

**2021 FY Results Webcast Transcript**  
**TÜRKİYE ŞİŞE VE CAM FABRİKALARI A.Ş.**  
**February 9<sup>th</sup>, 2022**

**TÜRKİYE ŞİŞE ve CAM FABRİKALARI A.Ş.**

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kuruluşudur

## Operator

Ladies and gentlemen, welcome to Şişecam 2021 Year End Financial results audio and webcast call. I will now hand over the call to Şişecam's CFO, Mr Gokhan Guralp. Please sir, go ahead.

## Gokhan Guralp

Thank you. Good afternoon ladies and gentlemen, and welcome to the review of our 2021 Full Year Earnings Results. We hope everyone is well and healthy since we last spoke. Today, I'm together with our CEO, Görkem Elverici Güralp and our IR Director, Hande Özbörçek.

In today's call, I will first walk you through 2021 Full Year financial and operational results of Şişecam, with performance review on a business line basis. Afterwards, I will continue with our cash position and the capital allocation. Operational and financial review will be followed by Şişecam's approach to sustainability where I will provide you our progress report on 2017-2022 strategy. I will also share the details on our renewed strategy and targets.

As always, I will be pleased to take your questions at the end of the presentation. Please be reminded that our presentation and the Q&A session may contain some forward-looking statements. Our assumptions and projections are based on the current environment and thus may be subject to change.

Moving onto slide three, we ended the year once again with a record-breaking performance, on the topline. We have had all time high profitability on both EBITDA and net income levels on a one-off adjusted basis. Consolidated revenue, with a year-on-year growth of 50%, reached to 32 Billion TL. Euro-based topline went up by 15% and recorded as 3.1 Billion. Thanks to the robust performance across all business lines with one single exemption, Auto Glass, our EBITDA increased to 8.6 Billion TL. Local currency and Euro-based increases in our nominal EBITDA were recorded as 73% and 33%, respectively.

Even though 2021 was an extremely challenging year given globally high inflationary environment, we left the reporting period behind with 27% Adjusted EBITDA margin, up by 400 basis points compared to the level recorded in 2020. Larger scale of operations, wider catchment area and higher capacity utilization rates as well as cost pass through almost all business lines were the main drivers of the solid improvement in our profitability. Backed by below the operating line FX gains, one-off adjusted parent-only net income went up to 8.1 Billion TL.

Our portfolio performance were supported by all five business lines thanks to sales volume growth and cost pass through. Architectural Glass continued to be the highest topline contributor. It was followed by Glass Packaging and Glassware segments. Chemical operations, due to mainly hard currency decline in soda ash prices given 2021 contractual terms, had a sluggish performance. Auto Glass operations' weaker than expected performance was directly in relation with unsystematic risk.

Moving onto slide four, Architectural Glass operations sustained its outperformance throughout the year. Value added glass demand dominated the markets in all geographies we've been present as local manufacturer as well as we were exporters. We were fully equipped and well skilled to meet our end-client industries' needs. Upward trend in building renovation, governmental housing and infrastructure projects combined with the mobility on home appliances and furniture sectors were the main drivers of the flat glass demand in Turkey. Continued processed glass exports of the wholesalers pushed the demand further to the north. Meanwhile, European markets were extremely mobile with cold repairs at peer company level and limited flow of processed glass due to logistic constraints on top of the demand for flat glass as the most preferred insulation material coming from the construction industry. Stronger operations in Russia and India have also contributed to the eye-catching sales volume growth of 21% year-on-year. Price and sales mix combined with currency devaluation impact, net external revenues went up by 85% compared to 2020.

In our Auto Glass operations, on the other hand, we have experienced the inevitable impact of the everlasting global semiconductor industry shortage. Amidst temporary production halts of our main clientele, OEM, in more than one round throughout the year, we managed to increase our sales volume by 3%. Gradual increase in aftermarket sales share, inclusion of new projects and hard currency denominated revenue stream have all contributed to the segment's 36% topline growth.

On slide five, I will continue providing details on the last two business lines.

Thanks to improved consumer sentiment with the ease of Covid-19 related restrictive measures and reopening of HORECA, Glassware business line has unsurprisingly had a very good performance. Volume sales went up by 17%. And the mobility in our domestic market as well as in the international markets was healthy enough to accept product price increases. Further boosted by local currency weakness, segment-wise revenue increased by 53% year-on-year.

Our Glass Packaging operations generated a topline growth of 37% on the back of 8% volume increase and 29% price, sales mix and currency impact. Sales volume growth was evenly split between Turkish and international operations though limited on the exports side, while the share of international revenue stood at 60% of the segmental revenue.

Finally yet importantly, our Chemical business line revenue went up by 37%. Although, sales volume growth was visible across all sub-segments, yet pricing was weak for our soda ash operations given 2021 contractual terms. Therefore, logistic expense and energy price increases could not be reflected to product prices within the year. Hence, considering the existence of solid demand dynamics, major global soda ash producers conducted 2022 negotiations by allowing the clientele to secure the volume they

require for the full year but at variable pricing terms subject to change on 3 to 6-month reviews of the cost of goods sold. This year, Global soda ash market continues to be highly promising parallel to the expectations of third party market analysts.

With the incremental production capacity, we took online in our Bosnia and Turkey plants, our soda ash capacity went up from 2.4 to 2.5 Million tons per year. With the inclusion of the already operational Wyoming mine, we started this year with a total production capacity of 5 Million tons.

Moving onto the next slide. With our operations in 14 countries, naturally balanced operations portfolio, wide range of products in all business segments and strong export capabilities, we continued to cater our products across the globe. In 2021, share of international revenues recorded at 66%, up by 800 basis points year-on-year. Export revenues, half of which were generated from sales to Europe, stood at 814 Million USD. Including sales from Şişecam facilities located in the region, sales to Europe accounted for 36% of our topline. Including US markets, our sales to developed markets reached to almost 40%.

On slide seven, our strong liquidity position was sustained in the reporting period too. We ended the year with 1.3 Billion USD cash and cash equivalents including financial investments portfolio, which is composed of Turkish financials and non-financials Eurobonds having similar to or higher than Şişecam ratings. Net debt position recorded at 788 Million USD with a post US natural soda ash controlling stake cash outflow of 450 Million USD-leverage of 0.9x. Outstanding debt was 2.1 Billion USD, down by 260 Million USD with a term structure of 38% short to 62% long, and an interest rate structure of 53% fixed to 47% variable. We carry 87% of the cash and cash equivalents in hard currency, as we continue to be short in TL to preserve our long position in hard currencies, and to fund our Turkish operation. Şişecam's net long FX position came in at 440 Million USD. As of the year-end we are 813 Million long in USD and 367 Million short in EUR.

Moving onto slide eight, in 2021, our CapEx moved up by 41% to circa 300 Million USD compared to the same period last year, mostly on low base. Majority of the capex were in relation with scheduled cold repairs and mould investments in addition to land acquisition in Hungary and Turkey for our greenfield flat glass and glass packaging investments. Cash conversion cycle lengthened by 4 days year-on-year rise in inventory days outstanding due to local currency depreciation. We ended the year with a negative balance on the free cash flow side given non cash adjustments in relation with unrealized FX gains, increased capex, cash payment for the stake acquisition in US deal.

As a final note about our operations, I would like to touch upon the investment decisions we announced throughout the year. As part of our strategy of enlarging our operations portfolio by bringing in high ROE generating assets;

- In the very beginning of June, we decided to go ahead with a greenfield investment in Hungary, a 255 Million EUR sized two-furnace investment with a total of 330K tons annual production capacity which will be operational in 2023, and is expected to reach its full capacity by 2025.

- We have also decided to bring in our fifth furnace with an annual production capacity of 155K tons to our Eskisehir facility. Estimated cost of this investment is 84 Million EUR and we do plan to ignite the furnace in 2023. Upon its completion, our domestic production capacity will increase to 1.5 Million tons/year. Global glass packaging production capacity will reach to 3.2 Million tons/year upon the completion of the greenfield investment in Hungary.

- In September, to meet the rapidly growing glass demand in Turkey we announced two new float line investments exceeding 350 Million EUR with a total capacity of 600K tons/year in architectural glass and automotive industry-dedicated glass production. Once these investments are completed, Şişecam's domestic float glass production capacity will increase by 30% to 2.6 Million tons per year. The lines will be operational within 2023. Additionally, close to the end of 2021, we acquired a land in Tarsus for our greenfield investment float line investment.

- In December, we successfully completed our US natural soda ash investment deal, which is the largest scale investment in our entire history. As you may recall, we increased our stake in Pacific mine from 50% to 60%, acquired 60% stake in Atlantic mine and 60% controlling stake in Ciner Resources for 450 Million USD. While Ciner Resources has 2.5 Million tons of annual capacity, Atlantic and Pacific have in total 5.4 Million tons capacity. Altogether, we will manage 8 Million tons natural soda production capacity in the U.S. We will be operating the lowest-cost capacity in the region. With our partner, Ciner, we will invest 4 Billion USD to develop Atlantic and Pacific projects in the next five years. On a pro rata basis, our total share for these investments will reach to 2.4 Billion USD. As far as our balance-sheet is concerned, including other growth projects we have already announced, or are included to our 5 year strategic plan, in glass production operations and scheduled cold repairs, we expect our consolidated net debt to EBITDA to peak around maximum at 2x in 2024, which is considerably lower than our comfort zone of 2.5x and we will sustain net long FX position throughout the investment period. Majority of the spending will be made in the next three years (from late 2022 to 2025). Once Atlantic and Pacific operations reach full capacity in 2027-2028 and as it is already the case for Ciner, we expect to generate 1 to 1.2 Billion USD EBITDA with 70% FCF conversion.

- And very recently, we acquired the Italian company Refel S.p.A., one of the world's leading refractory materials manufacturers with an annual production capacity of 6K tons for 22 Million EUR. Although, this investment is a fraction of our capex plan for the next five years, we believe it has a strategic importance. Having Refel in our portfolio will allow us to secure our AZS refractory needs and manage supply chain-based risk for our new furnace investments and scheduled furnace maintenance processes going forward.

On slide nine, I would like to take the opportunity to share a new chapter on our Sustainability Journey. We are now ready to launch our Sustainability Strategy 'CareforNext' for the year 2030, which is driven by the needs of societies and evolving challenges of our planet. The strategy introduces clear and compelling targets in the pursuit of the UN Sustainable Development Goals derived on dynamic assessment on ESG issues and backed by inclusive stakeholder consultation since 2020. The Strategy is also supported by a Compass developed following broad screening of ESG risks & opportunities as well as identified substantial investment needs from a corporate to plant approach with the contribution of more than 400 specialists. This diligent process enabled Şişecam to have a sound and genuine strategy with specific targets for 2030. In the new period, we remain committed in PROTECTING THE PLANET EARTH and EMPOWERING SOCIETY while introducing a new purpose called as "TRANSFORMING LIFE".

Moving onto slide ten, Recalling Şişecam's long and strong history on sustainable value creation, and 2021 has been another remarkable year for enriching our legacy on sustainability. We received a highly prestigious Sustainable Business award recognized as "Sustainability Oscars of Turkey" for our V-block product, which was the world's first antimicrobial glassware.

As mentioned, we developed our 2030 CareforNext Strategy with the target of moving Şişecam to the next level on sustainability. Our strategy will allow us to take a larger role in providing sustainable solutions and products for the wellbeing of societies and the planet. Our venture capital investment on a biotechnology solution had been a clear sign of this movement. The planet friendly innovation called BASALIA technology is to produce Hydrogen Gas energy while capturing CO2 emissions as core outputs of zero pollution processes. Natural soda ash investments, we have added to our operations portfolio very recently, is a clear sign of our vision on value chain sustainability, as well. This investment is to halve our CO2 and water footprints of our soda ash business line and is integral to our sustainability targets for 2030.

On Slide eleven, you may see the list of targets set as part of our 2017-2022 Sustainability Strategy and respective progress. We achieved some of them yet as we are sure, you will all agree that the last two years were exceptionally challenging due to the everlasting pandemic and we experienced certain setbacks in our sustainability too. We have already learned our lessons and we are ready to kick-start once again with our new strategy.

Moving onto the next slide, as underpinned by the pillar of Protecting the Planet in our new Strategy, we have adopted a clear vision of becoming CARBON NEUTRAL by 2050. As Şişecam, we do recognize the stark reality of Climate Crisis. Summer of 2021 had been a clear proof of global warming with the most devastating climate disasters we faced. Şişecam has been and will act with the full responsibility as an active partner in the solution to the climate crisis for the Next.

We have already began investigating opportunities for adopting a Science Based Target for 2030. We are fully aware that shifting to such path requires adoption of best available technologies as well as pioneering for breakthrough ones. We are determined to invest on an electrical furnace in the upcoming period given our strong R&D expertise. We are also exploring science on Magma Technology for solar melting in addition to the implementation of advanced technologies including but not limited to advanced furnace control technologies, waste heat recovery, increased boosting and cullet use, where technically plausible

This low carbon path by 2030 will make Şişecam more resilient to transitional risks of EU Green Deal and its integral component "Fit for 55 package" as well, while lowering risks stimulated by other emerging measures of carbon pricing around the globe.

We also aim to increase our renewables capacity by 8 times. We target to have 53 MW installed renewable energy production capacity by 2030 primarily for our plants' own electricity consumption. We have been also purchasing green electricity credited with International-Renewable Energy Certificate (I-REC) for our central office building here in Istanbul. We aim at further benefiting from I-REC opportunities in other operation geographies in upcoming term.

With respect to "Water use", which is one of the key topics of ESG for Şişecam, we are determined to reduce our water footprint by 15% compared to the level recorded in 2020. To achieve this goal, we will shift to closed loop cooling water systems while standardizing roof top rainwater collection systems our plants. Moreover, we will invest in BASALIA technology at our Mersin soda ash production plant where we will recover and reuse discharge water coming out of municipal wastewater plant. This is going to be one of the advanced examples of industrial symbiotic relationship in water cycle.

Since circular production approach is well embedded into Şişecam's way of doing business, we have well achieved our respective target within the previous strategy term and now ready to leverage them for 2030. We aim at reducing our entire packaging waste by 50% and at increasing external glass cullet ratio up to 35% in glass packaging.

Let me continue with the pillar of Empowering Society. We are committed to retain our vital role in "transferring glass heritage to future generations" and has been pioneering and actively promoting endorsement of 2022 by UN as International Year of Glass (IYG). We feel privileged to take part at the opening ceremony of IYG in Geneva soon and determined to display our leadership throughout the year and ahead.

With respect to our Equality, Diversity and Inclusion approach, now we have an increased target for WOMEN EMPLOYMENT rate to 25%. We will support this target by mainstreaming women friendly factory standard and by introducing Women's Expression Program across the entire operations.

We are also aimed at enhancing our inclusive workplace environment where Şişecam employees feel valued and participatory reflected by policies that provides equal, fair, safe and respectful for human rights. We aim to reflect our inclusive culture to all our business areas, and work to widespread this among our business partners.

Other key material issues under this pillar consists of “Function based and Competency fit Talent” with a clear target on increased number of trainings per employee a year. Additional goals include “Acquisition of New Generation Talents” and “Enhancement of Employee Engagement”.

We have refreshed our net zero incident vision, which is to be empowered by integration of programs on Safety Leadership and cultural transformation program on Occupational Health & Safety. We believe that this vision is not limited to zero incident and shall care for wellness of our employees through their life span. Hence, we are to expand our Total Wellness program and integrate it across regions.

I will proceed with the final pillar of the Strategy, called as “TRANSFORMING LIFE”. Scoped under this pillar, Our Digitalized Value Chain has three clear and lean goals including “Digital Workplace Environment”, “Digitalization of Corporate Level Operations” and “Decision Making based on Data Analytics”.

Prior to explaining our goal on sustainable products, let me recap on our product-based solutions in creating value for the society and planet. Our glass product solutions becomes more substantial every other day for the world’s low carbon transition. Our coated and low-e glasses provide energy and light control in buildings and responds to the needs of evolving policies such as “Renovation Wave for Europe”. We are also working intensely to support the clean mobility transition to provide lightweight auto glass solutions while aimed at increasing our share in providing glass fiber for wind turbines as well as high quality glass for photovoltaic panels. On the road to 2030, we aim at expanding our portfolio and ratio of those sustainable solutions in turnover. At present, we collaborate with 60 universities and companies from all over the world in the fields of R&D and we strive for boosting this goal in the near future. We have also initiated an In-House Capacity Building Program on Life Cycle Assessment for spotting improvement areas for more eco-friendly practices both at design and manufacturing phases. We are proud to have played a leadership role in establishment of eco-design criteria for glass products, which ended up in the issuance of Turkey’s national environmental label criteria for the sector.

As part of our supply chain sustainability vision, we will soon introduce a Supplier Capacity Building Program on sustainability and will seek for full commitment on our Supplier Code of Conduct by our entire suppliers by 2030.

As final remark of this slide, let me share that we are keen to reinforce our corporate mission through new partnerships on our sustainability goals (SDG17).

On Slide 13 Let me also explain how we govern Sustainability and execute the Strategy at Şişecam. We have a dedicated Committee on Sustainability, chaired by the CEO and coordinated by Chief Strategy Officer, with members of Chief Officers. Updated committee structure and associated working groups are now aligned with our new strategy and the organizational structure.

Beyond the core functions of the given committee, at the execution and monitoring phases in particular, the recently established Committee at Board Level, chaired by the Chairman of Şişecam BoD, provides oversight as well as guidance and direction on corporate sustainability while holding the mandate on endorsement of the Strategy.

I would like touch upon our ESG performance. We have been eligible for the İstanbul Stock Exchange’s Sustainability Index since 2016 and now complying with the stricter requirements against a broad scanning by Refinitiv on quarterly basis. We retain our “above the average performance” in most of the indexes.

On our final slide, we are now going under verification process by a third Party Assurance Agency on our sustainability reporting and practices for the first time. The verification will be conducted in accordance with international standards, and we are fully interested to learn further out of this process to improve our ESG practices.

We are also glad to inform you that we will soon be launching a new and dedicated micro-web site on sustainability, which will allow us to disseminate information for all our stakeholders at a faster pace.

Since I have completed sharing the comments and the slides with you, we can now move forward with the Q&A session.

## Q&A

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### Cemal Demirtaş, Ata Invest

My first question is about the outlook. You had a great year last year. How do you see the outlook for the first two quarters? How do you see the visibility? And some colour on the profitability side. Do you expect further synergies after the completion of the merger?

In your sector, do you see any threat from the changes in China in either way, – for the full year perspective – or the global perspective? It will be very helpful to see, at least, some indications about the trend in Turkey and in your other markets. Thank you very much.

## Görkem Elverici

Whether there is visibility; we believe is a question mark for everyone, not only for us. But we can provide a broader comment on how we started the year and what is our expectation. Still the markets are a seller's market, for sure the increasing cost and the inflationary environment is a challenge for everyone. We are experiencing difficulties from our suppliers in our input costs yet thanks to our strong positioning, translating these cost increases to the prices has been key to our profitability until now. As long as the market continues to be a seller's market, we believe that this will continue to give us room to be able to transfer these cost increases.

Looking at the industry, you have already seen that – starting with Turkey, but also considering the inflationary environment almost anywhere around the globe – we have been able to transfer the cost increases to our product prices, especially in the glass segment. With the improved pricing condition given the renewal of annual contracts, but we should say, this time they are quarterly or half yearly contracts that we formed for soda ash, has helped us to continue to perform strongly.

Considering our expectations from additional synergies, we must say that Şişecam has been on an ongoing transformation journey, especially in the last couple of years, which has been crowned by the merger process that has been completed back in 2020. Since then, we have continued to see the synergies, not only as cost synergies, but also as improvements in our marketing position and our market competitive position. And we believe it is important to remind that especially with the organizational changes that have been done by the end of last year, or early this year, we came to the end of the operating model transformation. With minor adjustments or improvements that will be made throughout the year, Şişecam, in terms of the operating model and the technology together with the capital base, is now readier than ever to fight against the global competition that is upcoming.

China is, as of now, in almost all the business segments we are operating in is not one of the main exporters to the markets that we are catering to. Mainly, it was a stronger competitor in the previous years for businesses like glassware. Due to the changes happening in the supply chain and the breakages that we are experiencing, China does not seem to be one of the main competitors moving forward at least for this year.

For sure, we are not in a position to wait and hope for the things to be improved on our side for the breakages in the supply chain, as supply chain breakages create more risks and issues to any companies, including Şişecam, than the benefits it might bring on the business side.

China doesn't seem to be one of the main competitors moving forward, especially with the market dominance we created, in terms of the more regionalized businesses we have in glass. On the soda ash side, China has become one of the net importers within 2021, due to many differentiated reasoning. And moving to 2022, looking at the increased demand, not only in China but also around the world, it seems to be at most that they might be able to fulfil the requirements coming from their local market not to become an exporter to the rest of the globe.

## Cemal Demirtaş

As a follow-up, Görkem Bey, could we roughly – I know the visibility is always a question – but could we just say that at least for the first half of the year. Could we say that at least for the first half of 2022, do you see a similar visibility as you shared in the past. Thank you.

## Görkem Elverici

Regarding the visibility in many markets, even in Turkey, please remember what has happened, especially in the last quarter of 2021, so many ups and downs, not only due to the currency fluctuation, but also due to the shortages that has been experienced in the market, rocket high input costs increases. As mentioned earlier, a seller's market provides us a little bit of comfort on, especially in the upcoming couple of quarters.

But things are changing in a very high frequency all around the world, and we believe how you are managing and coping with the risks and the performance you have put on the table is one of the most important things in this bumpy ride. We don't believe any of the companies or even the countries or economies have the right to say, "We have clear visibility moving forward", because everyone is affecting each other, especially with the breakages that we are experiencing in the supply chain.

Just to give you an example, if we were having this speech back in 2021 in the early days, everyone was expecting considerable decrease in the energy prices globally and all the product prices were aligned with those expectations. We don't feel to the need to remind you what has happened especially starting from the second half of last year.

So, what I can say, looking at our individual businesses, all the markets seem to continue to be a seller's market. The main driver and the demand drivers seems to be right. We are experiencing a quite strong demand coming from almost all segments. The only exception seems to be auto glass, but in fact if the auto companies are able to get the required chips from the industry, they can start to align themselves with the highly increased volumes of production, we believe that we will be seeing very shiny figures coming from auto glass business also.

But apart from this unique situation experienced in auto glass industry, for the rest, I believe that we will continue to have strong demand and strong profitability results.

## Kayahan Demirak

I also have a few questions, maybe I should go away on my one. First of all, can you give us some color about the impact of natural gas cuts in Turkey in terms of its effects on the output level and the profitability. Maybe the outlook of the furnaces and overall view would be great.

## Görkem Elverici

Overall, we can say that it was limited to roughly around 3-4% of our total production capacity including our soda ash business, thanks to the alternative sources we were able to convey. The main issue is not the natural gas, in fact. Electricity shortages has a higher impact on our business. For sure, there are alternatives we are trying to convey on that sense, but electricity shortages-led lower utilization of the lines in glass packaging and glassware has a higher impact. But with the utmost performance done by the collaboration of our supply chain and production teams, we have been able to limit it to a couple of percentages, which can be easily recovered in the upcoming couple of months.

## Kayahan Demirak

My second question, in the chemical side and in the packaging segment, I see a decline in the margin in the last quarter, I think more than 10% year-over-year excluding the other operating income expense. My question as you actually put it in the presentation is that part of the reason is that pricing cannot catch up with the cost inflation. For this year, do you see room for improvement in these two segments, and specifically for the chemicals. I would expect a 20% increase in soda ash prices. Would this increase enough to recover the cost pressures. Thank you.

## Görkem Elverici

Soda ash used to be an annually contracted commodity, and with the input price increases, especially during the last quarter and the increased ones even moving to the second half of the year, have impacted the margins to some extent. But apart from this, with the very much improved pricing conditions, starting from the beginning of this year, which will be fully reflected we believe, especially after the February-end results, we'll be able to recover for the increases.

And to be able to reflect any possible cost increases we may encounter in the coming quarters, including this one, this year we didn't make any annual contracts or multiyear deals, so they're more on a quarter of half year base escalated formulation, which is mainly including price adjustments based on any possible increase in the logistic costs or energy prices to be directly put in place in the following month. And every other quarter or every other half, the prices will be revised based on the changing market conditions.

And this is more or less the same for glass packaging. Glass packaging, normally, the escalation formulations were done annually or half yearly. Starting from the last quarter, we shifted to quarterly, even monthly basis for most of our contracted parties, and started to improve our pricing, which has happened through to the end of the year, thus was not fully reflected to 2021 results. And there has been considerable price corrections put in place to be aligned with the cost increases. So, we expect the margins to be a little improved compared to the last quarter for glass packaging.

## Kayahan Demirak

Is it reasonable to assume similar pay-out ratio with last year, since this year's earnings have been significantly supported by the FX? And how do you see domestic architectural glass market going forward, given the macro challenges? I understand that the export side is quite strong, but for Turkey, do you see any downside risk to the current volume sales. Thank you.

## Görkem Elverici

We are trying to stick to the pay-out ratio and even improve it where we find enough visibility for the upcoming years. But as we mention during all our semi-annually held webcast teleconferences, we are only looking at the operational performance. We are not considering the FX gains, which are not, in fact, gains, but a tax payment, when we are calculating our pay-out ratio.

We believe it might be better to stick to the analyst version of the EBIT to be able to link our pay-out ratios as we are excluding the one-offs items and the translation gains to be able to make a visible pay-out ratio based on the operational performance.

Please also be reminded that while a certain number of companies were refraining from making any distributions in the last couple of years due to ever-changing market conditions, Şişecam continued to be aligned with the pay-out ratio strategy it has. Although there are many investments still ongoing, we will try to stick to what we consider ourselves as a promise to our investors.

So, coming for the domestic architectural market, domestic architectural market especially starting from last year is no more a domestic market, we should say, because there are a couple of – a trio of dimensions that we need to consider together with the domestic market.

The first one, domestic market seems to continue to be strong, although there are some volatilities and uncertainties, particularly a possible increase of not the headline but the bank loan rates may create a risk going forward.

Together with Şişecam's exports, which had continued at lower levels compared to previous years, the domestic demand for exports in the secondary producers that we are catering to is increasing considerably because most of the secondary glass producers that are located in Turkey, especially starting with the breakage in the supply chain, but also then supported with the increased market demand coming from especially European and Middle Eastern markets, is now creating mainly the issues in glass supply not being able to meet the demand in the market.

And looking at it from this dimension, most of the sales are done in hard currencies for this purpose, and when we discussed with the main dealers that we are working with, it seems that this year will – with the backlog they have for their own projects, for sure the first half, but most probably the second half will continue to prove to be quite strong.

And also, the third lever of export is the Turkish contractors going to foreign markets, willing to use the glass products that they are used to. So, there is a huge increase in the Turkish contractors' abroad projects also, which they are billing to either directly sourced from our own end products, or sourced from the secondary glass producers that we are catering to.

So, all those three export dimensions, plus the domestic demand proves to be very strong. And the main challenge for us seems to be not to be able to cater to the needs of the domestic market, rather than not being able to sell in the domestic market.

And we should also remind that we have already decreased our flat glass export to the minimum levels that we can, especially last year. And there is a huge demand coming from the international markets, with very good pricing conditions, similar to that is in Turkey.

So, most probably architectural glass will continue to have a very strong year again. For sure, we need to keep a caveat on one side for all the business lines, not only specific architectural glass, that so-called "stagflation" expected that might happen in the coming quarters of years around the globe will be a reality for everyone, not for only Şişecam, not for the glass industry itself. And for a possible scenario like this, we are for sure making all the scenario analysis and mitigation tools are in place for us to fight with these upcoming market conditions better than our competitors.

### **Pawel Wieprzowski**

I have, in fact, a few clarifying questions. You've mentioned, not surprisingly, that the production of glass for automotive industry is still quite weak. So, shall we assume that the volumes we saw in this business in the fourth quarter will be maintained in the first quarter of this year. At this stage, what do you see?

### **Görkem Elverici**

We believe that will be a fair assumption. The thing is that we have also very considerable demand coming, especially from the secondary or replacement market, but the thing is that we have already dedicated ourselves to many projects on the OEM business, and the visibility they have on their side proves for themselves that there will be a very strong production in the upcoming quarters, due to the sizeable demand that has not been able to be fulfilled by production, especially within the last one and a half years. We continue to produce so that we can cater to their requirements that is expected to be in place in the upcoming quarters.

So, that's why we are also building up inventory in auto glass business, but it is not something that is going on forever, for sure. Especially after the first quarter, if we see that demand is not still piling up, we are planning to shift some of the production line directly to the secondary market business.

### **Pawel Wieprzowski**

My second question is, in fact, also a clarification of what you've already mentioned that there is still strong demand in all of your businesses, except auto glass. You are enjoying the seller's market. So, my question is, shall we assume that in the first quarter, excluding auto glass business, the capacity utilization ratios in the other businesses should be similar to the one that you reported, which were in fact, stellar, adjusted for the lost 3-4% volumes in Turkish operations stemming from the shortage of gas.

### **Görkem Elverici**

You're perfectly right. Just to provide a blended picture, we may say that we are already operating above 90% capacity utilization in glass businesses.

### **Pawel Wieprzowski**

So, is it fair to assume that your backlog in terms of your order book is quite stable at this stage, versus what you have seen in the fourth quarter?

## Görkem Elverici

Yes, we can totally come to that conclusion. So, all the businesses, in fact, auto glass is also providing to be very successful by demand, but unfortunately, as the cars are not produced, they are not turning into revenues. So, we are also discussing with the OEMs how to be able to start turning them to revenue, not only us, but 400 differentiated supplier groups are negotiating the same with the auto industry. And we believe that as they have been able to just end the year most probably very strongly, we may start to discuss something different as the suppliers and the auto OEMs, starting from the first quarter of this year.

Just to remind, for sure, especially glass business is subject seasonality, to some extent. But even in glass packaging, we have made the necessary moves to smoothen it.

## Ece Mandaci

I have a question regarding the working capital. We see that the working capital requirement has increased in the fourth quarter. You already mentioned in your earnings review that it was also linked to FX translation effects. So, going forward in the first quarter, should we assume some normalization or decline in the working capital over sales? My reasoning is that because now architectural glass has a higher revenue share, and of course number of receivable days are generally higher in this segment compared to chemicals. Maybe this mix effect could have some effect in the increase, and it might normalize with new contract pricing in the soda ash business, for example. Or how should we assume? In an inflationary environment, could there be a sharp QoQ decline in inventory days? Could you just give a general view on that? Thank you very much.

## Görkem Elverici

So, it might be a little bit over exaggerating if we say there will be a sharp decrease in quarter-on-quarter but, for sure, there will be a normalization. One of the main reasons is the acquisition we completed in the US in the last quarter. The second one is the valuation effect coming, especially, in our inventories.

And we should say that looking at the overall business model or the portfolio, the increasing share of soda ash business, in fact, is lower inventory and better working capital business. And as we mentioned, the new investment is expected to bring above 70% free cash flow generation, the one to be completed in Atlantic, Pacific and more or less all the soda ash businesses, not maybe as high as 70%, in that sense, but better performing than the glass businesses, in general.

And we believe with the improved pricing environment and being able to see the translated effect of the increased currency also in the sales figures, not only in the inventories on an average basis, it will continue to mild the working capital ratios that we have. And we need to stress that the company, apart from all these things happening in very short periods of times, like quarters, has been investing extensively to continuously improve its working capital usage and the percentages.

So, one of the many reasons why we decided to further invest in businesses like soda ash, is to improve our working capital and return generation performance in almost all dimensions.

## Conclusion

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## Görkem Elverici

Thank you very much. As we keep on sharing with you, so we will also meet with you, with the half year end results moving forward. And we would like to thank everyone for their participation.

As we mentioned during the presentation and while we were trying to answer the questions, we believe that Şişecam will continue to deliver strong results, especially for the visible period of the half year. And for sure, we will share with you our perspectives moving forward, especially in the half year call that we will hold, most probably late July or early August.