

COMMENTS ON TÜRKİYE ŞİŞE VE CAM FABRİKALARI A.Ş. Q3 2018 CONSOLIDATED FINANCIAL STATEMENTS

Summary Financials	9M'17RS	9M'18	YoY Change	Q3'17RS	Q2'18	Q3'18	QoQ Change	YoY Change
Revenue	8.115	11.083	37%	2.654	3.696	4.302	16%	62%
Gross Profit	2.580	3.719	44%	816	1.218	1.496	23%	83%
Gross Margin	32%	34%	177 bps	31%	33%	35%	182 bps	402 bps
EBIT	1.480	3.575	142%	477	1.081	1.837	70%	285%
EBIT Margin	18%	32%	1402 bps	18%	29%	43%	1344 bps	2471 bps
EBITDA	2.215	4.348	96%	725	1.317	2.124	61%	193%
EBITDA Margin	27%	39%	1194 bps	27%	36%	49%	1375 bps	2207 bps
Net Income After Minority Interest	867	2.082	140%	277	691	998	44%	260%
Net Income Margin	11%	19%	809 bps	10%	19%	23%	450 bps	1276 bps
Capex	556	2.150	287%	158	915	940	3%	494%
Capex/Sales	7%	19%	1255 bps	6%	25%	22%	-291 bps	1589 bps
Adjusted EBIT*	1.326	2.412	82%	443	693	1.176	70%	166%
Adjusted EBIT Margin*	16%	22%	542 bps	17%	19%	27%	861 bps	1066 bps
Adjusted EBITDA*	2.061	3.186	55%	691	928	1.464	58%	112%
Adjusted EBITDA Margin*	25%	29%	334 bps	26%	25%	34%	892 bps	802 bps
Adjusted Net Income*	772	2.121	175%	277	636	1.091	71%	294%
Adjusted Net Income Margin*	10%	19%	962 bps	10%	17%	25%	815 bps	1494 bps
Analyst EBIT**	1.088	1.705	57%	353	559	719	29%	103%
Analyst EBIT Margin**	13%	15%	198 bps	13%	15%	17%	159 bps	340 bps
Analyst EBITDA**	1.823	2.479	36%	601	795	1.007	27%	68%
Analyst EBITDA Margin**	22%	22%	-10 bps	23%	22%	23%	190 bps	76 bps

Based on Q3 2018 IFRS results,

*Excluding one-off impacts

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

*** Q3'18 & 9M'18 capex is adjusted with advances given related to capex (See also: 14th note on CMB Financials)

Important Notice Regarding Accounting Policy Change:

Şişecam 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. Q3'17 and 9M'17 financial statements were restated accordingly (RS: Restated)

One-Off Impacts:

Excluding From EBIT:

- **Q3'18: TRY 660 Million:** Revaluation gain on fixed income instruments amounting to TRY 754 Million, impairment on intangible assets of India amounting to TRY 94 Million
- **Q2'18: TRY 388 Million:** Revaluation gain on fixed income instruments amounting to TRY 334 Million, Income generated from step acquisition of HNG amounting to TRY 54 Million
- **Q3'17: TRY 34 Million:** Revaluation gain on fixed income instruments amounting to TRY 34 Million
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- **9M'18: TRY 1,2 Billion:** Revaluation gain on fixed income instruments amounting to TRY 1.2 Billion, impairment on intangible assets of India amounting to TRY 94 Million, Income regarding acquisition of HNG amounting to TRY 54 Million
- **9M'17: TRY 153 Million:** Revaluation gain on fixed income instruments amounting to TRY 55 Million, Income generated from the sale of Omco Kalip amounting to TRY 32 Million, income generated from the sale of Eskişehir Oluklu amounting to TRY 66 Million

Excluding From Net income:

- **Q3'18: TRY 94 Million:** Impairment on intangible assets of India amounting to TRY 94 Million
- **Q2'18: TRY 54 Million:** Income regarding regarding acquisition of HNG amounting to TRY 54 Million
- **9M'18:- TRY 39 Million:** impairment on intangible assets of India amounting to TRY 94 Million, Income regarding acquisition of HNG amounting to TRY 54 Million
- **9M'17: TRY 95 Million:** Income generated from the sale of Omco Kalip amounting to TRY 29 Million (including tax impact), Income generated from the sale of Eskişehir Oluklu amounting to TRY 66 Million

Financial Highlights (Q3'18 vs Q3'17)

- Revenue came in at TRY 4.3 Billion, up 62% YoY (EUR 652 Million, up by 4% YoY in EUR terms)
- Gross profit is up by 83% YoY with a margin of 35%
- Adjusted EBITDA came in at TRY 1.5 Billion with 34% margin, up by 112% YoY
- Net income after minority interest came in at TRY 998 Million
- Capex came in at TRY 940 Million including adjustments related advances given for capex in Q3'18. Capex to sales ratio is at 22%

Business Unit & Regional Performance

- In Q3'18, 39% of the net revenues generated from flat glass, 21% from glass packaging, 22% from chemicals, 15% from glassware and the remaining 3% from other operations.

Flat Glass division recorded TRY 1.7 Billion revenue in Q3'18 with 65% YoY growth on the back of positive currency impact coming from hard currency sales, price hikes, favorable product mix and higher contribution from auto glass. After one-off adjustments, EBITDA margin was at 24%, contracted by ~300 bps YoY

Chemicals division's revenue was TRY 1.1 Billion including intra group sales (15% of total) up by 56% YoY in Q3'18, mainly driven by positive currency impact, 21% increase in chromium prices in USD terms, 2% increase in soda ash volume and higher electricity revenue backed by 78% YoY increase in average prices in TRY terms. 77% of total revenue was generated from Soda Sanayii in Q3'18 whilst remaining 23% was from mining and glass fiber operations. After one-off adjustments, chemicals' EBITDA margin was at 44%, which was 27% in Q3'17

Glass Packaging division recorded TRY 915 Million revenue up by 52% YoY. Growth was backed by strong sales volume and per unit average prices increases in both Turkey and Russia operations. Favorable currency impact stemming from higher share of exports, also positively affected the topline performance of division. After one-off adjustments, EBITDA margin was at 29%, increased by 400 bps YoY

Glassware division revenue came in at TRY 646 Million up by 59% YoY, mainly attributable to price increases in all operating regions combined with high profitability as a result of reducing complexity by simplifying product portfolio with high margin units. EBITDA margin recorded at 34% in Q3'18, increasing from 14% in Q3'17 (There were revisions on useful life estimates of tangible fixed assets and classification of employee termination benefits in glassware. These changes had a lowering impact on COGS) having no major impact on EBITDA

Share of international revenues reached 64% in Q3'18 while share of revenues generated from European operations in total revenues increased to 24% from 22% due to strong appreciation of EUR against TRY year on year. Share of Russian operations in total revenues increased to 14% from 13% compared to Q3'17.

P&L Analysis (Q3'18 vs Q3'17)

Şişecam's topline growth was 62% YoY in Q3'18, highest contribution came from flat glass business, followed by chemicals, glass packaging and glassware respectively.

Gross Profit grew by 83% YoY and came in at TRY 1.5 Billion in Q3'18 with a margin of 35%, recording 402 bps increase YoY while **consolidated COGS increased by 53% year on year.** Highest contribution to annual growth in gross profit came from chemicals followed by flat glass segment driven by favorable currency and pricing.

In Q3'18, main operating expenses increased by 68% YoY whilst main opex to sales ratio remained almost flat at 18% in Q3'18. Share of S&M expenses in total main operating expenses increased to 66% from 58% while G&A share decreased to 31% from 39% mainly driven by increase in glassware & flat glass division.

Şişecam posted **TRY 349 Million net other income from main operations in Q3'18** vs TRY 63 Million in Q3'17. Net fx gain on trade payables/receivables recorded at TRY 289 Million in Q3'18 from 15 Million gain in Q3'17 as a result of increase in hard currency denominated sales in all divisions. Provisions made under other income and expense in H1'18 were classified under income/expense from investing activities in 9M'18.

Investments in associates and joint ventures came in at TRY 30 Million in Q3'18 which was TRY 29 Million in Q3'17.

Şişecam's net income from investing activities came in at TRY 739 Million in Q3'18 versus TRY 32 Million net expense in Q3'17. TRY 754 Million revaluation gain on fixed income securities booked in Q3'18 compared to TRY 34 Million revaluation gain in Q3'17 as a result of positive currency impact. Şişecam did not purchase additional USD denominated fixed income instruments within Q3'18. TRY 15 Million provision expense was booked in Q3'18 in order to comply with IFRS 9.

After excluding one-off figures, **Company's EBIT came in at TRY 1.2 Billion and EBITDA was TRY 1.5 Billion with 112% YoY growth representing an EBITDA margin of 34% in Q3'18.**

Company's net income after minority interest came in at TRY 998 Million in Q3'18, representing a net margin of 23%, increased to 260% year on year. Effective tax rate was at 6% in Q3'18, decreased from 8% of Q3'17. Effective tax rate of chemicals lowered to 4% in Q3'18 from 14% in Q3'17 while tax income recorded from glass packaging segment thanks to reduced tax payables on regional and large-scale investments as a government subsidy.

TRY 287 Million net financial expense was recorded in Q3'18 compared to TRY 46 Million in in Q3'17. TRY 937 Million fx loss on bank loans and issued bonds recognized in Q3'18 versus TRY 529 Million fx gain on cash and cash equivalents (TRY 754 fx gain on Eurobond investments was booked under income from investment activities) while TRY 74 Million interest expense was recorded in Q3'18

Şişecam's **gross debt** came in at 9 Billion (USD 1.5 Billion) in the reporting period, as 62% were long-term liabilities including USD 500 Million Sisecam Eurobond. **Net debt increased to TRY 2 Billion (USD 340 Million) in Q3'18** from TRY 580 Billion (USD 154 Million) in 2017 including our financial investments amounting to USD 500 Million.

The company's net long FX position increased to TRY 3.6 Billion in Q3'18 from TRY 1.2 Million in 2017. Company has EUR 168 Million long position in Q3'18 vs. EUR 84 short position in 2017, while net assets denominated in USD decreased to 286 Million from USD 408 Million.

Important Events during and after the Reporting Period

Anadolu Cam announced its decision to invest in a new furnace in Mersin with a total capex requirement of USD 18,2mn. The furnace, which is projected to be online in the second half of 2019 will increase the company's domestic glass packaging capacity by 80K tons/year to 1.285K tons/year.

Operations in glass fiber plant located in İstanbul was terminated by 30th September due to completion of the useful life of existing single furnace in the plant.

Following the downgrade of the sovereign credit rating of Turkey to B+ with stable outlook on 17.08.2018 by Standard & Poor's, Şişecam's credit rating has also been downgraded from BB- to B+ with negative outlook on 21.08.2018.

Following the downgrade of sovereign credit rating of Turkey from Ba2 to Ba3 with negative outlook on 17.8.2018 by the international credit rating agency Moody's, Şişecam's rating was also downgraded from Ba1 to Ba2 with negative outlook.



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