

COMMENTS ON TÜRKİYE ŞİŞE VE CAM FABRİKALARI A.Ş. 2019 Q2 CONSOLIDATED FINANCIAL STATEMENTS

Based on 2019 Q2 IFRS results,

	H1'18	H1'19	YoY Change	Q2'18	Q1'19	Q2'19	QoQ Change	YoY Change
Summary Financials								
Revenue	6.782	8.617	27%	3.696	3.923	4.695	20%	27%
Gross Profit	2.224	2.806	26%	1.218	1.288	1.518	18%	25%
Gross Margin	33%	33%	-23 bps	33%	33%	32%	-48 bps	-62 bps
EBIT	1.729	1.661	-4%	1.072	867	795	-8%	-26%
EBIT Margin	25%	19%	-621 bps	29%	22%	17%	-516 bps	-1206 bps
EBITDA	2.213	2.327	5%	1.306	1.178	1.149	-2%	-12%
EBITDA Margin	33%	27%	-563 bps	35%	30%	24%	-555 bps	-1087 bps
Net Income After Minority Interest	1.043	928	-11%	650	448	480	7%	-26%
Net Income Margin	15%	11%	-461 bps	18%	11%	10%	-121 bps	-736 bps
Capex	836	1.240	48%	541	427	813	90%	50%
Capex/Sales	12%	14%	205 bps	15%	11%	17%	643 bps	268 bps
Adjusted EBIT*	1.232	1.358	10%	698	673	685	2%	-2%
Adjusted EBIT Margin*	18%	16%	-240 bps	19%	17%	15%	-256 bps	-429 bps
Adjusted EBITDA*	1.716	2.024	18%	933	984	1.039	6%	11%
Adjusted EBITDA Margin*	25%	23%	-182 bps	25%	25%	22%	-295 bps	-310 bps
Adjusted Net Income*	994	961	-3%	601	481	480	0%	-20%
Adjusted Net Income Margin*	15%	11%	-351 bps	16%	12%	10%	-204 bps	-604 bps
Analyst EBIT**	986	1.139	15%	559	519	620	20%	11%
Analyst EBIT Margin**	15%	13%	-133 bps	15%	13%	13%	-1 bps	-191 bps
Analyst EBITDA**	1.471	1.805	23%	794	830	975	17%	23%
Analyst EBITDA Margin**	22%	21%	-74 bps	21%	21%	21%	-40 bps	-71 bps

*Excluding one-off impacts

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

Important Notice: With a change in the implementation of IFRS 16, accounting standard on leases, effective from January 2019, total assets and total liabilities&equity increased by TRY 308 Million. The impacts on P&L in the second quarter were TRY +10 Million on EBIT, TRY +2 Million on net income. You may find the financial impacts of IFRS-16 on business segments at the appendix section of this document. Financial statements of Q2'18 was restated after PPA valuation of HNG acquisition. Since HNG acquisition was booked on provisional accounting basis by the end of 2018 and this has been restated as per the results of PPA study by end of Q2'19

Financial Highlights (Q2'19 vs Q2'18)

- **Revenue** came in at TRY 4.7 Billion, up 27% YoY (EUR 712 Million, YoY flat in EUR terms)
- **Gross profit** was at TRY 1.5 Billion, up by 25% YoY with a margin of 32%
- **Adjusted EBITDA** came in at TRY 1.04 Billion (EUR 158 Million, down by 12% YoY in EUR terms) with 22% margin, down by 310 bps YoY
- **Net Income after Minority Interest** came in at TRY 480 Million with a margin of 10%

- **Capex** came in at TRY 813 Million. Capex to sales ratio is at 17%
- **FCFE** came in at TRY -1.1 Billion in H1'19

Business Segment & Regional Performance

In Q2'19, 37% of the net revenues generated from flat glass, 23% from glass packaging, 21% from chemicals and 17% from glassware and the remaining 2% from other operations.

Flat Glass segment recorded TRY 1.7 Billion revenue in Q2'19 with 31% YoY growth mainly due to positive pricing and product mix and depreciation of TL. Inclusion of Indian operations also uplifted topline growth by 8%, which has 6% share in total revenue. Share of international revenues increased to 65% in Q2'19 from 57% in Q2'18 as a result of increase in exports from Turkey, depreciation of TL and inclusion of India. In addition to slowdown in domestic demand and increase in opex to sales ratio mainly due to transportation costs, acquisitions of India & South Italy in 2H18 had a 150 bps dilutive impact on EBITDA margin YoY, which came down to 20% in Q2'19 from 26% in Q2'18.

Chemicals division's revenue was TRY 1.2 Billion, up by 30% YoY in Q2'19, mainly driven by positive currency impact. 17% of the division's revenue was generated by intra group sales (vs. 14% in Q2'18). Soda ash prices were up by 5% in USD terms while sales volume was up by 1%. On the chromium chemicals side, average per unit prices were down by 1% and sales volumes decreased by 16% due to sluggish global demand. TRY 61 Million incremental revenue generated by Sisecam Elyaf, the new glass fiber investment, and the business generated single-digit gross profit margin in Q2'19. 91% of Chemicals' segment revenue was generated by Soda Sanayii in Q2'19 whilst remaining 9% by the mining operations. After one-off adjustments, Chemicals' EBITDA margin was at 27% vs 32% in Q2'18 due to the rise in COGS, which is especially a result of natural gas tariff hikes witnessed throughout the year 2018.

Glass Packaging division recorded TRY 1.1 Billion revenue, up by 32% YoY; growth was primarily driven by average per ton price adjustments implemented in Q1'19 for Turkey and in Q2'19 for non-Turkey operations, growing volume of exports from Turkey and local currency depreciation. Exports from Turkey kept its upward trend by increasing 13% YoY in volume terms. Domestic sales and sales from non-Turkey facilities decreased by 12% and 4% respectively. The contraction in the domestic market was due to the slow-down in the demand mainly because of clients' intention to keep inventory levels low relative to their decelerated revenue and contracting non-alcoholic beverages consumption due to inflationary pressure seen on product prices; while the latter reflects the normalization of the high base effect resulted from World Cup's and exceptionally good weather conditions' positive impact on consumption. After one-off adjustments, EBITDA margin was at 24%.

Glassware segment's revenue came in at TRY 810 Million, grew by 27% YoY, mainly attributable to positive price adjustments in Turkey, increase in sales volume in international markets and favorable channel mix in total sales. Positive currency impact also uplifted the topline growth as share of international sales was at 62% in Q2'19. TRY 5,02 million asset disposal income was recorded in relation to Camiş Ltd. Excluding this one-off impact, EBITDA margin decreased to 13% in Q2'19 from 18% in Q2'18. FX gain on trade receivables and payables was at TRY 12 Million in Q2'19 compared to TRY 35 Million in Q2'18, excluding this, Adjusted EBITDA margin contraction would be 170 bps YoY. Initiatives taken for production planning in order to optimize inventory levels also put pressure on the margin. IFRS-16 implementation had a positive impact on EBITDA, which lifted the margin up by 160 bps.

Share of international revenues is at 65% in Q2'19. While share of revenues generated from European in total revenues increased from 23% to 24%, share of Russian operations in total revenues increased to 15% from 14% and the share of other regions rises up to 3% from 1% YoY. The increases in all those geographies' shares are in line with Şişecam's globally expanded operations and export oriented approach.

P&L Analysis (Q2'19 vs Q2'18)

Şişecam's topline growth was 27% YoY in Q2'19, highest contribution came from flat glass business, followed by glass packaging, chemicals and glassware respectively.

Gross Profit grew by 25% YoY and came in at TRY 1.5 Billion in Q2'19 while **consolidated COGS increased by 28% YoY**. Gross profit margin was at 32% in Q2'19, down by 62 bps YoY as contraction in flat glass and glassware segment's gross profit margin limited the improvement in overall profitability.

In Q2'19, main operating expenses increased by 36% YoY whilst main opex to sales ratio increased by 130 bps YoY to 19% in Q2'19 mainly due to increase in S&M expenses which increased by 35% YoY stemming from higher logistics expense. General administrative expenses increased by 44% YoY resulting from higher wages in Q2'19 and increase in outsourced expenses. G&A expenses in total operating expenses increased to 30% from 28% while share of S&M expenses decreased to 68% from 69%.

Şişecam posted **TRY 68 Million net other income from main operations in Q2'19** vs TRY 99 Million in Q2'18.

Investments in associates and joint ventures decreased by 9% YoY and came in at TRY 22 Million in Q2'19.

Şişecam's net income from investing activities came in at TRY 108 Million in Q2'19 versus TRY 390 Million in Q2'18. TRY 105 Million revaluation gain on fixed income securities booked in Q2'19 compared to TRY 334 Million revaluation gain in Q2'18. TRY 24 Million provision expense was booked on fixed income securities & time deposits out of TRY 5.2 Million was related with Eurobond investments in order to comply with IFRS 9.

According to PPA valuation in relation to HNG acquisition which was made in June 2018, gain on the acquisition in Q2'18 was restated with TRY 49 Million retrospectively.

After excluding one-off figures, **Company's EBIT came in at TRY 685 Million** and **EBITDA was TRY 1,039 Million with 11% YoY growth representing an EBITDA margin of 22% in Q2'19 vs 25% in Q2'18**. FX gain on trade receivables and payables which was booked under net other income from main operations, was at TRY 19 Million in Q2'19 compared to TRY 68 Million in Q2'18, excluding this, Adjusted EBITDA margin contraction would be 170 bps YoY. IFRS-16 implementation had a positive impact on EBITDA, which lifted the margin up by 64 bps.

Company's net income after minority interest came in at TRY 480 Million in Q2'19, representing a net margin of 10%, decreased from 16% in Q2'18.

TRY 130 Million **tax income** was recorded within Q2'19 compared to TRY 12 Million tax expense in Q2'18 due to increase in deferred tax income in relation to investments in glass packaging and glass fiber.

TRY 202 Million net financial expense was recorded in Q2'19 compared to TRY 69 Million expense in Q2'18. TRY 21 Million net fx loss on financial assets & liabilities including derivatives recognized in Q2'19 versus TRY 19 Million fx loss in Q2'18. Please note that; TRY 105 Million fx gain on Eurobond investments was booked under income from investment activities. A cross currency swap was made for USD 575 Million out of USD 700 Million bond, TRY 26 Million financial expense was recorded from this transaction. TRY 180 Million interest expense was recorded in Q2'19 vs TRY 49 Million interest expense in Q2'18 mainly due to increase in average borrowing cost after the bond issuance back in March.

As stated in 2019 Q1 earnings release, Şişecam issued USD 700 Million Eurobond with a coupon rate of 6.95% and 2026 maturity in March 2019. Group companies namely Trakya Cam, Paşabahçe, Anadolu Cam and Soda Sanayii guaranteed 80% of total amount. USD 200 Million of the existing Sisecam 2020 notes (USD

500 million issuance back in 2013) was purchased via a tender offer in March. Aggregate guaranteed amount for Eurobonds due 2020 and 2026 increased to USD 800 Million.

Şişecam's **gross debt came in at TRY 14 Billion (USD 2.4 Billion)** including financial liabilities regarding EBRD put option. TRY 632 Million operational lease was recorded under financial liabilities in accordance with the amendment on accounting standard of the IFRS-16. 42% of gross debt were long-term liabilities, as existing Sisecam 2020 notes, which were issued back in May 2013, will be matured less than a year.

Cash and cash equivalents (including financial investments amounting to USD 500 Million) was stood at TRY 9,6 Billion in H1'19, increased from TRY 5.8 Billion in 2018. **Net debt increased to TRY 4.4 Billion (USD 759 Million) in Q2'19** from TRY 2.2 Billion (USD 426 Million) in 2018 including our financial investments amounting to USD 500 Million. **Net Debt to EBITDA is at 0.9 in Q2'19 vs 0.5 in 2018.**

The company's net long FX position increased to TRY 2.9 Billion in H1'19 vs TRY 2,4 Billion in 2018. Company has EUR 305 Million short position in H1'19 vs. EUR 113 Million long position in 2018, while net assets denominated in USD increased to 803 Million from USD 289 Million as a result of cross currency swap that was made for USD 575 Million.

Important Events during and after the Reporting Period

- Şişe Cam and Group Companies distributed TRY 1 Billion cash dividends in gross terms in May
- Moody's downgraded Şişecam's LT FCY rating from 'Ba2' to 'B1' with 'negative' outlook in line with the action on the sovereign in June
- Fitch downgraded Şişecam's credit rating to BB- from BB+ while maintaining the outlook as "negative" in July

TRKCM

- 9-month cold repair process of float line in Trakya Cam Bulgaria is completed in July
- Trakya Cam bought shares of Sisecam in legal entities of its plants in Yenişehir and Polatlı with a total amount of TRY 83 Million on 23rd of July
- It has been decided at the BoD meeting of Trakya Cam on 23rd of July that Trakya Cam will take over the assets of legal entities of its plants in Yenişehir and Polatlı after combining those entities under Trakya Cam Sanayi A.Ş. through a simplified merger. There will be no change in the consolidation of operations in those plants in which Trakya Cam has already 100% share and has already been fully consolidating them in its financial statements

ANACM

- In relation with the scheduled cold repair work process, 100K ton-Mersin AF30 furnace was offline since February and it was ignited back in mid-June with an increase of annual production capacity by 30K tons. The furnace is operational since July
- Mersin Plant 4th Furnace investment, announced in September 2018, was finalized within the reporting period. Accordingly, 80K ton-new furnace was ignited in May and is operational since June

SODA

- On June 21st, Soda Sanayii announced a joint natural soda ash production investment decision in Wyoming, USA with Ciner Group. The partners will equally share the total annual production capacity of the investment, which is composed of 2,5Million natural soda ash and 200K ton sodium bicarbonate through solution mining. Total capex of this investment is expected to be close to USD 2bn, to be financed by 20% equity and 80% financing, equally split among the partners. The investment was planned to be completed in 2024
- On June 28th, Soda Sanayii purchased 0,53% share of Şişecam Chem Investment B.V. held by Sisecam for EUR 1Million in cash and became the company's sole shareholder
- On June 28th, Şişecam Chem Investment B.V. purchased 0,50% share of Cromital S.p.A held by Sisecam for EUR 35K in cash and became the company's sole shareholder

APPENDIX

One-Off Impacts excluded from Financials:

Excluding From EBIT:

Q2'19: - TRY 110 Million: TRY 110 Million revaluation gain on fixed income instruments including impairment on financial investments in order to comply with IFRS 9

Q1'19: +TRY 193 Million: TRY 226 Million revaluation loss on fixed income instruments including impairment on financial investments in order to comply with IFRS 9, TRY 33 Million one-time retrospective payment regarding carbon emission quota acquisition

Q2'18: + TRY 374 Million: Revaluation gain on fixed income instruments amounting to TRY 334 Million, income generated from PPA valuation of HNG amounting to TRY 49 Million

H1'19: + TRY 303 Million: TRY 336 Million revaluation loss on fixed income instruments including impairment on financial investments in order to comply with IFRS 9, TRY 33 Million one-time retrospective payment regarding carbon emission quota acquisition

H1'18: + TRY 497 Million: Revaluation gain on fixed income instruments amounting to TRY 448 Million, Income generated from PPA valuation of HNG amounting to TRY 49 Million

Excluding From Net income:

Q1'19 & H1'19: -TRY 33 Million: TRY 33 Million one-time retrospective payment regarding carbon emission quota acquisition

Q2'18 & H1'18: TRY 49 Million: TRY 49 Million income regarding acquisition of HNG

IFRS-16 Impact on Financials:

IFRS-16 impact on P&L (TRY Mn.)	Net Income	EBIT	EBITDA
Flat Glass	+0,1	+1,4	+6,4
Glassware	+1,1	+4,2	+13,3
Glass Packaging	+0,1	+1,0	+3,8
Chemicals	+0,3	+1,2	+2,1
Other	+0,5	+2,0	+4,0
Sisecam	+2,0	+9,9	+29,9

IFRS-16 impact on BS (TRY Mn.)	Asset	Liability	Equity
Flat Glass	+63,6	-67,9	+4,3
Glassware	+136,1	-145,4	+9,3
Glass Packaging	+23,8	-26,1	+2,3
Chemicals	+34,9	-38,1	+3,2
Other	+49,4	-55,2	+5,8
Sisecam	+307,8	-332,8	+25,0

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