

2015 YE Webcast Transcription for T.ŞiŖe ve Cam Fabrikaları A.Ş

March 7th 2016

Corporate Participants

Görkem Elverici

ŞiŖecam– Chief Financial Officer

Başak Öge

ŞiŖecam–Investor Relations Director

Presentation

Operator

Welcome to ŞiŖecam Year-End Financial Results webcast. I now hand over to Görkem Elverici, CFO, and Başak Öge, Investor Relations Director. Please go ahead.

Görkem Elverici

Thank you so much. Good afternoon ladies and gentlemen, I'd like to welcome you to our webcast today where we will be talking about our 2015 full-year results and the developments that took place in 2015. Today I am together with Mr Baris Gokalp, our Treasury Director, and Başak Öge, our Investor Relations Director. At the end of the presentation, we will be happy to take your questions and I would like to remind you that our presentation and the Q&A session may contain some forward-looking statements and our assumptions are based on the current environment and may be subject to change.

Moving to slide two, before talking about the financial performance within 2015, I would like to walk you through the economic and political backdrop as well as industrial developments very briefly, which had significant impacts on our operations.

Moving onto page three, while the global economy grew by roughly 3% in 2015, IMF was more optimistic for 2016 with an expected growth rate of 3.4%, and then dropped it to 3% last month.

Growth in emerging markets has declined for the fifth consecutive year, but still to 4% level while China is slowing down to 6.9% and India is surpassing China with a 7.3% growth rate. Advanced economies' growth rate has been close to 2%, with Euro area being at 1.5%. It's also expected that the Fed will be very cautious with its rate hike plans during 2016 and the expectations in the market just shows that rate hike frequency and the rate hike total percentage will be dropped down to lower levels than it was expected during 2015.

Moving onto page four to Turkey's macro environment, on the back of two elections, the geopolitical tension within the region coupled with the emerging market currencies' weaknesses hitting the Turkish Lira as well, Turkey has still managed to grow by 4% within 2015. The inflation being close to 9% remains a significant problem for Turkish economy. Turkish Lira has devalued by 15.2% against the basket of Euro and Dollar, and the foreign trade balance improved mainly due to lower oil prices as Turkey is a net importer of oil.

Moving onto page five, I'd like to talk briefly about the geographies that are important for the global economy and also for our businesses. Eurozone remains a very important market for us with still to some extent fragile consumer sentiment. A limited growth of 1.5% in 2015 and ECB's asset purchase program to support the market extended to 2017 are leading to a negative interest rate environment. However, it is still not providing sufficient stimulus to the economies in the region, especially to that of Germany and France, as the banking industry remains weak. For the US, we have experienced 2.4% GDP growth within 2015, which is more or less the same level of 2014. Fed' cautious stance on interest rate hikes in 2016 due to low growth in developing countries and decreasing demand and the strengthening of the US Dollar will be the key dimensions to watch in the US market. In the US, the exports fell roughly around 4.8% within 2015 for the first time since 2009 and the trade deficit rose to 4.6% to USD of roughly around \$530 billion. As for Russia, falling oil price is not helping the world's largest energy exporter. While the economy shrank by 3.7% in 2015, inflation reached 13% and Rouble had its share of devaluation against the USD by 22%. The economic sanctions imposed by the EU and the political tension over Syria all led to a bleak horizon about their recovery any time in the near future for Russia. Lastly, the situation in Ukraine has not changed much since last year. GDP shrank, inflation exceeded 40% and Hryvna devalued by 35% against USD. The risks pertaining to political stability and lack of reforms are continuing. We continue to closely monitor the market's conditions and continue with our preparations to reopen the plant and resume production upon seeing some positive developments in the market, especially on the logistics side.

Now I'd like to briefly talk about the industries that are relevant to our operations on slide seven. I'd like to give a brief update of the global glass industry and Turkish glass industry. Globally, a growth of 2-4% per year is sustained through selective capacity increases based on global and emerging markets GDP growth rate expectations, as the two are highly correlated. Turkey has a total production capacity of 3.8 million tons of glass where approximately 80% belongs to Şişecam. In 2015, Turkey's glass exports decreased by 2% while glass imports decreased by 11%. During 2015, we have seen an increase in imports from Russia and Italy, but China still accounts for the largest portion in the imports.

Moving onto slide eight, as we know Turkey had a great year in 2015 in terms of auto sales and exports with growth exceeding 25%. As for Europe, which is even a more important region for our auto glass business, despite the low GDP growth rate, car sales grew by almost 10% in the Eurozone with demand mainly coming from Germany, UK, and Italy. As for construction, 2015 was not as great due to the elections period leading to postponed investments undertaken in the blurry political environment, but still in the first nine months of 2015, construction in Turkey has grown by 3.4%. However, we are more positive for 2016, as the postponed investments are expected to lead to pent-up demand for 2016, which is already experienced to some extent in our sales in the last couple of months. We have also seen white goods sales increasing, which is an end market for us albeit being a small portion of sales. A 9% increase in production, 6% increase in sales, and 7% increase in exports from Turkey were realised within 2015. As for tourism, given that Russian tourists are a significant portion of the tourism revenue, Turkey's revenues are expected to drop in 2016 as a result of the geopolitical tension in the region.

Moving to slide nine, and before moving onto the financial results, I'd like to talk about the developments in our Group throughout 2015. As we have been committed to simplifying the shareholding structure and divesting non-core assets, we have carried out a couple of actions in 2015. As of f 2015-end, we have restructured Trakya Bulgaria EAD, which was a joint operation of glassware and flat glass, and it was consolidated under their parents with equity pick-up method. Now that these two operations are segregated, the financial performance of these two segments will be monitored separately. We have even segregated the automotive business, so at Bulgaria level it will be easier for us to see and understand the developments in the automotive industry. As mentioned in the August webcast, Anadolu Cam sold 3.3% of Soda shares from its portfolio in March and acquired the local partners' shares in Russia and Ukraine. Şişecam sold its building in Beyoğlu for TL 62 million and the 2 lands are still available for sale. On the capacity additions front, second float line in Bulgaria and third furnace in Anadolu Cam Eskişehir were completed and resumed production whilst Soda Lukavac in Bosnia increased its production capacity by 80,000 tons. Capex realised for the whole year is around TL 1.1 billion, which represents approximately \$350 million, which is slightly lower than that of 2014. Lastly, with the continuous expansion of product range across all segments, we started producing green wine bottles that we use to import, we have added eight new value-added product flat glass types as a result of our robust R&D undertaken and we won new auto glass mandates from the larger OEMs in Europe through the synergies achieved with the acquisition made in Germany around 3.5 years ago.

Let's now move onto the financial and operational overview section, which you have been patiently waiting for.

Moving to slide 11, Şişecam increased its sales by 8% to TL 7.4 billion in 2015 despite very limited contribution from Russia; on the back of the Rouble translated into lower top line and weak demand in Russia which impacted all three glass segments negatively. While 33% of the revenues were generated by flat glass operations, 22% was generated by glassware, 21% by glass packaging and 20% by chemicals division. The remaining 4% is coming from other

operations, which mainly consists of energy-related transactions that were booked under chemicals divisions in the past before the restructuring. It is important to note that while the top line growth has been 8%, EBITDA growth including one-offs has been 29% and still 17% when the one-offs are excluded. EBITDA margin has improved to 21% on an adjusted basis in line with our strategy of keeping it north of 20% consistently for the last three years. We believe this is a sustainable level for the long-term and also in line with the guidance that we had provided for 2015 at the beginning of the year. This increase in profitability is the result of a tremendous focus on sustainable operational excellence and efficiency projects which we have mentioned in August call, as well as the increasing capacity utilisation rate as a result of completed investments.

Moving to slide 12, in 2015 cost of goods sold to revenues ratio has decreased from 73% to 70.6%, leading to a gross profit of TL 2.2 billion as opposed to TL 1.9 billion in 2014. The 16% increase in the gross profit has led to a gross profit margin of 29.4% as of 2015 versus 27.2%, which was achieved by the end of 2014. EBIT has increased by 52% in 2015 compared to 2014. Even on an adjusted basis excluding the one-offs, EBIT increased by 27% and the EBIT margin has also improved from 10% to 14% and to 12% on an adjusted basis by the end of 2015. We had already elaborated the improvement in the EBITDA margin on the previous slide, so I'm not going to repeat myself.

Moving onto slide 13, I'd like to draw your attention to the three-year average EBITDA margins. In flat glass, the EBITDA margin has been the same as the last year three years' average; as the last three years have been the investment cycle period for this business segment. We are expecting to see the full utilisation rates with Bulgarian investment completed within 2015 and Russian operations with less than desired capacity utilisation rates expected to continue to ramp up during 2016. The impact on the margins should be evident starting from 2016. In glassware, EBITDA margin has increased significantly in 2015 on the back of operational efficiencies and pricing environments compared to the last three years. This is providing a good sign in terms of our preparations for the possible IPO process of Paşabahçe, which is expected to happen earliest by the second half of 2016. In glass packaging, margin improvement exceeding the average of the last three years was mainly driven on by strong Turkish operations. However, in the beginning of the 2016, we have also been able to undertake significant price corrections in Russia, which is expected to help the margins within this year. In chemicals, margin improvement continued on the back of strong financial performance, having no significant cost increase, yet a strong pricing environment, and 100% capacity utilisation rate, especially in soda ash production. As a group, we are committed to keep Şişecam EBITDA margins above 20% based on the business segment mix that we have.

Moving onto slide 14, balanced portfolio of Şişecam has not changed significantly in 2015 compared to the previous year. Flat glass division continues to contribute the highest to Şişecam top line in line with the recent investments completed. Please note that other incomes, which was almost negligible in 2014, is the energy trading activities of Şişecam under Şişecam Energy company, and the revenues of it used to be recorded under Chemical divisions before

the restructuring. This company had been established to meet the energy demand of all Şişecam Group.

On slide 15, we are able to see the contribution of each segment to Şişecam consolidated EBITDA. In 2015, Chemical segment has actually surpassed that of the Flat Glass segment. Flat Glass contribution increased from 12% in 2014 to 16% in 2015, while Glass Packaging's contribution dropped from 22% in 2014 to 21% in 2015. The surge in "other" is again the result of the full year impact of Şişecam Energy company, which supplies energy and sells it to Group companies. In the coming stages, as we will be going over the performance of each segment individually, I will not elaborate further on this page.

On page 16, I would like to talk about our capex investment. As you may recall, we had already shared our capex plans for 2015 as moderate and defined the years 2015 and even 2016 as a digestion period for Şişecam Group. With only TL 1.1 billion of capex realised in 2015, which also includes the maintenance cost of the operations, capex-to-sales ratio is now down to 15%. While continuing to monitor M&A opportunities on a selective basis and planning for organic growth, 2016 capex should be expected to be in the same rate with no capacity increases in the glass segments and a minor increase on the soda ash side. However, we do have some cold repairs both in Turkey and in Russia during 2016 as well as continuous energy and operational efficiency investment.

Moving onto slide 17, we continue our capex funding analysis. As you know, Şişecam is not a highly leveraged company despite the robust investments undertaken historically. This is a consequence of strong EBITDA generation capacity of our operations. A 29% increase in EBITDA during 2015 encourages and supports us in our expansion plans. As seen on the graph in 2012 and 2013, capex exceeded EBITDA and since then it is lower due to the digestion period we experienced. Therefore, it would not be wrong to stay that, actually, growth is self-funded by the operations on cash generation capabilities.

On page 18, we can see the evolution of the production in the course of the years. In 2015, minor increase compared to 2014 in glass production is mainly coming from Flat Glass operations in Bulgaria and Russia, while the one in Chemicals is coming from its international operations. Please note that in glass production, while 58% is realised in Turkey, the remaining 42% is produced in the plants outside of Turkey. In Soda, 61% of the production is realised in Turkey, and the remaining 39% is produced in plants outside of Turkey.

On slide 19, I would like to draw your attention to our conservative leverage levels. As almost 90% of the debt portfolio, which includes the loans and the bonds issued is in Euros and USD, with TL depreciation, our net debt level has increased from TL 1 billion to approximately TL 1.5 billion by the end of 2015. However, in USD terms, the increase in net debt has been much lower, as in the last year, the TL depreciated by 25% against US Dollar and 12.6% against Euro by the end of 2015.

Looking at the ratios, we continue to sustain low and conservative net debt to EBITDA and net debt to equity levels of 0.83 and 0.15 respectively, which are around the same levels of 2014.

Moving onto page 20, this time we can see that the weaker TL is leading to a higher cash as liquidity in hand is all in hand currencies. Şişecam's strong cash performance also continued in 2015, with lower capex compared to the previous year. In USD terms, our net debt has increased from \$460 million to roughly \$500 million by the end of 2015, with a rough increase around 10%. This strong cash position gives us the flexibility of proceeding fast in case of a viable M&A opportunity while we also continue to seek better ways to optimise our already strong balance sheet management.

On page 21, you can see the debt profile of Şişecam. As 41% of the debt including the loans and the bonds is in USD, 47% is in Euros and 11% is in Roubles. We have continued to maintain the currency breakdown with slightly increasing Euro debt and decreasing Rouble to take advantage of the foreign exchange and interest rate differential. Also, the balanced interest rate structure of the portfolio provides a natural hedging in the existing environment.

Moving onto slide 22, you can see that we carry a long FX position at a consolidated level. While we are long in USD, we are short in Euros, and I would like to remind you that we did not use any derivatives other than some limited interest rate swaps and cross-currency swaps for hedging purposes. We will continue to use the hedging transactions as needed, but our enlarged operations and geographies are also providing opportunities to utilise hedging within our own balance sheet.

In the last four slides of the presentation, I would like to give you some further information on the operations of each segment, starting with Flat Glass.

Moving onto slide 24, with decrease in production in Turkey due to the cold repair undertaken in Mersin, a very slight increase in the international production and no price hikes in Turkey until mid-December, and decreased Flat Glass prices in Russia coupled with translation impact of weak Rouble to Turkish Lira, top line growth was 5% in 2015. 2015 has not been a very compelling year for Flat Glass operations, in terms of decreased pace of ever growing construction activity in Turkey, due to elections leading to softer flat glass demand, softer and delayed flat glass demand, lower pricing environment in Russia and low margin imported glass from Iran and Russia putting pressure in the domestic market. While the sales increased, gross profit margin remained flat leading to 27% gross profit margin, slightly below than that of 2014.

In the European market, price hikes of 15-20% were imposed in the second quarter of 2015, which had a positive impact on 2015 year-end results. Also, in the second half of 2015, flat glass market showed signs of recovery in Russia, which allowed us to increase our sales price within September.

In 2016, we expect margin recovery as well as top line growth on the back of increased sales prices at Russian operations with increasing capacity utilisation rates, and also from Turkey with

already increased sales prices as of December. Additionally, with even more focus on operational excellence and optimisation of production, taking advantage of different locations of plants, Şişecam continues to perform above its global competitors and the industry and delivering higher profitability margin.

Moving to slide 25, Glassware segment has managed to increase its profitability margin significantly. While the EBITDA margin increased from 13-17%, sales have increased by 10% in 2015 compared to 2014. 51% of the sales of this segment is in Turkey and the remaining is derived from exports from Turkey as well as sales generated by the Bulgarian and Russian operations. Of the total revenues, half is in TL, 21% is in Euros, and 15% is in USD. We expect to sustain the improved margins in 2016, which is expected to provide a good basis for IPO plans of Paşabahçe. Additionally, we continue to monitor the developments in the equity capital markets and global glassware industry for possible M&A opportunities.

Moving onto slide 26, in Glass Packaging operations, top line remained flat due to limited contribution from Russian operations, as a result of devalued Rouble against TL, but still in a shrinking market we managed to strengthen our market position with increased market share in Russia. While 60% of the revenues are generated in Turkey, the rest is derived from Russia, Georgia and exports from both Russia and Turkey. Although EBITDA margin seems flat compared to that of 2014, please note that on an adjusted basis, EBITDA margin increased from 17% in 2014 to 21% in 2015 when stake sales are excluded from both years EBITDA. Within 2015, Anadolu Cam sold 3.3% of soda shares from its portfolio, and also both the stake of its local partner in Russian and Ukrainian operations. [Audio] from positioning as the market leader, we have improved our pricing in Russia by doing a price correction at the beginning of 2016. As for Turkey, with weaker sales due to elections and a cold summer, focus on exports have increased. This was also the case for Russia, and in 2016, about 15% of the production capacity is planned to be exported both from Russia and Turkish operations, which is a viable option with weak TL and Rouble coupled with lower transportation costs. Taking advantage of the scattered plants and the large geography of Russia, we are continuously optimising our production and turning it into a logistics advantage for ourselves and for our customers.

Lastly, moving onto slide 27, year 2015 has again been a very good year for the Chemicals Divisions operations. With continuous strong demand both in Turkey and in the export market, Soda Sanayii continued to operate with 100% capacity utilisation rate and remains sold-out for the whole year. Strong demand supported by lack of supply globally allowed Soda Sanayii to increase its sale price by 5-8% in hard currencies by the beginning of 2015, which is more than to offset the natural gas price hike of October 2014. As a result, adjusted EBITDA excluding the one-offs, increased from 26% in 2014 to 28% in 2015. Our strong market position and reputation not only in Turkey but also in the region, backed by our high quality products, seamless and timely delivery and long-lasting relationships with our customers, allow us to be an important player in the industry, with exports beyond 75 countries. While improving our top line, we are also committed to managing the cost side to continue to deliver sustainable high profit margins to our shareholders in the commodity business. We continue to focus on sustainable operational excellence and efficiency to improve the performance of Soda Sanayii.

The strong demand is expected to continue in 2016 also, as there are no new capacities to increase the global supply, while demand continues to increase roughly around 4% per annum. It is also expected that soda ash commodity prices will continue to increase, albeit at a lower pace in 2016. With the strong outlook, our aim to increase the free float of Soda Sanayii continues.

As you may recall, Trakya Cam owns roughly around 10% and Anadolu Cam owns roughly around 12% of Soda Sanayii, and we are watching the developments in the capital markets and global markets closely to determine the optimal timing of such an offer.

Now, just to sum up the key takeaways that we would like to share with you; we have an increased gross profit, EBIT and EBITDA despite political and economic turmoil across almost all geographies we operate in. We continued our strong cash position and conservative leverage. We have a continuous focus on operational excellence leading to smart cost management. Within 2014 and at the early stages of 2015, we have been able to complete our heavy investment period. We are hoping to further improve our margins as a result of the capital expenditures and energy efficiency projects. We have above the industry levels of profitability compared with our global peers, and we have a continuous focus on M&A opportunities on a selective basis.

Now, we are happy to take any questions and we would like to try to provide the answers in the remaining of the call.

Question and Answer Session

Operator

[Operator instructions]

We have no questions. Back to you dear speakers for the conclusion.

Görkem Elverici

Thank you very much and we hope to meet you all again in the August webcast for the half year results. Thank you so much.

Operator

This concludes our conference call. Thank you all for your participation. You may now disconnect.