

Financials (TRY mn)	2Q2017	1Q2018	2Q2018	YoY Growth	QoQ Growth	1H2017	1H2018	YoY Growth
Revenue	630	545	837	33%	54%	1.164	1.382	19%
Gross Profit	169	166	247	46%	49%	308	413	34%
Gross Margin	27%	30%	30%			26%	30%	
EBIT	81	92	145	79%	58%	148	238	61%
EBIT Margin	13%	17%	17%			13%	17%	
Adjusted EBIT*	54	77	100	86%	30%	110	177	61%
Adjusted EBIT Margin*	9%	14%	12%			9%	13%	
Analyst EBIT**	51	58	106	107%	82%	88	164	85%
Analyst EBIT Margin	8%	11%	13%			8%	12%	
EBITDA	154	171	228	48%	34%	292	399	36%
EBITDA Margin	24%	31%	27%			25%	29%	
Adjusted EBITDA*	127	155	183	44%	18%	254	338	33%
Adjusted EBITDA Margin*	20%	28%	22%			22%	24%	
Analyst EBITDA**	124	136	188	52%	38%	233	325	39%
Analyst EBITDA Margin	20%	25%	23%			20%	24%	
Net Income	71	64	166	133%	160%	114	229	101%
Net Margin	11%	12%	20%			10%	17%	
Capex	114	91	242	113%	167%	182	333	82%
Capex/Sales	18%	17%	29%			16%	24%	
*Excl. non-recurring income/expense								
**Calculated by deducting the sum of COGS and OPEX from Revenues								

## COMMENTS ON ANADOLU CAM SANAYİİ A.Ş. 2Q2018 CONSOLIDATED FINANCIAL STATEMENTS

### Important Notice Regarding Accounting Policy Change:

Şişecam Group Companies were used to report third party logistic expenses by deducting from gross revenues. Starting from 4Q2017, these expenses are now booked under S&M expenses. Comments on the year-on-year changes in 2Q2018 financial results were derived from 2Q2017 restated results.

In the second quarter of this year, Anadolu Cam recorded **TRY 837mn** net revenues, **33%** higher on a y-o-y.

### Topline Contributors

#### **2Q2018 vs. 2Q2017**

- **12%** increase in consolidated volume of sales
- Annual average unit price increase of **12%-13%** in TRY terms, implemented in the beginning of 2018 in Turkey
- Annual average unit price increase of **4%** in RUB terms in Russia
- Appreciation of RUB against TRY by **12%** y-o-y on average
- Growing share of exports from Turkey and Russia with respective contributions to the regional gross revenues of **20%** and **19%** (vs. **12%** and **16%** in 2Q2017)
- Positive impact of TRY depreciation on the average annual unit selling price resulting from the rise in share of exports from Turkey
- Higher share of value added products in export-oriented portfolios

## **Key Points on the Operational Performance**

In 2Q2018, domestic output increased by **6%** on a y-o-y basis, while a **1%** contraction was recorded in international production. As a result, Anadolu Cam experienced a **2%** increase in its consolidated production volume, which brought up the company's total output to **490K tons** vs. **480K tons** in 2Q2017.

Anadolu Cam recorded a **12%** growth in its consolidated sales volume. Domestic sales volume increase of **4%** was a result of both strong market demand and low base impact of the previous year's sales volume. At the same time, international sales volume grew by **17%**. Breakdown of the international operations pointed out that exports from Turkey increased by **72%** y-o-y thanks to bigger cooperation with existing clients and successful attempts in acquiring new clients. Meanwhile sales from other operating regions increased by **11%** thanks to the beer and beverage markets supported by the World Cup event held in Russia and the good weather conditions on top of properly defined strategy and portfolio allowing the company to balance seasonality, expansion of cooperation with multinational clients, and growing demand for exports.

From a geographical point of view, **56%** of the revenues were generated by international sales (incl. exports from Turkey) in the reporting period. Contribution of international revenues to the consolidated turnover was **52%** of 2Q2017.

## **Review of 2Q2018 IFRS results**

Based on IFRS segmental breakdown, Turkey operations (incl. exports from Turkey) maintained its dominant position with **56%** share in **TRY 837mn** consolidated topline figure.

Consolidated COGS increased by **28%** y-o-y (**TRY 590mn** vs. **TRY 461mn**) mainly as a consequence higher sales volume but also due to the rise in raw material and general production expenses, which grew by **20%** and **21%**, respectively and the decline in final product inventory. Breaking down those accounts, showed that;

**a)** the rise in Turkey operations resulted from growing natural gas and electricity expenses with the tariff hikes implied in the first and second quarters of 2018 and increasing hard currency denominated raw material expenses such as soda ash and packaging materials due to especially local currency devaluation. Per ton production costs increased by **22%** on a y-o-y basis, while the segmental COGS grew by **29%**.

**b)** on the non-Turkey operations side, rising raw material and packaging product expenses were balanced with proper mix of SKU combinations enabling the company to improve its cost efficiency through the elimination of low profit margin products. However, **4%** increase recorded per ton production costs in RUB terms translated into a **16%** in TRY terms due to local currency depreciation. Segmental COGS grew by **27%** on a y-o-y basis.

**TRY 247mn** gross profit, generated by Anadolu Cam, pointed out to a **46%** y-o-y increase and led to a gross profit margin of **30%**, (up from **27%** in 2Q2017). From a regional perspective, Turkey operations composed **53%** of the consolidated gross profit and recorded **28%** margin (up from **25%**). Gross profit margin recorded by non-Turkey operations grew from **29%** to **31%**.

Compared with the same period of the previous year, Anadolu Cam's operating expenses were up by **20%** (**TRY 141mn** vs. **TRY 118mn**). Accordingly, OPEX/sales ratio stood at **17%** level (down from **19%** in 2Q2017).

Based on the financial reporting principles, FX gains and losses in relation with commercial receivables and debt are booked under “other operating income and expenses”. Local currency depreciation seen 2Q2018, resulted in higher FX losses on trade payables. In addition to that, the company recorded **TRY 21mn** in total as provision for potential losses (**TRY 9mn** in relation with ongoing court cases and **TRY 12mn** in relation with IFRS 9 standards on trade payables/receivables and financial investments for the first six months of 2018). As a result, Anadolu Cam’s has a net other expense from main operations of **TRY 7mn** (vs. **TRY 18mn** income in 1Q2018).

With the **15%** q-o-q rise in period-end USD/TRY rate, Anadolu Cam recorded **TRY 45mn** as revaluation gain on its investment portfolio, which is composed of **TRY 307mn** equivalent USD-denominated long-term fixed income securities with semi-annual coupon payments.

Anadolu Cam generated **TRY 46mn** as net income from investing activities including revaluation gains on fixed income securities portfolio and the share received from the net profit of its associates. The account’s balance was **TRY 31mn** in 2Q2017, which was mainly a result of stake sale in OMCO Kalıp, as the company recorded **TRY 5mn** revaluation loss on fixed income securities in that period.

Excluding one off gain/loss on the subsidiary stake sale (in 2Q2017) and on the fixed income securities investment recorded in 2Q of both 2017 and 2018, EBIT was **TRY 100mn** and EBITDA was **TRY 183mn** and the margins were **12%** (vs. **9%** in 2Q2017) and **22%** (vs. **20%** in 2Q2017), respectively.

Anadolu Cam experienced two-sided impact of local currency depreciation in 2Q2018. While the company’s FX gains on cash held in hard currencies recorded a significant jump, its FX losses on issued Eurobonds had a decent increase, limiting net FX gains increase to **TRY 8mn** y-o-y. Net interest expenses were **TRY 3mn** lower than the previous year in the same period Accordingly, Anadolu Cam recorded a net financial expense of **TRY 33mn** vs **TRY 44mn** recorded in 2Q2017.

Thanks to mainly its strong operational performance in 2Q2018 and **TRY 57mn deferred tax income** the company was entitled to book in relation with the incentives granted to its new furnace investment in the form of corporate tax expense discounts, 2Q2018 net income came in at **TRY 166mn** (up by **133%** y-o-y) and net margin of **20%** versus **TRY 71mn** and **11%** seen in the same period last year.

Anadolu Cam had a total capex of **TRY 242mn** (vs. **TRY114mn** in 2Q2017) in relation with its new furnace investment together with cold repair in Yenişehir plant, mold and operational efficiency investments.

Compared with 2017 year-end net long FX position of **TRY 64mn**,

- Anadolu Cam had a **USD 43mn** decrease in USD net long position due to a parallel decline in USD-denominated assets
- The company’s EUR net short position including derivate contracts decreased by **EUR 36mn** with the rise in EUR-denominated assets while **EUR 65mn** derivate assets (cross currency interest rate swaps) were expired and forward liabilities decreased by **EUR 5mn**
- Other currencies’ net long position decreased by **TRY 10mn**
- Accordingly, the company recorded a net long FX position of **TRY 63mn**.

Compared with 2017 year-end, gross debt increased by **TRY 295mn** to **TRY 2,1bn** and cash&cash equivalents’ balance (incl. financial investments and other receivables from related parties) stood at **TRY 710mn** (down by **TRY 115mn**), which in turn led to a net debt of **TRY 1,4bn** as of 2Q2018.

**Important events during and after the reporting period:**

Anadolu Cam distributed **TRY 60mn** cash dividend at the end of May 2018.

Anadolu Cam's 4th furnace investment in Eskişehir plant has been completed and the new furnace with a glass production capacity of 150,000 tons per year has been taken online on July 24th.

In 2H2018, in order to pass through the rise in production costs, Anadolu Cam started to implement a second round of price increases, at levels bringing the overall annual change in 2018 average per ton prices up to **15%** in Turkey.

Şişecam IR Team



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