

COMMENTS ON TÜRKİYE ŞİŞE VE CAM FABRİKALARI A.Ş. 2019 Q3 CONSOLIDATED FINANCIAL STATEMENTS

Based on 2019 Q3 IFRS results,

Summary Financials	9M'18	9M'19	YoY Change	Q3'18	Q2'19	Q3'19	QoQ Change	YoY Change
Revenue	11.083	13.216	19%	4.302	4.695	4.599	-2%	7%
Gross Profit	3.721	4.347	17%	1.498	1.518	1.541	2%	3%
Gross Margin	34%	33%	-68 bps	35%	32%	34%	118 bps	-130 bps
EBIT	3.566	2.442	-32%	1.837	795	781	-2%	-57%
EBIT Margin	32%	18%	-1369 bps	43%	17%	17%	5 bps	-2572 bps
EBITDA	4.339	3.436	-21%	2.126	1.149	1.109	-3%	-48%
EBITDA Margin	39%	26%	-1315 bps	49%	24%	24%	-36 bps	-2529 bps
Net Income After Minority Interest	2.075	1.359	-34%	1.031	480	431	-10%	-58%
Net Income Margin	19%	10%	-843 bps	24%	10%	9%	-85 bps	-1461 bps
Capex	1.478	1.663	13%	642	813	423	-48%	-34%
Capex/Sales	13%	13%	-75 bps	15%	17%	9%	-812 bps	-572 bps
Adjusted EBIT*	2.344	2.156	-8%	1.112	685	798	16%	-28%
Adjusted EBIT Margin*	21%	16%	-483 bps	26%	15%	17%	275 bps	-850 bps
Adjusted EBITDA*	3.117	3.150	1%	1.400	1.039	1.126	8%	-20%
Adjusted EBITDA Margin*	28%	24%	-429 bps	33%	22%	24%	235 bps	-807 bps
Adjusted Net Income*	2.026	1.400	-31%	1.031	480	439	-8%	-57%
Adjusted Net Income Margin*	18%	11%	-768 bps	24%	10%	10%	-67 bps	-1442 bps
Analyst EBIT**	1.706	1.829	7%	719	620	690	11%	-4%
Analyst EBIT Margin**	15%	14%	-155 bps	17%	13%	15%	179 bps	-172 bps
Analyst EBITDA**	2.479	2.823	14%	1.008	975	1.018	4%	1%
Analyst EBITDA Margin**	22%	21%	-100 bps	23%	21%	22%	138 bps	-129 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 282 Million. The impacts on P&L in the third quarter were TRY +11 Million on EBIT, TRY +2,4 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 Q2'18 and this has been restated as per the results of PPA study by end of Q2'19

Financial Highlights (Q3'19 vs Q3'18)

- **Revenue** came in at TRY 4.6 Billion, up 7% YoY (EUR 730 Million, up by 11% YoY in EUR terms)
- **Gross profit** was at TRY 1.5 Billion, up by 3% YoY with a margin of 34%
- **Adjusted EBITDA** came in at TRY 1.13 Billion (EUR 179 Million, down by 17% YoY in EUR terms) with 24% margin, down by 807 bps YoY
- **Net Income after Minority Interest** came in at TRY 431 Million with a margin of 9%
- **Capex** came in at TRY 423 Million. Capex to sales ratio is at 9%
- **FCFE** came in at TRY -823 Million in 9M'19

Business Segment & Regional Performance

In Q3'19, 35% of the net revenues generated from flat glass, 27% from glass packaging, 19% from chemicals and 16% from glassware and the remaining 3% from other operations.

Flat Glass segment recorded TRY 1.6 Billion revenue in Q3'19 down by 2% YoY mainly due to lower sales volume and appreciation of TRY. Operations in Turkey; have the highest contribution to topline growth mainly due to positive pricing adjustments in the local market which were made in the last quarter of 2018 and second quarter of this year. Share of international revenues was at 55%, slowdown in demand and pricing dominated European market, which was also an outcome of the holiday season in the region. Share of Indian operations in total revenue was at 6% in Q3'19, higher sales volume and positive currency impact amid weak pricing were the drivers of 13% YoY increase of revenue in this region. Russia remained solid thanks to higher contribution from auto-glass operations. After one-off adjustments, EBITDA margin of flat glass which came down to 21% in Q3'19 from 24% in Q3'18 mostly due to higher royalty fee and lower sales volume vs Q3'18.

Chemicals division's revenue was TRY 1.1 Billion, up by 3% YoY in Q3'19, mainly driven by positive currency impact. 22% of the division's revenue was generated by intra group sales (vs. 15% in Q3'18). Soda ash prices were up by 8% in USD terms while sales volume was declined by 2%. On the chromium chemicals side, average per unit prices were down by 11% and sales volumes decreased by 7% due to low production volume resulting from production facility stoppage in order to carry out planned maintenance as well as inventory optimization. TRY 50 Million incremental revenues were generated by Sisecam Elyaf, however inventory optimization conducted in this business segment ended up in low CUR level, hence a gross profit margin level of slightly above breakeven. 91% of Chemicals' segment revenue was generated by Soda Sanayii in Q3'19 whilst remaining 9% by the mining operations. After one-off adjustments, Chemicals' EBITDA margin was at 25% vs 44% in Q3'18 due to the rise in COGS, which is mainly due to lagged impact of natural gas tariff hikes implemented in August and September 2018 and partial impact of 7% increase implemented in July 2019.

Glass Packaging division recorded TRY 1.3 Billion revenue, up by 37% YoY; growth was primarily driven by double digit increase in sales volume, average per ton price adjustments implemented both in Turkey and in other operating regions, rising export volume from Turkey and change in sales mix. Exports from Turkey kept its upward trend by increasing 114% YoY in volume terms. Domestic sales volume increased by 5% with improved demand dynamics triggered by the holiday season, warm weather conditions and better consumer sentiment, while sales from non-Turkey facilities were up by 0,5%. After one-off adjustments, EBITDA margin was at 27%.

Glassware segment's revenue came in at TRY 732 Million, grew by 13% YoY, mainly thanks to positive price adjustments in domestic market, increase in sales volume in international markets and favorable channel mix in total sales. Share of international sales was at 66%. FX loss on trade receivables and payables was at TRY 14 Million in Q3'19 compared to TRY 117 Million gain in Q3'18, excluding this, Adjusted EBITDA margin would contract by 183 bps YoY. Initiatives taken for production planning in order to optimize inventory levels also put pressure on the margin.

Share of international revenues is at 61% in Q3'19. While share of revenues generated from Russian operations in total revenues remained flat at 14% and the share of other regions rises up to 4% from 3% YoY, share of European operations in total revenues decreased to 22% from 24%.

P&L Analysis (Q3'19 vs Q3'18)

Şişecam's topline growth was 7% YoY in Q3'19, highest contribution came from glass packaging of which revenue increased by 37% YoY in Q3'19 and its contribution to Şişecam topline increased to 27% in Q3'19 vs 21% in Q3'18

Gross Profit increased by 3% YoY and came in at TRY 1.5 Billion in Q3'19 while **consolidated COGS increased by 9% YoY.** Gross profit margin was at 34% in Q3'19, down by 130 bps YoY as decrease in chemicals (down from 44% in Q3'18 to 33% in Q3'19) and glassware segment's gross profit margin (down from 39% in Q3'18 to 34% in Q3'19) were the main drivers of margin contraction

In Q3'19, main operating expenses increased by 9% YoY whilst main opex to sales ratio increased by 40 bps YoY in Q3'19 mostly due to the increase in S&M expenses in relation to transportation costs demonstrating higher increase in glass packaging segment of which opex/sales ratio increased by 200 bps YoY and reached 18% in Q3'19. G&A expenses decreased by 5% YoY while its share in total operating expenses decreased to 27% from 31%

Şişecam posted **TRY 36 Million net other income from main operations in Q3'19** vs TRY 364 Million in Q3'18 mainly due to lower financing income on trade receivables and payables out of TRY 21 Million was booked as fx loss, which was TRY 289 Million gain in Q3'18 due to high volatility seen in TRY against hard currencies. TRY 8.5 Million one-off expense was recorded in Q3'19 in relation to restructuring expenses in encapsulation unit

Investments in associates and joint ventures decreased by 7% YoY and came in at TRY 28 Million in Q3'19.

Şişecam's net expense from investing activities came in at TRY 2 Million in Q3'19 versus TRY 753 Million income in Q3'18. TRY 8 Million revaluation loss on fixed income securities booked in Q3'19 compared to TRY 754 Million revaluation gain in Q3'18. TRY 29 Million provision income was booked on fixed income securities & time deposits out of TRY 0.5 Million expense was related with Eurobond investments in order to comply with IFRS 9. TRY 8.5 Million one-off expense was recorded in Q3'19 in relation to restructuring expenses in encapsulation unit of flat glass.

After excluding one-off figures, **Company's EBIT came in at TRY 798 Million** and **EBITDA was TRY 1,126 Million down by 20% YoY with an EBITDA margin of 24% in Q3'19 vs 33% in Q3'18.** FX loss on trade receivables and payables which was booked under net other income from main operations, was at TRY 21 Million in Q3'19 compared to TRY 289 Million gain in Q3'18, excluding this, Adjusted EBITDA margin would increase to 25% in Q3'19 from 23% in Q3'18. IFRS-16 implementation had a positive impact on EBITDA, which lifted the margin up by 63 bps.

Adjusted net income after minority interest came in at TRY 439 Million in Q3'19, representing a net margin of 10%, decreased from 24% in Q3'18.

Tax expense decreased to **TRY 33 Million** in Q3'19 vs TRY 97 Million in Q3'18 mainly due to positive impact coming from simplified merger of Yenisehir and Polatlı plants of Trakya Cam after acquiring 15% stake of Şişecam in these plants despite reduced deferred tax income in relation with incentives in all business units. Effective tax rate is at 5% at Q3'19 (vs. 6% in Q3'18)

TRY 160 Million net financial expense was recorded in Q3'19 compared to TRY 287 Million expense in Q3'18. TRY 41 Million net fx income on financial assets & liabilities including derivatives recognized in Q3'19 versus TRY 212 Million fx loss in Q3'18. Please note that; TRY 8 Million fx loss 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 85 Million financial income was recorded from this transaction. TRY 201 Million interest expense was recorded in Q3'19 vs TRY 74 Million interest expense in Q3'18 mainly due to increase in average borrowing cost after the bond issuance back in March and coupon payment of the new issuance made within this period.

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 2.5 Billion)** including financial liabilities regarding EBRD put option. TRY 610 Million operational lease was recorded under financial liabilities in accordance with the amendment on accounting standard of the IFRS-16. 41% 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 at TRY 9,9 Billion in 9M'19, increased from TRY 5.8 Billion in 2018. **Net debt increased to TRY 4.5 Billion (USD 788 Million) in Q3'19** 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 1.1 in Q3'19 vs 0.5 in 2018.**

The company's net long FX position increased to TRY 3.2 Billion in 9M'19 vs TRY 2,4 Billion in 2018. Company has EUR 315 Million short position in 9M'19 vs. EUR 113 Million long position in 2018, while net assets denominated in USD increased to 883 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

- Fitch downgraded Şişecam's credit rating to BB- from BB+ while maintaining the outlook as "negative" in July
- Starting September 17th onwards, Şişecam purchased a total of 26 million shares in its group companies of Soda Sanayi, Trakya Cam and Anadolu Cam.
- Starting October 15th onwards, parent company İş Bank purchased 8 Million Şişecam shares. Accordingly, İş Bank's share in Şişecam increased from % 67.11% to 67.47% as of 21.10.2019. As of the financial statement disclosure date İş Bank's share in Şişecam stood at 67.11%.

Flat Glass (TRKCM)

- Capital Markets Board of Turkey approved simplified merger of legal entities of Yenişehir and Polatlı plants on second of September. 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
- Trakya Cam was granted by EUR 200 Million syndicated loan with the borrowing rates of Euribor+2.65% (for EUR 175 Million) and Euribor+2.95% (for EUR 25 Million) in order to fund its upcoming capex and net working capital requirements

Glass Packaging (ANACM)

- Anadolu Cam announced its decision to resume its operations in Pokrov Plant, where production was temporarily halted in July 2013, with one furnace within 2Q20. Annual production capacity of the furnace will be 70K ton/year upon completion of the required capex of USD 15mn and total operating capacity of Anadolu Cam will have reached 2,43 million tons (vs. current operating capacity of 2,36 million tons)
- Legal name of Balsand B.V., Netherlands-based subsidiary, was changed to Sisecam Glass Packaging B.V. on August 13th. Sale of glass packaging was added to the company's business scope

Glassware (DENCM)

- Denizli Cam's share capital increased to 15 TRY Million through TRY 9 Million capital increase with rights issue, which was completed in October

Chemicals (SODA)

- Soda Sanayii's application, for a capacity expansion project at its Mersin Plant, was acknowledged by Ministry of Environment and Urbanization. The authority announced the commencement of Environmental Impact Assessment process on August 27th
- All transactions in relation with the foundation of Sisecam Chemicals USA Inc., a US-based wholly-owned subsidiary of Soda Sanayii, and its 50% participation in Pacific Soda LLC have been completed



TÜRKİYE ŞİŞE ve CAM FABRİKALARI A.Ş.

Şişecam Genel
Merkezi

D-100 Karayolu Cad.
No:44A 34947
Tuzla/Istanbul
Türkiye

sc_ir@sisecam.com

D:1 +90 850 206 37 91
D:2 +90 850 206 33 74
D:3 +90 850 206 34 17

APPENDIX

One-Off Impacts excluded from Financials:

Excluding From EBIT:

Q3'19: - TRY 17 Million: TRY 8 Million revaluation loss on fixed income instruments including impairment on financial investments in order to comply with IFRS 9, TRY 8.5 Million one-time expense in relation to restructuring in encapsulation unit of Trakya Cam

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

Q3'18: + TRY 725 Million: Revaluation gain on fixed income instruments amounting to TRY 725 Million including impairment on financial investments in order to comply with IFRS 9

9M'19: + TRY 286 Million: TRY 327 Million revaluation income 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, TRY 8.5 Million one-time expense in relation to restructuring in encapsulation unit of Trakya Cam

9M'18: + TRY 1,222 Million: Revaluation gain on fixed income instruments amounting to TRY 1,173 Million, Income generated from PPA valuation of HNG amounting to TRY 49 Million

Excluding From Net income:

Q3'19: -TRY 8.5 Million: TRY 8.5 Million one-time expense in relation to restructuring in encapsulation unit of Trakya Cam

9M'19: - TRY 41 Million: TRY 8.5 Million one-time expense in relation to restructuring in encapsulation unit of Trakya Cam, TRY 33 Million one-time retrospective payment regarding carbon emission quota acquisition

9M'18: TRY 49 Million: Income generated from PPA valuation of HNG

Q3'18 & 9M'19: IFRS-16 Impact on Financials:

IFRS-16 impact on P&L (TRY Mn.)	Net Income	EBIT	EBITDA
Flat Glass	+0,5	+1,5	+5,6
Glassware	+0,9	+4,9	+13,1
Glass Packaging	+0,2	+1,1	+3,8
Chemicals	+0,3	+1,2	+2,1
Other	+0,5	+2,1	+3,9
Sisecam	+2,4	+10,9	+29,0

IFRS-16 impact on BS (TRY Mn.)	Asset	Liability	Equity
Flat Glass	+56,6	-61,4	+4,9
Glassware	+128,1	-138,3	+10,2
Glass Packaging	+21,0	-23,5	+2,5
Chemicals	+36,2	-39,7	+3,5
Other	+47,9	-54,3	+6,3
Sisecam	+289,9	-317,2	+27,4