Corporate Credit Rating

☐New ☒Update

Sector: Energy Group
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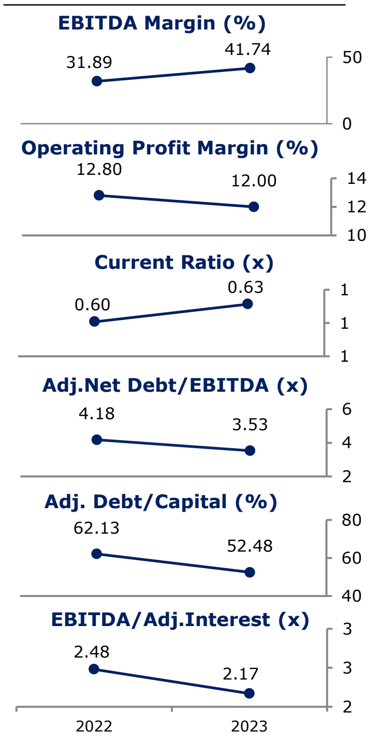
RATINGS		Long Term	Short Term
ICRs (Issuer Credit Profile)	National ICR	A- (tr)	J2 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Stable	-
	International LC ICR	BB	-
	International LC ICR Outlooks	Stable	-
ISRs (Issue Specific Profile)	National ISR	-	-
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign*	Foreign Currency	BB (Stable)	-
	Local Currency	BB (Stable)	-

** Assigned by JCR on May 10, 2024*



Zorlu Enerji Elektrik Üretim Anonim Şirketi

JCR Eurasia Rating has evaluated **"Zorlu Enerji Elektrik Üretim A.Ş."** in the investment grade category with high credit quality and affirmed the Long-Term National Issuer Credit Rating at **'A- (tr)'** and the Short-Term National Issuer Credit Rating at **'J2 (tr)'** with **'Stable'** outlooks. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were assigned as **"BB/Stable"** as parallel to international ratings and outlooks of Republic of Türkiye.

Zorlu Enerji Elektrik Üretim A.Ş. (hereinafter referred to as **"Zorlu Enerji"** or **"the Group"**) was established in 1993 as the first company of Zorlu Energy Group, and today the Group is one of the leading players in the Turkish energy sector. Zorlu Enerji operates in various areas of the industry with an integrated corporate combination, including electricity generation, retail of electricity sales, electricity distribution, solar panel sales and installation, power plants construction, management and maintenance along with EV charging stations network. Mainly focusing on geothermal energy investments in Türkiye, Zorlu Enerji is the leading player in geothermal energy in Türkiye with its 305 MW of installed capacity. In addition, the Group also has hydroelectric, wind and natural gas portfolio. The Group has power plants in Türkiye, Israel, Pakistan and Palestine.

As of March 31, 2024, principal shareholders of the Company were Zorlu Holding with 32.31% share, Korteks with 17.55% share, Wren House Infrastructure LP with 12.34% while 37.40% of the total shares are publicly traded on Borsa Istanbul (BIST). The shares of Zorlu Enerji have been traded on BIST since 2000 with "ZOREN" ticker. The Group, headquartered in Bursa, maintains its operations by an average staff force of 2,304 employees as of March 31, 2024 (December 31, 2023: 2,619).

Key rating drivers, as strengths and constraints, are provided below.

Strengths

- Diversified revenue stream via operating in different energy fields,
- Modest equity level on the back of retained earnings, net profit for the period and capital increase through rights issue despite notable cash flow hedging losses,
- Existence of varied debt instruments with long-term weighted maturity structure,
- Support level of sectoral authority encouraging the use of renewable energy sources,
- Strong compliance with the corporate governance principles along with importance given to sustainability within the scope of ESG criteria.

Constraints

- Contraction in revenue and EBITDA in FY2023 and 1Q2024,
- High level of indebtedness despite a decline seen with new partnership collaboration in FY2023 and sale of gas distribution operations in 1Q2024,
- Suppressed liquidity structure due to net working capital deficit,
- Sizeable related party receivables distorting the integrity of balance sheet,
- Adverse effect of net financing expenses on the bottom line profitability,
- Even though currently closed, relatively low amounted delay record in 1Q2024,
- Leading economic indicators signal global economic slowdown whereas quantitative tightening actions aim to restrict consumption growth and achieve a soft-landing in the domestic side.

Considering the aforementioned points, the Group's the Long-Term National Issuer Credit Rating has been affirmed at **'A- (tr)'**. The Group's diversified power plants portfolio, equity structure, ability to obtain additional funding resources with usage of debt instruments, high support of the sectoral authority as well as decrease in revenue, high level of financial borrowings along with significant financing expenses and global macroeconomic concerns have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as **'Stable'**. The Group's profitability indicators, cost management abilities, leverage profile and equity structure along with liquidity management will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.