



Transcription for ŞİŞECAM A.Ş

August 17th 2016

Corporate Participants

Görkem Elverici

Şişecam A.Ş – Chief Financial Officer

Başak Öge

Şişecam A.Ş –Investor Relations Director

Baris Gokalp

Şişecam A.Ş – Treasury Director

Presentation

Operator

Ladies and gentlemen, welcome to Şişecam 2016 First Half Financial Results conference call. I will now hand over to our host, Mr Görkem Elverici, CFO. Sir, please go ahead.

Görkem Elverici

Thank you. Good afternoon ladies and gentlemen, I would like to welcome you to our webcast today where we will be talking about our first half results and some key developments that had impacts on our operations. Today, I am together with our IR Director, Ms Başak Öge and our Treasury Director, Mr Baris Gokalp. At the end of the presentation, we will be happy to take your questions and I would like to remind you that our presentation and the Q&A session may contain some forward-looking statements and our assumptions are based on the current environment and may be subject to change.

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Moving to slide two, before talking about the financial performance in the first half of 2016, I'd like to quickly walk you very briefly through the economic and political landscape, as well as the industrial developments that had significant impacts on our operations.

Moving onto slide three, while the global economy grew by roughly 3% in 2015, IMF has revised down its expectation for 2016 from 3.4% to 3.1%. The growth rate in emerging markets is expected to be around 4% levels, with China slowing down to 6.6% and India surpassing China with a 7.4% growth rate as per IMF. We have been witnessing political instabilities and security issues in different parts of the world, for example in LatAm the refugee problems in Turkey and Europe; the tension between Turkey and Russia up until recently, and the unfortunate terror attacks happening; meanwhile, the Brexit tension leading to continuous risk in Eurozone. On the back of all these developments, loose monetary policy ECB countries continues and the Fed rate hike is continuously postponed, leading to a negative interest rate environment.

Moving onto slide four, Turkey's macro environment, despite all the adversities that I mentioned in the previous slide, Turkey has still managed to grow by 4.8% in the first quarter of 2016. Turkish lira devalued by 4% year-to-date against the basket of EUR and USD. Foreign trade balance improved by 16% in the first half of 2016, mainly due to lower oil prices, as Turkey is a net importer of oil.

On slide five, I would like to talk briefly about the geographies that are important for the global economy and also for our businesses. The Eurozone remains a very important market for us with still certain fragilities. In the first quarter, despite the volatile financial markets, weak demand, Brexit happening, and low inflation, the region has grown higher than expected on the back of domestic demand. The ECB continues to provide liquidity through asset purchase programme, and interest rate levels have turned negative in many of the developed European countries. As for Russia, falling oil price is not helping the world's largest energy exporter. While the economy shrank by 3.7% in 2015, in Q1 it was 1.2% and inflation has come down to 7.5% as of June. Economic sanctions imposed by the EU and current level of oil price still leads to a bleak horizon about the recovery before 2017. Lastly, the situation in Ukraine has not changed much since last year. However, we may see a very slight GDP growth rate in 2016. Inflation rate and devaluation of hryvna are expected to be lower in 2016 compared to last year. Risks pertaining to political instability and lack of reforms continue. We continue to closely monitor the market conditions and continue with our preparations to reopen the plant and resume production upon seeing some positive developments in the market.

Now, I'd like to talk about the industries that are relevant to our operations on slide seven. I would like to give a brief update of the global glass industry and Turkish glass industry. Globally, a growth of 2-4% per annum is sustained through selective capacity increases based on global emerging markets GDP

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growth expectations, as the two remain highly correlated. Turkey has a total production capacity of 3.8 million tons, but approximately 82% belongs to Şişecam. In the first half of 2016, Turkey's glass exports in terms of quantity increased by 3% year-on-year, so that's the imports again in terms of quantity excluding Şişecam's imports is gradually decreasing and was almost flat year-on-year as it had increased by 3% in the first quarter. The decrease in imports is mainly due to the anti-dumping measures taken against the Iranian products and improvements in the Russian flat glass market, hence lower exports to Turkey. Other protective measures also had a positive impact on the decrease of imports too.

Let's now have a look at the industries that are important for our businesses on slide eight. Following a great year of growth of 25% in terms of auto sales and exports in 2015, the auto industry in Turkey grew by 9% in the first half of 2016. As for Europe, which is an even more important region for our auto glass business, despite the lower GDP growth rate, car sales grew by almost 9.4% in the Eurozone, with demand mainly coming from Cyprus, Italy, Spain, France, and Germany. As you may recall, we had shared our expectations during our March webcast in relation to reconstruction activity of 2015 to lead to pent-up demand in 2016. This has been validated by the growth rate of 6.6% in the industry in the first quarter of this year and also housing sales have increased by 7.8% in the second quarter compared to the first quarter of this year. We have also seen white goods sales increasing, which is an end market for us, albeit a small portion of sales. A 9% increase in production, 6% in sales, and 10% in exports from Turkey were realised during the first five months of 2016. As for tourism, on the back of cancellations of tourists due to the geopolitical tension, Turkey's revenues are expected to drop in 2016.

Before moving onto the financial results, on slide nine I would like to talk about the developments that took place in our group in the first half of the year. In flat glass division, we have segregated the auto glass business from flat glass by establishing separate companies under Trakya Cam, as it's a growing business whose operations now require separate monitoring of financial performance and management. Starting 2016, we have begun fully consolidating Bulgarian operations, which allows for further transparency for our investor community. In June, we completed the cold repair of one line in our Mersin plant. We have bid for a plant in Italy, the result of which is not yet finalised. BulgariaGas recently lowered the natural gas prices by 23% in April, which should have a positive impact on our profitability in the coming quarters. Lastly, Ministry of Economy has started investigation against flat glass imports from Russia, which should further decrease the imported glass volume to Turkey.

In glass packaging, with a focus on sustainability, we have established a glass recycling company, which will increase the usage of cullet in production that requires less energy consumption. As part of our strategy to simplify the cross-ownerships, both Anadolu Cam and Trakya Cam sold all the remaining Soda Sanayii shares that they had in their portfolios for a total value of \$230 million. As a result, free float of Soda Sanayii has increased to 39%. The production capacity increased by 30,000 tons to 1.35 million tons

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in Turkey in the beginning of the second quarter. Collective bargaining processes with Kristal-Is and Petrol-Is have been completed for Anadolu Cam Eskisehir and Soda Sanayii plant. Capex realised in the first six months has been TL 578 million, in line with our plans.

Now, we can move onto the financial and operational overview section. Looking at slide 11, let's have a look at our financial performance in the first half compared to the same period of last year. The revenues have increased by 17%. Although EBITDA may seem decreasing, I'd like to remind you that last year figures includes the one-off sale of **Beyoğlu** building, and when we exclude the TL 62 million income coming from this transaction, actually EBITDA has increased by 6% in the first half compared to the same period of last year. On the net income level, again, when adjusted for last year's one-off, net income has actually increased by 9%, despite less dividend income as a result of soda shares sold by Anadolu Cam and Trakya Cam.

On the OpEx and costs side, we have taken certain precautions to manage the stock levels on the glassware side. In this segment, the impact of terror attacks in Turkey hitting the Horeca segment led to weaker domestic sales in Turkey. On a year-on-year basis, while the costs improved for flat glass and remained flat for glass packaging and chemicals, glassware segment was negatively impacted. CapEx to sales ratio is decreasing in line with our strategy compared to last year.

Moving onto slide 12, Şişecam increased its sales by 13% to TL 4 billion by the end of the first half; whilst 33% of the revenues were generated by flat glass operations, 22% was generated by glassware, 21% by glass packaging, and 19% by chemicals division. The remaining 5% is coming from other operations, so it mainly constitutes of energy-related transactions. Although the chart on this slide shows the EBITDA margin is decreasing in this period, excluding one-offs of last year, EBITDA has actually increased by 6%. As mentioned before, EBITDA margin has been realised as 22%, in line with our strategy of keeping it north of 20% consistently for the last three to five years. As you may recall, we have been telling our investor community that this is the sustainable level for the long-term.

Moving onto slide 13, the balanced portfolio of Şişecam has not changed significantly in this half compared to the previous year. Flat glass division continues to contribute the highest to Şişecam top line, in line with the recent investments completed. Please note that «other» is the energy trading activities of Şişecam under Şişecam Energy Company, revenues of which used to be recorded under chemicals division before the restructuring. This company as you may recall was established to meet the energy demand of the whole group.

Moving onto slide 14, we are able to see the contribution of these segments to Şişecam's consolidated EBITDA. In chemicals segment, EBITDA contribution continued to surpass that of the flat glass segment; however, with improved pricing environment in Turkey and Russia, as well as completed investments, flat

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glass segment's contribution has also increased significantly from 26% to 30% in this period. Additionally, after the split of operations in Bulgaria and change of accounting methodology from equity pick-up to full consolidation, flat glass division's EBITDA increased while glassware's decreased. This was also part of the reason for the drop in glassware's contribution from 16% to 12%. Glass packaging's contribution based on adjusted figures to the one-off gains remain unchanged at 19% level. In the incoming pages, we will be going over the performance of these segments individually, so I will not elaborate further on this page.

On page 15, I'd like to talk about Capex. As you may recall, we have already shared our capex plans for 2016 as moderate and defined 2016 as a digestion period, with only TL 578 million of capex realised in this period which also includes the maintenance cost of the operations, capex to sales ratio is now down to 14%. While continuing to monitor M&A opportunities on a selective basis and planning for organic growth, 2016's capex should be expected to be in the same range with no capacity increases in the glass segment and a minor increase on the soda ash side. As for the M&A opportunity in Italy, namely Sangalli, is not included in the capex number for this year. However, we do have some cold repairs both in Turkey and in Russia during 2016, as well as continuous energy and operational efficiency investment.

Turning to the next slide, we continue with our capex funding analysis. As you know, Şişecam is not a highly leveraged company despite the robust investments undertaken historically. This is a consequence of strong EBITDA generation capacity of our operations. In the first six months of 2016, capex was lower than EBITDA, which ended up in an EBITDA to capex ratio of 1.5 times.

On slide 17, we can see the evolution of the production in the course of the year. As the only capacity increase was on soda ash by 30,000 tons, starting from the second quarter, production levels in both glass and chemicals did not increase dramatically, but around 2.5% in the first half. This increase is the result of higher capacity utilisation rate. It should also be noted that, one float line in Mersin was shut down during this period due to a cold repair. Please note that in glass, while 58% of the production is realised in Turkey, the remaining 42% is produced in the plants outside of Turkey. In soda, 59% of the production is realised in Turkey and the remaining 41% is produced in the plants outside.

On slide 18, you will see that we maintained our conservative leverage levels in the first half of 2016, as almost 90% of the portfolio, which includes the loans and the bonds issued, is in EURs and USD; with TL depreciation, our net debt level has remained quite close to the level of the previous year. However, in USD terms, net debt has been much lower; in the last year, TL depreciated by 8% against USD and 7% against EUR compared to June 30 of 2015. Looking at the ratios, we continue to sustain low and conservative net debt to EBITDA and net debt to greater levels of 0.9 and 0.2 times respectively, which are around the same levels of a year ago.

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Moving onto page 19, we are seeing that Şişecam's strong cash performance also continued in this period and retail led to higher cash and cash equivalents when translated, because almost all the cash in hand is in hard currencies. In dollar terms, our net debt has increased from \$500 million as of 2015 and to \$545 million by June end with an increase of 9%. As stated in previous calls, the strong cash position gives us the flexibility of proceeding first in case of viable M&A opportunity, while we also continuously seek better ways to optimise our already strong balance sheet management.

On page 20, you can see the debt profile of Şişecam, as 38% of the debt including the long-term bond is in dollars, 40% is in EUR, 21% is in roubles, due to some USD and EUR loan spread to RUR in the first half and 1% in UAH. We continue to maintain the currency breakdown compared to 2015 and taking advantage of the FX and interest rate differentials. Also, the balanced interest rate structure of the portfolio provides a natural hedging in the exiting environment.

On slide 21, you can see that we continue to have a long FX position at a consolidated level; a long position in USD and a short position in EUR also continued in this period. I'd like to remind you that we do not use any derivatives other than some very limited interest rate swaps and cross-currency swaps for hedging purposes and some limited operational hedging due to our exports. We will continue to use the hedging transactions as needed, but our enlarged operations and geographies are also providing opportunities to utilise hedging within our own balance sheet.

Now, I would like to walk you through each division in the last section of our presentation. Moving onto slide 23, the top line growth excluding the Bulgarian operations has been 16% in this period year-on-year. However, as you may recall, Bulgarian operations are now fully consolidated to Trakya Cam starting 2016; hence, the reason for 37% top line growth in this half. 12% of this is coming from the volume growth. EBITDA margin excluding the sale of Soda Sanayii shares have increased from 19% in the first half of 2015 to 21% in the same period of this year. It is 22% when Bulgaria is also excluded. This improvement in the margins have a couple of reasons. Pricing environment improving in Europe and margins in Russia mainly. Please recall that in Turkey, prices have not changed since December 2015. In line with the investments completed, revenues generated through sales in Turkey have now decreased to 57%, still taking the lion's share thanks to fast recovery in the construction with 61% of the revenues generated through this industry. Change in the product mix also helped to move the sales spread upwards in Turkey as value added glasses now account for 30% of the domestic sales in Turkey. As for auto glass and encapsulation businesses, their share is now 41% of total consolidated sales. 23% discount on Bulgarian natural gas price effective beginning of this quarter also positively contributed to cost management of the Company. In this period, Trakya Cam sold all the Soda Sanayii shares in its portfolio for TL 284 million, which led to 11% lower net debt compared to year-end of 2015. With lower interest rate environment

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we expect the construction industry to grow in the remaining part of the year, as well as in 2017, given that urbanisation projects are accelerated. Ministry of Economy's investigation on imported flat glass from Russia and taxes imposed on Chinese mirrors will also ease the pricing pressure in the local market. As we had been telling our investors to be patient during the investment cycle, Trakya Cam is now delivering good results as planned and projected. While we're in the bidding process for a line in Italy, we will continue to monitor the demand dynamics diligently before undertaking further investment in the countries of operations.

Moving onto slide 24, in glassware segment, the revenue increase in the first half has been 5%, mostly coming from the international sales. It should be noted that this industry globally has a relatively slow growth rate compared to other segments that we operate in. It behaves more like retail, therefore very prone to consumer sentiment. Sales generated from Bulgaria to Europe have increased by around 30% and 10% in Russia. Despite weak TL, this limited revenue increase is the result of weak demand in Turkey, as Turkish market still accounts for 47% of the total glassware sales, excluding exports from Turkey. EBITDA margin has dropped from 17% in the first half of 2015 to 12% by the end of first half of this year. As mentioned in the beginning of the presentation, domestic sales were negatively impacted by terror attacks and falling tourism revenues hitting the Horeca and B2B segments, while export markets also suffered, except for Russian sales increasing significantly. Of the total revenues, 51% is in TL, 22% in EURs, and 14% in USD, and the rest are in other currencies. Our intention to make Paşabahçe a public company continues and if market conditions for both the glassware industry as well as the equity capital markets are favourable, we plan to consider it starting from the beginning of next year.

Moving onto slide 25, in glass packaging, the top line growth has been 14% in the first half of 2016 compared to the same period of the previous year. There are a couple of reasons that led to an increased top line; price hikes in Russia in the range of 17-19% and in Turkey about 3%, shift of focus to high value-added products, and 6% increase of sales volume on a consolidated basis. As part of the strategy set in the beginning of the year to increase the share of exports; we have seen exports from Turkey more than doubling in value terms while exports from Russia also continued in the same pace. We have also seen a surge in OpEx due to increased selling and marketing activities, which led to a softer margin. Year-on-year sales volumes increase is actually the result of a low-base impact due to elections and weather conditions in Turkey, coupled with adverse demand conditions in Russia last year. We have managed to sustain our market share under the current competitive environment by further focusing on the needs of our long-term relationship customers and also by extending the receivables terms.

Moving onto page 26, last but not least, our chemicals division continued to perform very strongly. While the top line growth was 16% year-on-year in the period, we have managed to sustain the EBITDA margin at 28% despite a weaker pricing environment compared to last year globally. Part of this top line growth

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is the result of sales volume increase of 4% and 10% for soda ash and chromium products respectively. This segment also benefited from weaker TL, 14% devaluation against USD and EUR in the last one year on average as of June-end. As the majority of the Company's costs are in TL, devaluation has also posted a positive impact on the gross profit. As for the end markets, demand continues to be strong in the region, especially after the closure of some capacities of the competitors in Egypt recently. However, we had already secured the sales of the whole year's output based on mostly annual contracts. Meanwhile, in the beginning of the second quarter, we have completed 30,000 tons capacity increase and the remaining 50,000 tons is expected to be completed during the second half of the year. We continue to operate with 100% capacity utilisation rate and our investments are undertaken to decrease the energy cost through a new configuration of the boilers and is expected to be on board by the end of this year.

Moving onto slide 27 and coming to the end of our presentation, I would like to highlight a few key takeaways, which have not changed much since the last time we had a call. After the unfortunate events of July 15, we have not changed any of our mid to long-term investment plans and are confident that we will close the year in line with our guidance we had shared earlier in this year. To sum up, we have increased revenues, gross profit, adjusted EBIT, and adjusted EBITDA despite political and economic turmoil across almost all geographies we operated in during the first half of the year. We continue to have a strong cash position and conservative leverage. We have a continuous focus on operational excellence, leading to smart cost management. We have completed a heavy investment period and our margins will continue to improve as a result of the capital expenditures and energy efficiency projects. We have, above the industry levels of profitability compared to our global peers and we have a continuous focus on M&A opportunities on a very selective basis.

One last point, please also note that on the last page of our presentation, you can note our new address contact details, as we will be moving to our new headquarters building and we will be happy to welcome you in our office starting from September. Now, I will be happy to take your questions.

Questions and Answers

Operator

[Operator Instructions]

Our first question is from Ilyas Urganci from Is Yatirim. Please go ahead.

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Ilyas Urganci

I have two questions; the first one is regarding the flat glass segment. Can you elaborate a little bit about the current competitive landscape in Turkey in flat glass? How is the current competitiveness right now? Do you plan another possible price increase in domestic flat glass prices, maybe in the coming quarters? My second question will be the trends in Russian market actually on the glass packaging side, how you see the current trends in there, and also could you give us some information regarding the pet ban on beer consumption in Russia starting in 2017? Do you expect that to increase your glass packaging sales in that market specifically? Thank you.

Görkem Elverici

First let's start with the competitive landscape in Turkey for flat glass, which is very much linked to what's happening in the surrounding region. As you know, Turkey is about to become the largest flat glass market, not only including the surrounding region, but also surpassing all the markets in Europe, we're even about to surpass the German market and we have already surpassed, within the last two years, the Russian glass market. As of volume, it is the largest market and as of prices, it is the, I can say, shiniest market; all the producers and all the distribution channels have their concentration to penetrate, extend their footprint to Turkey. You know that we have been undertaking certain measures especially restructuring our distribution channel, improving our connection with the market and with the customers that we have been operating together for a long time, and due to the new distribution structure that we are using, we are able to hold onto our position and continue to improve, despite the fact that within the last 5-year period we have done a price increase above 40% in the local market. Especially with the devaluation of Russian rouble and markets going down to some extent in the last 1.5-year period, and considering rouble has even devalued against TL, the Russian producers have mainly switched their concentration to exports to Turkey being the largest market in the surrounding region.

First, all the precautions and the measures we have taken together with including some protective measures available in the market, and also the pick-up happening in the Russian market both in demand and also in prices are helping us to continuously improve our position in the local market; and also the protective measure that was in place starting from through to the end of last year against the Iranian production is also supporting us in this sense. Having the largest glass market with the best prices, we know that there will always be fierce competition coming to the market, so we are both working on trying to support ourselves and especially the Turkish glass industry with, to some extent, support from the protective measures, but we believe the main competitive advantages are our strength in the distribution channel and the widespread product portfolio that we can provide to our customers, which cannot be provided by anyone else in the market.

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I hope for the first question this is enough and coming very quickly to the question about the price hike, for sure this is something very sensitive to the market demand and supply balance. As you know, we have proven that we are taking the right actions for pricing due to the market demand and the market dynamics, especially within the last three-year period, and we will continue to monitor the market and react or proactively take some measures when necessary.

Coming to the glass packaging, you know that we have been continuously improving our position in the Russian market and thanks to our strengthening position we have been able to do some price corrections starting from the beginning of this year, even including the OEMs in the beer industry which are constituting now more or less 50-55% of our portfolio, which was as high as 80-85% before entering the crisis period. So being almost the only large player in the market that can promise a continuous delivery and have the necessary financial resources and distribution capabilities, we can say that if not the only, we are one of the few players that can provide to larger OEMs the sustainable delivery and sustainable price level.

Considering the ban that might take place, because that is still under some considerations in the Parliament, we are not taking it or considering it in our base case scenario, but it will be rather a top-up coming to our already existing strategy of improving our brand position and also profitability in the Russian market. For sure, that type of ban happening especially in smaller volumes might support our production and competition landscape seriously, but considering what has been happening and what has been discussed for the last two to three years' time, we would not like to include it in our base case scenario so that we can continue to deliver strong results also in the coming...

Operator

Our next question is from Alper Akalin from Deniz Invest. Please go ahead.

Alper Akalin

Thank you, Mr Elverici for the presentation. I have three questions for the chemicals segment. If you don't mind, I want to ask the questions one by one, because they have independent nature, so I want to concentrate on all of those after getting answer to the questions. First question is for soda ash segment, we know your competitor is planning to ramp up its capacity aggressively and we see some news that they are going to initiate the first phase of 2.5 million tons of soda ash plant in 2017, and also extension of the existing plant, which nearly increases the capacity by 50% at the end of this year or in the start of

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next year. My question is, what you expect from such a competition considering that their production costs will be also lower than yours. Do you project any market loss or product price decreases, given the capacity is around 20% of the total demand of Europe and Turkey. Thank you.

Görkem Elverici

For soda ash market, this capacity increase is not something unexpected or happening out of nowhere, it was expected to happen in the market earlier, especially the supply crisis that has been happening in the market, especially for the last two years have been mainly due to this reason. You know, we believe that the competition will not be company against company, but rather it will be a competition of premise against the premise. As you know, within the last two years' time, we have seen some shutdowns to get prepared for our competitor's new capacity to be introduced to the market, because this market is a very closed market, having larger institutional companies on both sides of the demand and supply balance, so everybody is very careful to keep the price of soda ash at a certain level both on the customer side and also on the suppliers side. You know that we already started two years ago to make some additional CapEx to improve our cost of production, so for sure, natural soda ash producers have production cost advantage against the synthetic producers, but globally, the supply that can be provided through the natural soda ash production is only limited to cover 20-23% of the global demand. There will always be a need for synthetic production, especially considering that there are only two natural soda ash producers available globally, one in Wyoming and the other one in Turkey. We believe that there will be some losers in this game, for sure, especially with the introduction of this large capacity to the market, and there may be some volatilities in the pricing environment, especially in the first year of this introduction.

As you may have also seen that one of the largest producers in soda ash, being Solvay, has already shut down their plant in Egypt due to having lower production volume and increased production prices.

The market, especially on the supply side is trying to find the right balance within their portfolio, and rather than a company fighting against the other company, it will be the premises against the premises and with the upcoming competition, we believe that there might be some other further shutdowns in the market if the demand does not continue with what is happening in the last two to three years.

Also, one other figure I would like to share is soda ash demand is continuing to increase at a stable rate of 2-4% globally, which means that having roughly around – beyond 50 million tons of demand already existing in the market, there will be a need of at least 1-1.5 million tons of new soda ash supply every year. Apart from only brownfield capacity increases like we are doing right now, there are no other capacity increases in the global market, except our competitor introducing this new capacity. We expect

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that global demand should be covering for this increased capacity only within a year or one and a half years' time.

I hope this is helpful.

Alper Akalin

Thank you very much, it was very helpful. My second question is for chromium segment. From the figures of your presentation and also the financials, I calculate – maybe I am wrong – but the unit price for chromium chemicals are declining sharply. I calculate by around 10-15% decline on dollar basis. What is the specific reason behind that and what do you foresee for the near future, because contrary to the soda ash prices which is robust and stable, this volatility in chromium segment. Can it be leading to volatility in the earnings in the soda financials in the future? Thank you.

Görkem Elverici

One last thing to mention about soda, I mentioned the CapEx investment about to complete and you know that we expect production costs to decrease around 10%, after the completion of the overall cogeneration plant investment.

Coming to chromium chemicals, you know that it is combined of mainly four products for our portfolio, and the prices of each chemical is very much different from each other, so there are some products as high as \$2,500 per ton, whereby there are some which have roughly around \$250-300 per ton prices. t Although the soda ash demand is growing globally, on the chromium chemical side, the demand is at a stable basis. Due to some demand volatility that might be happening from quarter to quarter, we may see some small volatilities also in the blended prices or the revenues generated from chromium chemicals. In all the product segments that we are in, we are one of the top three, and also we have capacity utilisation rate above 80%, which is as low as 55-60% in the overall industry. This 80-85% capacity utilisation is not only specific to us, it is the same for all the large players in the industry that are operating in.

We also need to consider the real valuation of dollar against all the currencies; as our production costs almost all in TL, apart from the chromium that we are importing, so still the profits generated with the valuation of dollar, it is considerable, but as the demand is on a flat basis, we don't want to kill the demand by increasing the prices or making the right adjustments, especially quarter to quarter based on some small volatility on the demand side.

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Alper Akalin

Thank you. I want to just make it clear, production costs you said to decline by 10%. Is it for just Mersin facility or for the whole consolidated level?

Görkem Elverici

Yes, in Mersin facility, because you know that in Bulgaria, production joint venture and in Bosnia we are already producing on coal.

Alper Akalin

Can we say for consolidated it is around 5-6%?

Görkem Elverici

On a consolidated basis, it should come up to 5-6%.

Alper Akalin

Thank you. My last question for Soda Sanayii is, Soda Sanayii has a strong cash position, and it seems to continue like that for the near future as well. Do you have any plans for inorganic growth or product diversification? If you do not have such a plan, do you plan to increase your dividend pay-out ratio? You already did it by increasing to 55%, but it has a potential to maximize. Do you have any plans if you do not have any acquisition?

Görkem Elverici

I believe to some extent you already answered your question, because first you know that we are trying to balance our pay-out ratio that might be sustainable for a three to five-year horizon for each company, and at Şişecam consolidated level. Also, for sure, looking at the demand and supply balance, as I mentioned trying to answer your first question, the demand is going up by at least 1.5 million tons per year, while the supply is increasing in a very limited manner. Why this is happening is mainly due to our local competitor being about to introduce a large volume to the market.

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For sure, after seeing the demand and supply balance in the market, especially in 2017 and 2018, there may be some companies that might volunteer for brown or green-field investments. We would, for sure, consider the availability of any opportunities both on the organic and also on the inorganic side.

The reason for us to prefer to remain a little too cash strong in Soda Sanayii, first for the available opportunities that may be in the market and, to some extent, shaky period that we might witness in the coming two years' time. Second, as there is a large volume to be introduced in a very close region, we would like to make the necessary reactions or take the proactive measures depending on the market balance. We already have come up with our own scenarios of what might be happening in the market, so for sure – we would like to, in line with our conservative efforts of Şişecam as always, also stay in a position that we can react to anything that might happen in the market due to this new volume that might come.

Alper Akalin

Any product diversification other than soda ash, downstream/upstream integration, or any other different product?

Görkem Elverici

Chromium chemicals have emerged like higher value added products that we will derive from soda ash. There might be some opportunities linked with soda ash production or in the adjacencies, because you know that we also have some capabilities in the mining part or the other parts that might be considered. For chemicals part, Soda Sanayii itself having one of the lower production costs in soda ash globally and also being able to get the chromium at the price level that anyone could get, we decided to invest into chromium chemicals before. For sure, we are looking for some additional opportunities that might bring us some higher returns and better EBITDA levels like it is in the case of chromium chemicals. We continuously actively seek for additional opportunities, not only for organic growth but also for some product diversifications in all lines of businesses, so that we continue to stay competitive and profitable in the long run.

Alper Akalin

Thank you very much.

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Operator

Our next question is from Walid Bellaha from Barclays. Please go ahead.

Walid Bellaha

Hi, good evening, thank you very much for your presentation. I have a couple of questions if I may. I am not sure I heard very well your comments regarding the drop in EBITDA for the glassware segment. I just would like to understand the reason behind the decline in the EBITDA for this particular segment. Also, in terms of M&A, just to – if you could just comment if there are any updates in this area.

Görkem Elverici

Sure, for the glassware segment, it is mainly affected due to the things that are happening in the local market, because still the Turkish market is making up an important part of glassware segment's portfolio. Although we have been able to improve our sales in Russia and improve our pricing in Europe and getting some valuation affect in TL terms from our sales to Europe, still, especially, like the terrorist attacks, the security issues that have happened in the first half, the drop in tourism revenues and decreased number of tourists coming to Turkey, and to some extent the issue that happened with Russia in Turkey has affected mostly this segment. This is the only, we can say, very similar to B2C type of business in our business portfolio, so as it is very much linked with consumer sentiment and we have seen that the consumer sentiment was very seriously affected, unfortunately, due to the happenings in the first half. We need to consider that, especially the glassware sales are made either in the large chains or in the shopping sales, which was the most affected together with the Horeca segment during the first half in Turkey.

That leads also to some extent adjustings in the production levels. For sure, increasing production costs to some extent as our business in glass is very much linked to the capacity utilisation rates and the demand. We have seen a fall from 17% to 12% EBITDA, so when you still compare with our global competitors, we are delivering very strong results when you look at what is happening in the glassware segment globally, but we believe that, especially this temporary effect we believe coming in Turkey, is to ease within the second half, so Paşabahçe should get back to the expected EBITDA levels that it continues to improve especially starting from last year.

Walid Bellaha

Thank you, and the M&A area.

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Görkem Elverici

As we have mentioned, the most visible opportunity happening right now is the flat glass line in Italy where we are in a favourable position against the competition as of now, but the process continues and is not concluded. So that is the most visible M&A opportunity, apart from the other opportunities that we are considering in the other lines of businesses.

Just to remind the strategy we have for M&As, there are two things. First, is that M&A opportunities that we are going after in line with our strategy and the companies or production that we might volunteer for. Second one is the companies that are coming out to the market as a possible acquisition target to check whether the price they come up with together with their, I should say, being in line with our strategy is providing us an opportunity that should not be missed. We are doing it on a very selective basis, and the ground rule we have for investments for any type of M&As in each specific group is that it should bring at least return on invested capital higher than our existing businesses, and on top, it should bring the additional margin to cover for the additional risk it may bring. It might be the management risk, it can be the geography risk, whatever it is, we are doing our calculations based on our risk management structures we have and also risk management principles that are set forth by our Board. There are so many available opportunities, especially in the glass market right now. That was the case for the last three to five years' period, and we have considered so many different opportunities, but as you may see, we come up with realising only a few of them, which we believe to be the right cherry-picking for our portfolio.

Walid Bellaha

Thank you very much. Would it be possible to give just a range of the amount that could be at stake for the flat glass line in Italy, or is this something you can disclose?

Görkem Elverici

It is something we don't want to disclose directly, but I can say that this is coming at a much more favourable price than we would be building it in Italy.

Walid Bellaha

Thank you very much.

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Operator

Our next question is from Omer Omerbas from AK Investment. Please go ahead.

Omer Omerbas

Thank you for the presentation that was good coverage of your operations for the second quarter. I have a question on the planned cold repairs that you have mentioned. Could you just quickly remind us which companies and production lines those cold repairs will be undertaken? Thank you very much.

Görkem Elverici

The cold repairs undertaken will be in glass packaging in Russia, and we have already undertaken in Turkey Mersin. We have already completed flat glass cold repair in Mersin again. For glassware We have already completed the cold repair in Eskişehir for glassware segment, so the ones for glass packaging are upcoming and the others are completed.

Operator

[Operator instructions]

We have a question from Emmanuel De Figueiredo

Emmanuel De Figueiredo

Good afternoon gentlemen, I have just a few questions on soda if I may. The first one is, can I just get a clarification on the power, the cogeneration investment in Mersin, so I heard from the call that the production cost goes down 10%, and I believe on a consolidated basis between 5-6%. The first question, when does this start, so is this valid from January of next year or November. That is the first question. Related to that, can you maybe just help me understand how much are the energy costs within soda as a percentage of total costs before and after this investment? My last question would be on your cash balances in soda, which I believe are mainly in hard currency. Given the working capital movements and the CapEx, can you help me a little bit with how much cash or net cash or a range of how much net cash you think you will end at the yearend. Thank you very much.

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Görkem Elverici

For the cogeneration facility, this investment has already started two years ago and it will be completed in tranches. By the end of this year, we will complete 30% and within the next two years' time, we will come up to 100%. I should also add that cogeneration facility can use both natural gas and coal, so it will also help us if there is surprising improvement in the pricing of natural gas in the coming future. In Turkey, we will always be able to turn back to the production with natural gas, but as of now, and for a long period of time in Turkey, coal has been the winner, which was the case before the early 2000s.

For the production costs, you are perfectly right, it will decrease the production costs in Mersin plant, which is forming more or less 60% of our production capacity by 10%, so on the consolidated basis, it will be 5-6% of our soda ash production.

For the CapEx, we have already spent roughly around \$30 million for this investment, and the total CapEx by the end of this year should be reaching roughly around \$90 million at most, including this cogeneration facility and some other investments that we are making both for maintenance and improving our operationally competitive positioning in the market.

The energy costs vary from country-to-country; natural gas usage in Turkey, we can say it is around 45-50% of the total production costs in natural gas which is expected to go down with the new cogeneration facility. In the productions in Bulgaria and Bosnia, it fluctuates between 25-35% from year-to-year, depending on the input prices of also the other inputs to our production.

Considering our cash balance, as we have mentioned, we would like to continue to stay a little bit cash rich during this period, so we believe that the cash level we have will not be changed too much until the end of this year.

Emmanuel De Figueiredo

Okay, thank you. Can I just do a follow-up on a question by another person on the call? You mentioned that the new production which is coming on board next year from your local competitor and that it is more cost efficient. I am just trying to understand, given that you have been improving your cost structure, why is this competitor more cost efficient than you?

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Görkem Elverici

They're a natural soda ash producer;natural soda ash has globally distinctive competitive advantage against the synthetic producers like us. As I mentioned first, the natural soda ash production although is a cost winner, it is not able to supply all the demand that is existing in the global market. The second thing is that we believe that the most important competition will be within the synthetic producers' portfolio, so we have always been one of the lower cost producers across the synthetic producers, and Soda Sanayii has always had a heritage of investing back some of the additional margins it generates into its business, so that it continues to stay cost competitive. We believe that with the upcoming competition from a natural soda ash producer, for sure, there will be some synthetic producers that will be affected especially in the region negatively, but although they have a cost advantage, as they have to produce it inland and they have to transport it to the coasts and sell it/export from the ports. When we look at the delivery price to the customer, we are one of the few, especially after the completion of that investment, we will be very close to the price that can be provided by a natural soda ash producer, which is not necessarily true for most of the other synthetic producers.

Emmanuel De Figueiredo

Thank you very much. It was very clear. Thank you.

Operator

We have a follow-up question from Alper Akalin from Deniz Invest. Please go ahead.

Alper Akalin

Sorry for appearing again, I have just one question. Your CEO, Ahmet Kirman, has stated previously that Şişe Group plans to increase the liquidity of the Trakya Cam and Anadolu Cam through SPO as far as I remember. Do you have any near-term plans...?

Görkem Elverici

Let me quickly just interfere here, because that was totally a misunderstanding by the press. That is a strategy that we have been communicating to the market at least for the last couple of years. In the long-term, we have plans to continue to increase the free float and the liquidity of our shares, but we have already mentioned that we will always remain as the major shareholder in these. , With this in mind,

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at the moment Anadolu Cam's free float is only 20% and Trakya Cam is limited to 30%. Considering the realities of the Borsa Istanbul, there is a need for our investors to have the necessary depth and liquidity in the shares, which is not expected to happen in a short period, but this is a long-term strategy for us, like doing the IPO of Paşabahçe. We would like to get right investor sentiment, the right timing for companies and also the right timing for the local and global economies to be able to do this.

That was the thing. In fact, our CEO has clearly stated it this way, but when it was on press, we believe that there has been a misunderstanding due to the wording, so we can say that we don't have an intention to increase the liquidity of the other listed companies in the short-term, because we as we believe this is not the optimal timing for any IPOs or SPOs to take place, but for sure, as we already stated before, in the mid to long-term, we have the intention to continue to increase their free float.

Alper Akalin

Thank you very much, it was very helpful.

Operator

[Operator instructions]

We have no further questions, dear speakers, back to you for the conclusion.

Görkem Elverici

We would like to thank everyone for their participation. As we have been continuously doing it, we would be happy to host you for the yearend results of 2016 and we hope that we will be able to provide you some good news and surprises again in the coming call we will have.

Operator

This concludes today's conference call. Thank you all for your participation. You may now disconnect.

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