, which is flattish compared to last year. In Turkey, demand was quite strong in both the wholesale

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and retail markets across major product groups. However, consumer demand in our major international markets were weak throughout 2023.

Our Consolidated EBITDA margin was 7.8% in '23 with a 145 basis points annual expansion. The margin improvement was mainly backed by eased raw material costs and strategic pricing initiatives. Our Net Working Capital to Sales ratio as of 2023 year-end was 24.2%. Our Leverage was 2.67x as of 2023 year-end.

When we move to the next slide, in 2023, Arçelik delivered Consolidated Revenue of TRY257 billion. Strong growth in Unit sales in Turkey, Strategic pricing initiatives across regions supported our revenues while weak demand environment in our International markets impacted adversely. Our Consolidated Gross Profit Margin for 2023 was 29.3%, up by 262 basis points compared to 2022.

Margin improvement was supported by eased raw material costs and favorable euro-dollar parity while lower capacity utilization due to weak demand in international markets limited further expansion. In 2023, our EBITDA margin was 7.8%. Despite having higher Opex-to-Sales ratio, better Gross profitability resulted in margin expansion.

If we move to the next slide, which is the Domestic Market, wholesale and retail demand was strong in 2023. MDA6 wholesale market grew by 14% in 2023 compared to a year ago as consumer demand increased by around 18%. Arçelik's units sold increased by 12% year-on-year in 2023. And we, as a Group, maintain our strong leadership position by far as of 2023 year-end. Sales in Air conditioner market was significantly up by almost doubling in 2023

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year-on-year while Arçelik outperformed the market with 138% growth in the same period.

TV Retail market grew by 4% in 2023 year-on-year, and Arçelik's units increased by 7% in the same period. We generated TRY96.2 billion revenue in Türkiye, registering 23% year-on-year growth. Annual growth was mainly driven by strong unit growth in all major product groups and price increases. The share of domestic market in total business increased to 37% in 2023.

If you look at the European market in the next slide, having 39% share in our consolidated revenue, revenues generated from Europe were flattish in euro terms compared to year ago. Consumer demand in Western Europe remained under pressure throughout '23. However, the level of contraction eased towards the end of the year given the low-base impact.

On a yearly basis, consumer demand for MDA6 products contracted by around 6% in Western Europe in '23. Meanwhile, when we look at the Eastern Europe, consumer demand increased by around 2% year-on-year. Demand remained negative in other major countries in Eastern Europe, such as Romania and Poland. Having 23% share in total revenue, Arçelik revenues in Western Europe were down by 4% year-on-year terms, reflecting the overall demand contraction despite the price increases. In Eastern Europe, having 16% share in total revenue, Arçelik's revenues were up by 7% in 2023 on a yearly basis in euro terms.

Next slide, Africa and Middle East and APAC. The revenues from Africa and Middle East region is representing 8% of

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consolidated sales in '23, and it was down by 6% annually in euro terms. Consumer demand in South Africa for MDA6 products contracted by around 6% year-on-year in 2023. Our company Defy's revenue were up by 3% in local currency, and in euro terms, revenues were down by low-teens percentage as a result of the depreciation of local currency against euro.

And Defy continued to maintain strong leadership position. Despite operating in a declining demand environment, Beko Egypt registered 27% revenue growth in euro terms, thanks to higher units sold. Beko brand also increased its market share and price index in Egypt market in '23 compared to the previous year.

Revenues from APAC region, having 14% share in Total Revenue, were down by 18% year-on-year in euro terms, and this contraction reflects the declining demand in the environment. And in Pakistan, compared to a year ago, revenues declined by 2% in local currency and 30% in euro terms in '23 annually, mainly due to the unfavourable economic conditions impacting the demand adversely. And in Bangladesh, revenues were flat in local currency year-on-year. The unit contraction in major product groups were offset by price increases. However, in euro terms, revenues decreased by 16% due to the appreciated taka against euro.

Next slide, throughout 2023, drivers such as declining global demand increased policy rates, decreased energy input costs, decreased logistic costs, resulted in significant decrease in both metal and plastic raw materials prices.

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Let me move to the Sales Bridge slide. In 2023, Turkey revenues grew by 23% on a yearly basis, thanks to strong unit growth in major product groups and price increases. International revenues decreased by 10%. Organically, International revenues were down by 13% in 2023 compared to a year ago while inorganic revenue contribution was 2.9%. On the right-hand side, you can see our regional sales breakdown. Turkish share in total revenue was 37% in 2023 while the share of Western Europe declined to 23% from 26% compared to a year ago and the share of Eastern Europe was 16% in '23.

So, I will leave the floor to Mine to continue with the Financial Summary.

YAZGAN M: Good morning, and good afternoon. Here is the summary of our 2023 year-end financials on a consolidated basis with the application of inflation accounting.

Arçelik's consolidated revenue were TRY257.1 billion in 2023, flattish compared to a year ago. Arçelik posted consolidated gross margin of 29.3% in 2023. Margin expansion of 262 basis points on a yearly basis were mainly attributable to declining material costs together with strategic pricing. Expansion in gross margin is reflected on consolidated EBITDA margin, and Arçelik delivered EBITDA margin of 7.8% in 2023, marking an annual margin expansion of 145 basis points despite higher Opex-to-Sales ratio.

Net financial expenses increased by 3% in Turkish lira terms in 2023 due to ongoing high-cost funding environment. As a result of inflationary accounting, Arçelik booked around TRY9.9 billion for monetary gain in 2023.

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Consequently, Arçelik posted net income of TRY8.4 billion in 2023. Net Profit Margin expanded by 54 basis points annually and realized at 3.3%.

Next slide, please. Our debt increased by TRY9.3 billion compared to last year-end, mainly due to working capital funding and Turkish lira depreciation. As of 2023, our cash and equivalents increased by TRY8.4 billion compared to 2022 and reached at TRY48.8 billion in our balance sheet with well diversification between currencies. 34% of our total cash is USD denominated while 37% is euro-denominated and Turkish lira share was 10%.

As a result, along with improved annualized EBITDA, our leverage was down to 2.67x at the end of the year from 2.71x at the end of last year. On the right-hand side, you can see our loan and bond portfolio. As of 2023, we have TRY101.9 billion equivalent debt. Turkish Lira share in total debt was 15% as of 2023 year-end. USD and Euro shares were 18% and 54% as of year-end, respectively.

Next slide, please. On the upper left corner, you can see the EBITDA margin bridge. Decreased material costs led to higher gross profit margin, which also resulted in 145 basis expanded EBITDA margin in 2023. On the lower left corner, you can see our Capex/Sales ratio, which was 5.1%. On the upper right corner, Net Working Capital-to-Sales ratio has been shown.

The ratio was 24.2% as of 2023, increased by 120 basis points year-on-year mainly due to increased receivables. Finally, on the lower right corner, due to increased working capital and capital expenditures, we generated negative free cash flow of around TRY21.8 billion. We want to

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emphasize that Bangladesh, Egypt and Manisa investments are still underway and have not been contributing to the sales and EBITDA, yet.

So, I'll leave the floor once more to Mr. Özkan Çimen to walk us through our guidance for 2024.

ÇIMEN Ö: Thank you, Mine. So, we tried to forecast 2024 based on the IFRS inflation accounting, application of TFR inflation accounting applications.

So, we expect our Turkey revenues to remain flattish in Turkish lira terms in 2024 based on our strategic pricing initiatives, unpromising demand environment for whole year and the impact of inflation accounting. And our international revenues, we expect to increase by around 2% year-on-year in euro terms. And EBITDA margin is expected to be around 8% for this year, and we expect below 25% Net Working Capital-to-sales ratio. And in the Capex, we expect to be spending around EUR300 million, which includes the new factories, ongoing investments in Bangladesh, Egypt and also our investment in Manisa factory.

So, this was the end of our presentation. Now we can go the Q&A session.

OPERATOR: The first question comes from the line of Kilickiran, Hanzade with JP Morgan. Please go ahead.

KILICKIRAN H: Thank you very much for the presentation. I have one quick, 2 questions. The first one is a technical question. Are you going to provide more details about the inflation adjustment rather than the key basic numbers, which could

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help us to have a look at the numbers in more detail, maybe later?

And second question, I mean I can see that because of the monetary gain, you are reporting net income. Otherwise, it seems like that you are in net loss, I think. And is the impact, I mean, is this large monetary gain sustainable in 2024 or that's a kind of one-off monetary gain that we should be observing?

ÇIMEN Ö: Thank you. For the first part, actually, we have provided some of the lines of the P&L in our Appendix to give a better understanding of what is the inflation adjustments are not done for revenue, EBITDA and net income. I think this will help to make your analysis.

And regarding the other question, so what I can say is, actually, if you look at the gross profit margin, we have been seeing, and without the inflationary adjustments, we have been seeing an increase from around 2% from 30% to 32%. And Net Income margin is almost the same as a percentage, around 2.2%, if there were no inflation adjustments.

And if you look at the specific question of monetary gain and loss, this is mainly coming from the impact of non-monetary items revaluation, mainly inventories and fixed assets of Arçelik. So as long as we will continue with the inflation adjustment, there will be a similar, as a percentage of sales valuation, coming as a income in our P&L going forward. But at the same time, there will be a depreciation impact, which is lowering our EBIT margin and also inventory revaluation cost increase, which is also lowering our EBIT and EBITDA margin.

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So all-in-all, those two impacts is roughly around 2.5%. So that,if you compare our previous EBITDA margin versus the current 8% levels, that is the two main drivers of why we see a lower EBITDA margin. But I think at the same time, we see a higher monetary gain loss coming from mainly stock and fixed assets valuation.

OPERATOR: The next question comes from the line of Demirtas, Cemal with ATA Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation. Actually, I want to underline the same points Hanzade mentioned. I believe we see the similar disclosure in all Koç Group companies, by the way, and as a analyst, I would have expected more transparency, at least at the Koç Holding company's level. So, it's a little bit disappointed for me. But rather than not giving anything, that also helps at least in some sort of transparency. But overall, I think that the company like Hepsiburada trading in the US market, they are applying IFRS 29 and they are giving more details to better understand at least the Full Year or the Fourth Quarter.

But unfortunately, I think our standards, to be honest, are lower. And I hope the next year, things will change. If it doesn't change, we will spend a couple of quarters for analyzing and trying to understand, because it will be apple to, it's not going to be apple-to-apple comparison. And again, at least this kind of disclosure is not, it's better than nothing. So, thank you, at least for giving this. But for the Koç Group companies, also Arçelik like a global company, I would have expected more.

And I can move to my question now. And the first question is, in the, without IFRS figures, you shared the net margin.

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But as a consensus, we are using the after minority. So, I would like to ask what was the net income margin after minority for 2023? That's my, like I said, one question.

And the other question is about the domestic market size. Again, in your guidance, I guess you are also giving real term, the growth in real terms for 2024. What might be the mix with the volume and price size? Maybe could you reveal some color on that? Because could we assume that in real terms, we are not going to see price increases or there will be some volume declines, and we are going to cover it with some price increases?

So Turkish side is important. I see the January numbers are good for the sector. And I would like to understand how do you see the trend for the sector wise on that side? And of course, in the international side, when do you think you are going to gets some signals about the recovery.

And the last but not the least, the Whirlpool Beko-Arçelik merger in European operations. How should we expect that? We are, I think we are not putting into these numbers. But what might be the effect of that? And when possibly we are going to see this deal to be, this merger to be concluded? Thank you, very much for the patience.

ÇIMEN Ö: Thank you, Cemal Bey. Let me start with the minority question, the first question. So, in the Appendix, we have provided 2.2% for 2023 if the inflation were not adjusted. And minority,after minority, it will be around 2%.

Regarding your second question of the Turkish markets. And the market actually for the last year, it was doing very well. Some of them was related to the expectation of price

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increases of the consumers so that they would like to spend now rather than spending later. So that was a demand impact that continued for the last quarter.

And also, we also see that in first month, as you mentioned, the market is growing. And the figure that we mentioned, which is a flat figure in the guidance is actually in real terms. So that includes, you can assume that it will be, the prices will be in line with the inflation. So, we are expected inflation is around 40%. So that 40% price increases with no unit growth or very limited unit growth, let me say, would deliver that result in Turkey market.

And since it's a good market right now and for the last couple of months, you may ask why there is no increase in the quantities, because we are cautious of our concern about the potential impacts that might come in the Second Quarter or the later quarters, which might be mainly impacted with the purchasing power of the households or any regulations that might be a potential impact, such as credit card installment limitations, which is an important driver of our sales in the market.

So, if there's any disruption, that might definitely, that would definitely impact the quantity sold in Turkey market. And we look at the international markets, we, I tried to explain that there were 5%, 6% market shrinkage in many of the countries in Europe as well as all other parts of the world. And yet, we haven't seen the recovery in the market. January was slightly better than expectation.

However, February is mixed. So, we would like to see more data coming from the market to see -- to comment that it has been recovering or is about to recover. So that our

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growth in Europe or international market is limited with 2% revenue growth, which partially would come from quantities or mix improvements and partially from the pricing initiatives that we might take in some of the markets, given the conditions of the competition.

And the last question was related to Whirlpool Arçelik merger. You might have followed from the CMA announcement that was announced 8th of February, that there was a provisional decision to clear the deal has been made. But now they are following their own procedures, that they're going to continue to review any of the comments that they might receive. And their official announcement date is 26th of March, and we will see whether it will be similar to the provisional decision or will that include any other conditions.

But for now, we can say that the provisional decision is a green light, but we are waiting for the official results. And then potentially, we can close the deal. If it is by the end of March, potentially, we might close it in April. But before saying that is the exact date, we need to have the official announcement of 26th of March.

And what will be the effect of that? You asked the potential impact. As we have early announced, that the volume that the Whirlpool generating for the last year was around EUR3 billion. And we might assume that, that will become on top of Arçelik's consolidated results but of course, with -- starting from the April or later month, which we will see at the end of March.

DEMIRTAS C: Thank you, Ozkan Bey. And then maybe one last question. I would like to ask about the inflation accounting side. The

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purpose of this inflation accounting was to see the real things happening or the statutory financials were important in that case. And so, it's also, it happens in the last minute. And what I'm trying to understand is, and it will take us some time. Because we understand the dynamics, but for comparison, we need time. That's why I point at that point.

But I would like to touch one other point. The statutory financials we have, so it's the starting point by the end of 2023. So we are now in a period that we are likely to see the positive impact of the tax financials, the inflationary accounting, the tax financial, right? Because the purpose was the companies were paying higher taxes because of inflation.

Although they are reporting some numbers, but in reality, most of it or part of it was related to inflation. So, the purpose for at least the company's insistence on that at the beginning was related to that. So, I would like to understand, is it, with the same trends, could we in real money terms, the accounting is we can, okay, deal with it, but in real terms will Arçelik be positively impacted from this action, taking the inflationary accounting in statutory financials starting by 2024. I don't know if you have any preliminary studies on that.

ÇIMEN Ö: Actually, I will rephrase your question that you are potentially asking the tax implications of inflationary accounting when it's applied in 2024. Is that correct understanding?

DEMIRTAS C: Yes, exactly. I know the TFRS impact, to some extent, maybe deferred tax. But in real terms, right, you are going to be paying some real money. And we will get these

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changes because we have two financials, right? The one is the TFRS 29 and the other is statutory financials. So real money you are going to pay, is it going to be lower or higher? That is my question.

ÇIMEN Ö: I understand. So yes. So, there will be the tax accounting and tax treatment will be different, because the indexes will be different as well, and we are trying to understand what will be the potential impact. But basically, what I can say, we have an incentive that is coming from our Capex incentives that will be spent faster than if there were no inflation accounting for tax purposes.

So that means our effective tax rate might increase going forward. And what I can say that the impact in 2024 will be limited, but we need to look at the application details in more detail to understand the potential impacts going forward after 2024.

DEMIRTAS C: Okay. Thank you, Özkan Bey.

OPERATOR: The next question comes from the line of Campos Gustavo with Jefferies. Please go ahead.

CAMPOS G: Hello. Thank you very much for the results and the presentation. I'd like to ask two questions. The first one is on your debt maturity profile. Now you have somewhere around EUR1.9 billion coming up to maturity this year. And I would like to know, out of this EUR1.9 billion, how much are you planning to roll over and maintain it as a short financing?

And how long, and how much are you planning to do with like a long-term refinancing? If you could elaborate on the

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avenues, as well as the FX mix of this refinancing strategy. That's my first question. Thank you.

YAZGAN M: Well, I'll take the question. Well, most of the short-term loans also stands from our cash pool that we're running in the U.K. and also company credit cards. So, these seem to be maturing loans, but they are the loans that we're utilizing currently on a continuous basis.

But other than credit card utilizations and cash pool utilizations, what you rightly mentioned is that during this year, we are planning utilization of two long-term loans, which would lead us repaying the coming maturities and replacing the maturities with longer tenors. So most probably, it will be around EUR200 million to EUR300 million to be replaced with long terms when the maturities come during this year.

CAMPOS G: Okay. So, you're mentioning EUR200 million to EUR300 million that would be refinanced? And how long would those loan maturities be?

YAZGAN M: Well, there are a couple of loans that we're discussing. One of them is supposed to be five-year tenor and the other is supposed to be around 8 to 10 years.

CAMPOS G: Okay. sounds good. Yes. Thank you very much. Then my last question would be around your working capital. Would you mind providing some details on the dynamic that you're seeing in working capital from the Third Quarter to the Fourth in terms of receivables, inventory days as well as what's your strategy moving forward? Apologies, if it sounds a bit of a detailed question. Thank you.

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ÇIMEN Ö: No. No. That's okay. Thank you for the question. Actually, we have been decreasing our Net Working Capital needs each and every year. And this year, we have taken significant actions to lower our inventory levels. When you look at our inventory days and our inventory amount, you will see a decline, and that decline continued in each quarter, including Q4. And in the meantime, we have also been able to increase our payable days to the suppliers. And the negative part of our Working Capital accretion is the receivable level.

When you look at our balance sheet and especially in the last quarter, you will see a slightly increase in our receivables. However, this is partially related with the mix and partially related with the factoring that we are, factoring program that we are using. And for the last quarter, we have utilized it less compared to the previous quarter. So therefore, our receivables increased a little bit.

Now all in all, we have been able to improve our working capital. However, there's a slightly increase in working capital-to-sales ratio, but, which is still lower than 25% to 30% levels when you look at for five years of the history of the company. And we continue to focus on working capital. So, we are taking serious actions to optimize our working capital to support our cash flow.

CAMPOS G: All right. Sounds good. Thanks again.

OPERATOR: We have a follow-up question from the line of Kilickiran Hanzade with JPMorgan. Please go ahead.

KILICKIRAN H: Özkan bey, I'm trying to understand your international revenue guidance. When you are looking for 2% growth in

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currency terms, does it mean that you don't assume any volume decline or it includes around 5% volume decline and also some price adjustment that comes to 2% growth in FX?

ÇIMEN Ö: Actually, we haven't assumed much of a unit decline. So that will come partially from units increase and partially from price increase. And right now, when you look at all the markets, it is not that easy to increase prices. And most of the competition is running promotions. So that, you need to reply not to lose the top line. So, this will continue for a while. Therefore, our growth is limited with price increase as well as a limited unit growth, but we don't expect see negative unit growth in 2024.

KILICKIRAN H: All right. Thank you very much. And the second question is in your EBITDA margin guidance, did you, I mean, do you assume any headwind or a tailwind from FX loss or maybe is it possible to share your main FX assumptions, such as euro/dollar and Turkish lira for us?

ÇIMEN Ö: Yes. As you highlighted, euro/dollar is an important element of our profits. So, we are assuming that it will be similar to the current levels or a little bit higher. So that when you compare to last year, there was a significant change. And we expect both current levels to continue with a little bit in favour of euro. So that our margin is slightly better than, it will be slightly better than when you look at the euro/dollars going forward.

KILICKIRAN H: And can you also comment on Turkish lira? Do you assume any appreciation in real terms or depreciation in line with the inflation?

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ÇIMEN Ö: So, we are assuming that it goes standing on with the inflation.

KILICKIRAN H: All right. Thank you very much.

ÇIMEN Ö: Thank you.

OPERATOR: The next question is a follow-up question from the line of Demirtas Cemal with ATA Invest. Please go ahead.

DEMIRTAS C: Thank you again. Again, my question is about the impact of inflation accounting. As far as I see from your numbers, unlike many other companies, your ROE improved to 14% based on my calculations versus last year, 12%. But when we look to historical levels from our side, it was also concern for us the low level of ROE around 8%, let's say, in the last months, last twelve months, so for the previous quarters, by the end of 9 Months 2023 results or last one year before the Fourth Quarter results.

We see big, at least, improvements from versus pre IFRS and after IFRS results in 2023 figures from 8% to 14%. But when I look at the comparison after TFRS and before TFRS 2023 figures, I see lower in 2020 adjusted numbers I see 12% ROE for 2022. For the pre-TFRS, in fact, we see 17%. So, when we make the adjustments, we see decline. But for 2023, I see 14% versus 8% in the previous quarters last month.

So, I would like to understand, so what's your perception about the real ROE of this company? Because that's the basic coming of this inflationary accounting. So maybe it's a good, it's a long introduction. But what's the real, in your view, the ROE of this company? Is it the real one you're seeing now, 14%? Just I want to understand what was in

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your mind because that was the basic difficult there. But calculating real profitable of companies, I would like to just to eleborate this a little bit.

ÇIMEN Ö: Okay. Thank you, Cemal Bey. So, I don't have that detailed analysis as we have gone through right now. What I can say that it is we shouldn't be referring to 2022 for the benchmark of an ROE calculation. If you were to sell like one of those years, 2023 would be a better year to benchmark the actual or expected or calculation of the company because of the fixed asset on all the assets revaluation coming 2022.

We see the better result in '23, which actually delivers the true performance of the company, considering that all the assets have been re-evaluated on top of what have been revaluated for last year. And also, the margin improvement when you look at the bottom line is, reflects the fair value compared to last year. And I can say that I haven't gone to the details in detail, and maybe we can reply to that later. But 2023 is a better benchmark than the last year.

DEMIRTAS C: Thank you. And could we just think that 14% real ROE could be a good figure for you, maybe in general?

ÇIMEN Ö: Yes, we can say that.

DEMIRTAS C: Thank you. Thank you for that .

OPERATOR: Ladies and Gentlemen, there are no further questions at this time. I will now turn the conference over to Mr. Çimen for any closing comments. Thank you.

ÇIMEN Ö: Yes. Thank you for listening and the questions. So, this year, as we have highlighted, there will be, there are

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material changes in the presentation coming from the regulations. And if there are any questions that have not been replied in detail, you can reach us for any detailed questions. So, we will be happy to answer later on. Thank you.

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