



COMMENTS ON TÜRKİYE ŞİŞE VE CAM FABRİKALARI A.Ş. Q1 2018 CONSOLIDATED FINANCIAL STATEMENTS

Based on Q1 2018 IFRS results,

Summary Financials	Q1 2017	Q4 2017	Q1 2018	QoQ Change	YoY Change
Revenue	2.621	3.203	3.086	-4%	18%
Gross Profit	908	1.045	1.006	-4%	11%
Gross Margin	35%	33%	33%	-4 bps	-206 bps
EBIT	588	672	657	-2%	12%
EBIT Margin	22%	21%	21%	33 bps	-111 bps
EBITDA	831	905	907	0%	9%
EBITDA Margin	32%	28%	29%	114 bps	-232 bps
Net Income After Minority Interest	337	358	393	10%	17%
Net Income Margin	13%	11%	13%	156 bps	-11 bps
Capex	187	341	323	-5%	73%
Capex/Sales	7%	11%	10%	-18 bps	334 bps
Adjusted EBIT*	471	514	543	6%	15%
Adjusted EBIT Margin*	18%	16%	18%	155 bps	-38 bps
Adjusted EBITDA*	715	748	793	6%	11%
Adjusted EBITDA Margin*	27%	23%	26%	236 bps	-159 bps
Adjusted Net Income*	274	336	393	17%	44%
Adjusted Net Income Margin*	10%	10%	13%	227 bps	230 bps
Analyst EBIT**	370	391	427	9%	15%
Analyst EBIT Margin**	14%	12%	14%	165 bps	-28 bps
Analyst EBITDA**	614	624	677	9%	10%
Analyst EBITDA Margin**	23%	19%	22%	246 bps	-148 bps

*Excluding one-off impacts

**Excluding other income/expense from operations, investing activities, investments in associates and joint ventures

***If capex is adjusted with advances given related to capex, capex will reach to TRY 323 Million in Q1'18, Q4'17 figure was also adjusted with advances given (See also: 14th note on CMB Financials)

Türkiye Şişe ve Cam Fabrikaları A.Ş., a global player of glass and chemicals manufacturing and one of the largest industrial companies in Turkey, reported financial results for the quarter ended 31 March, 2018.

Important Notice Regarding Accounting Policy Change:

Şişecam Group Companies were reporting third party logistic expenses by deducting from gross revenues. According to the new accounting policy, these expenses are now booked under Sales & Marketing expenses. Q1'17 and Q4'17 financial statements were restated accordingly

One-Off Impacts:

Excluding From EBIT:

- **Q1'18: TRY 114 Million:** Revaluation gain/loss on fixed income instruments amounting to TRY 114 Million
- **Q4'17: TRY 158 Million:** Revaluation gain/loss on fixed income instruments amounting to TRY 132 Million, Revaluation gain on investment properties amounting to TRY 25 Million
- **Q1'17: TRY 117 Million:** Revaluation gain/loss on fixed income instruments amounting to TRY 50 Million, Income generated from the sale of Eskişehir Oluklu Plant amounting to TRY 66 Million

Excluding From Net income:

- **Q4'17: TRY 23 Million:** Revaluation gain on investment properties amounting to TRY 23 Million
- **Q1'17: TRY 66 Million:** Income generated from the sale of Eskişehir Oluklu Plant amounting to TRY 66 Million
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Financial Summary

Q1'18 vs Q1'17

- **Revenue came in at TRY 3 Billion, up 18% YoY (USD 810 Million, up by 14% YoY in USD terms)**
- **Gross profit is up by 11% YoY with a margin of 33%**
- **Adjusted EBITDA came in at TRY 793 Million with 26% margin, up by 11% YoY as a result of significant contribution of the business divisions**
- **Net income after minority interest came in at TRY 393 Million on the back of higher operating profit**
- **Capex came in at TRY 323 Million including adjustments related advances given for capex in Q1'18. Capex to sales ratio is at 10%**

In Q1'18, 39% of the net revenues generated from flat glass, 16% from glassware, 18% from glass packaging, 22% from chemicals divisions and the remaining 5% from other operations. Şişecam's topline growth was 18% YoY in Q1'18, significant contribution came from flat glass and chemicals divisions, respectively.

Pricing actions taken starting from February of 2017 in domestic market, higher contribution of auto and encapsulation business, favorable product mix in European sales and positive foreign currency translation effect coupling with increase in share of international operations lifted up **Flat Glass** division's topline performance in Q1'18. Revenue came in at TRY 1.2 Billion in Q1'18 with an EBITDA margin of 26% after one-off adjustments. Please also note that, flat glass division went for a price hike in domestic market within the range of 2.5%-8% for basic glass products excluding colorless flat glass earlier this year and announced a consecutive price hike in basic glass products with an effective rate of 10.7% starting from April 25.

Chemicals division recorded solid topline growth in Q1'18 on the back of strong demand in soda ash business coupling with better pricing as a result of favorable sales mix and impact of EUR/USD parity. Product price increases in chromium chemicals segment along with TRY depreciation also positively contributed segment's sales growth. Revenue came in at TRY 816 Million in Q1'18 with an EBITDA margin of 30% after adjustments, lifting up the consolidated level of Şişecam.

Price hikes implemented both in Turkey (in 1Q2018) and Russia (in 2017), higher contribution from international operations and favorable foreign currency translation effect positively affected the topline performance of **Glass Packaging** despite sales volume decline on the consolidated basis due to high base impact of Q1'17 and Q4'17 on domestic volume. Revenue came in at TRY 549 Million in 2017 with an EBITDA margin of 28% after adjustments. Please also note that, glass packaging division implemented price hikes in domestic market within the range of 12%-13% in the very beginning of 2018.

Glassware division's revenue came in at TRY 481 Million of which year on year contraction limited to 2%, as a result of increasing share of international sales which came in at 62% in Q1'18, benefitting from favorable hard currency conditions despite year on year and quarter on quarter decline in sales volumes mainly driven by outlier increase in Q4'17. Gross margin of the division increased to 37% primarily driven by increase in average CUR level in automated production along with improved technical efficiency. EBITDA margin decreased to 17% in Q1'18 vs 19% in Q1'17 mainly due to increase in marketing expenses related with third party logistics expense

Share of international revenues reached ~60% in in Q1'18 while share of revenues generated from European operations in total revenues increased to 24% thanks to the surge in European revenues of all divisions with strong appreciation of EUR against TRY by 19% year on year. Share of Russian operations in total revenues stood at 12% compared to Q1'17.

Consolidated COGS increased by 21% year on year mainly due to increase in hard currency denominated direct materials parallel to appreciation of EUR and USD against TRY. **Gross profit grew by 11% and came in at TRY 1 Billion in Q1'18 with a margin of 33%, more than 200 bps lower than Q1'17 level.** Starting from Q2'17, intercompany expenses, previously accounted under COGS and subjected to consolidation eliminations, are reclassified under OPEX. This booking method resulted in % 0.9 decrease in gross margin in Q1'18.

In Q1'18, main operating expenses increased by 7.5% YoY whilst main opex to sales ratio decreased to 19% in Q1'18 from 20% in 2018. G&A expenses decreased by 11% year on year mainly driven by decrease in personnel expenses especially in glassware division. Sales and marketing expenses were 19% higher YoY mainly due to escalated expenses in chemicals as a result of increase in non-group sales, increase in outsourced services related with third party logistics expense in glassware division and in flat glass division in Q1'18.

Şişecam posted **TRY 89 Million net other income from main operations in Q1'18** vs TRY 58 Million in Q1'17. Net fx loss on trade payables/receivables came down to TRY 39 Million in Q1'18 from 93 Million in Q1'17 as a result of increase in hard currency denominated sales in chemicals, glassware and auto-glass division

Investments in associates and joint ventures came in at TRY 26 Million in Q1'18 which was TRY 35 Million in Q1'17. There was no income recognition related to Omco Kalıp and Oxyvit in Q1'18 which were booked under Sisecam as equity pick-up in Q1'17. If income generated from those companies in Q1'17 excluded, investments in associates and joint ventures would decrease by 10% year on year mainly due to decrease in income generated from Solvay. Şişecam's share in profit/loss of HNG & St Gobain Egypt was TRY 6.4 Million in Q1'18, up by 3% year on year.

Şişecam's net income from investing activities came in at TRY 116 Million in Q1'18 versus TRY 126 Million in Q1'17. TRY 114 Million revaluation gain on fixed income securities booked in Q1'18 compared to TRY 50 Million in Q1'17 as a result of increase in investment portfolio and positive currency impact after translating USD denominated Eurobonds at a higher closing rate than rate of purchase date. Şişecam did not purchase additional USD denominated fixed income instruments within Q1'18, having higher yield than Şişecam Eurobond with similar maturity and risk rating. TRY 66 Million net income generated from the sale of Eskişehir Oluklu Packaging Plant in Q1'17.

After excluding one-off figures, **Company's EBIT came in at TRY 543 Million** and **EBITDA was TRY 793 Million with 11% YoY growth representing an EBITDA margin of 26% in Q1'18**

Company's net income after minority interest came in at TRY 393 Billion in Q1'18, representing a net margin of 13%, grew by 44% year on year. Despite 31% year on year increase in corporate tax base as a result of increase in income before tax and corporate tax rate, tax expense decreased by 19% year on year

which was primarily driven by reduced tax payables on regional and large-scale investments as a government subsidy in chemicals, flat glass and glass packaging divisions

TRY 24.5 Million net financial expense was recorded in Q1'18 compared to TRY 58 Million in in Q1'17. TRY 11.7 Million foreign currency gain on financial assets/liabilities recognized in Q1'18 versus 5.7 Million loss in Q1'17 while TRY 16 Million less interest expense was recorded in Q1'18 year on year mainly due decrease in accrued interest on bank loans.

Şişecam's **gross debt** came in at 6.4 Billion (USD 1.6 Billion) in Q1'18, as 62% were long-term liabilities including USD 500 Million Sisecam Eurobond. **Net debt increased to TRY 736 Million (USD 186 Million) in Q1'18** from TRY 580 Billion (USD 153 Million) in 2017 including our financial investments amounting to USD 500 Million. **The company's net long FX position** increased to TRY 1.3 Billion in Q1'18 from TRY 1.2 Billion in 2017 as a result of TRY depreciation against USD and EUR

Holding only cash position was TRY 217 Million as of 31.03.2018.

Important Events during and after the Reporting Period

- BoD decided to authorize management to conduct required works for issuance of Eurobond amounting up to USD 750 Million
- Şişecam proposed to distribute TRY 300 Million dividend that was approved by General Assembly
- Trakya Cam submitted a bid for Sangalli Manfredonia in Italy, result of which is not yet finalized
- Trakya Cam announced a greenfield investment for an additional float line in Polatlı, to meet the growing demand across Turkey and surrounding regions, which will become online in 2020. Total investment will reach USD 127 Million
- Negotiations regarding purchase of remaining 50% share of Trakya Cam in Hindusthan National Glass and Industrial Limited has started
- TRY 175 Million will be utilised by Şişecam Elyaf Sanayii A.Ş., for financing new glass fibre production facility investment. Soda Sanayii A.Ş. will act as a guarantor for the liabilities born from this loan
- New glass fiber investment, announced by Soda Sanayii in January 2017, will come online in the second half of 2018 as it was initially planned
- As of the beginning of 2018, Soda Lukavac plant's production capacity increased to 585K ton/year through operational improvement/efficiency
- Furnace-B located in Yenişehir Plant of Anadolu Cam went through a cold repair process between February – April 2018
- New furnace investment, announced by Anadolu Cam in December 2017, will be operational in the second half of 2018 as it was initially planned



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