

COMMENTS ON TRAKYA CAM SANAYİ A.Ş. Q2 2018 CONSOLIDATED FINANCIAL STATEMENTS

Based on Q2 2018 IFRS results,

Consolidated Financials (TRY mn)	2017 Q2	2018 Q1	2018 Q2	QoQ Growth	YoY Growth	2017 H1	2018 H1	YoY Growth
Revenue	1.076	1.222	1.324	8%	23%	2.032	2.547	25%
Gross Profit	352	396	448	13%	27%	664	843	27%
Gross Margin	33%	32%	34%	142 bps	108 bps	33%	33%	44 bps
EBIT	177	264	442	67%	150%	364	706	94%
EBIT Margin	16%	22%	33%	1177 bps	1694 bps	18%	28%	980 bps
EBITDA	252	343	527	53%	109%	517	870	68%
EBITDA Margin	23%	28%	40%	1169 bps	1631 bps	25%	34%	868 bps
Net Income after non-controlling interest	147	207	298	44%	102%	262	504	92%
Net Income Margin	14%	17%	22%	555 bps	877 bps	13%	20%	690 bps
Capex	38	98	60	-39%	57%	72	158	119%
Capex/Sales	4%	8%	5%	-348 bps	97 bps	4%	5%	165 bps
Adjusted EBIT*	188	219	256	17%	36%	351	475	35%
Adjusted EBIT Margin*	18%	18%	19%	138 bps	180 bps	17%	19%	138 bps
Adjusted EBITDA*	264	298	340	14%	29%	504	639	27%
Adjusted EBITDA Margin*	25%	24%	26%	130 bps	117 bps	25%	25%	26 bps
Adjusted Net Income*	147	207	243	17%	65%	262	450	72%
Adjusted Net Income Margin*	14%	17%	18%	142 bps	464 bps	13%	18%	475 bps
Analyst EBIT**	155	183	210	14%	35%	281	393	40%
Analyst EBIT Margin**	14%	15%	16%	84 bps	144 bps	14%	15%	160 bps
Analyst EBITDA**	230	262	294	12%	28%	434	557	28%
Analyst EBITDA Margin**	21%	21,5%	22,2%	76 bps	81 bps	21,4%	21,9%	49 bps

*Excluding one-off impacts

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

One-Off Impacts:
Excluding From EBIT:

- **Q2'18: TRY 186 Million:** Revaluation gain on fixed income instruments amounting to TRY 131 Million, income regarding acquisition of HNG amounting to TRY 55 Million
- **Q1'18: TRY 45 Million:** Revaluation gain on fixed income instruments amounting to TRY 45 Million
- **Q2'17: TRY 12 Million:** Revaluation loss on fixed income instruments amounting to TRY 12 Million
- **H1'18: TRY 231 Million:** Revaluation gain on fixed income instruments amounting to TRY 176 Million, income regarding acquisition of HNG amounting to TRY 55 Million
- **H1'17: TRY 13 Million:** Revaluation gain on fixed income instruments amounting to TRY 13 Million

Excluding From Net Income:

- **Q2'18 & H1'18: TRY 55 Million:** Income regarding acquisition of HNG amounting to TRY 55 Million

Important Notice: Trakya Cam acquired 49.8% stake of HNG Float Glass Limited for an amount of USD 85.4 Million as of June 13, 2018, which will be fully consolidated under Trakya Cam starting second half of 2018

Financial Summary

Q2'18 vs Q2'17

- Revenue came in at TRY 1.3 Billion, up 23% YoY (USD 302 Million, up by 1% YoY in USD terms)
- Gross profit is up by 27% YoY with a margin of 34%
- Adjusted EBITDA came in at TRY 340 Million with 26% margin, up by 29% YoY
- Net income after minority interest came in at TRY 298 Million
- Capex came in at TRY 60 Million in Q2'18. Capex to sales ratio is at 5%

Trakya Cam released its second quarter year results, and reported **a 23% YoY revenue growth (-3% volume, 6% pricing, 16% currency, 4% product mix) reaching TRY 1.3 Billion in the second quarter.**

- Encapsulation sales rose by 51% YoY, which has the highest contribution to topline growth on the back of appreciation of EUR and strong volume.
- Secondly, domestic sales uplifted the topline growth, which grew by 14% YoY, primarily driven by pricing actions taken within the year while domestic volume remained healthy in the second quarter, which grew by 8% YoY.
- Sales from Bulgaria and Italy also advanced in the second quarter on the back of upward trend in pricing while sales from auto glass unit in Romania more than doubled in the second quarter, driven by increase in capacity utilization rates as an outcome of adding new projects.

Total flat glass production came in at 595K tons in Q2'18.

Regional Analysis

1. **Turkey operations:** Operating almost at full capacity, Turkey operations generated flattish total sales volume in the second quarter while sales from Turkey operations, which represents 50% of total net revenue, increased by 9% YoY on the back of strong pricing. Despite the fact that Botas announced price hikes on natural gas by 13.6% in January and 9.7% in April and hard currency denominated raw materials increased due to depreciation in TRY, price hikes made back in 2017 and within this year combined with positive product mix effect uplifted the domestic operations profitability while weaker TRY continued to support export sales. Price hike of 10.7% made in Apr'18 has a partial impact on second quarter results due to mix impact coming from orders already booked before price increase. Turnaround in auto glass unit, which has been led by efficiency initiatives and better product mix back in 2017, takes root and demonstrates higher operational leverage in 2018 as favorable EUR/TRY levels continued to support EUR linked auto glass sales in domestic market.

2. **European operations:** European sales grew by 45% YoY, which was primarily attributable to higher contribution from **encapsulation business**, which came in at EUR 50 Million; posting 51% YoY growth in TRY terms (EUR appreciated against TRY by 32% YoY) demonstrated better profitability levels compared to Q2'17 as an outcome of restructuring efforts and entering into new projects with higher price-cost spread. **Auto-glass operations in Romania** more than doubled in the second quarter, driven by increase in capacity utilization rates as a result of adding new projects. **Sales from Bulgarian and Italian operations** increased over 30% YoY on the back of price hikes, better product mix and stronger EUR/TRY levels while regional capacity was reduced due to competitors' cold repairs, that profitability levels were sustained YoY.
3. **Russian operations:** Sales from Russian operations grew by 13% YoY in Q2'18, which was mainly driven by strong Ruble amid flattish demand and pricing environment.
4. Share of **international sales** was 57% in Q2'18, as a result of increased presence in Europe after consolidation of Italian operations, recovery in related industries, higher contribution from auto glass operations. Given the geographic mix, 46% of Trakya Cam's revenue is denominated in hard currency in Q2'18, that was among the supportive tailwinds of the strong topline growth apart from improved industry dynamics.

Gross profit increased by 27% YoY in Q2'18, share of non-Turkey operations increased from 31% in Q2'17 to 37% in Q2'18, mainly attributable to better performance in encapsulation business. Gross profit margin generated from Turkey operations improved by ~300 bps on the back of better product mix and pricing impact while European margins contracted by ~90 bps mainly due to increase in energy costs in Italy. Gross profit in Russia contracted in the second quarter due to slow down in the region.

In Q2'18, **main operating expenses increased** by 21% YoY, while opex to sales ratio remained at 18% even after royalty fee payment to Şişecam which was not booked in Q2'17 and increase in sales and marketing expenses of Russia after calculation change in third party logistics expenses. Share of G&A expenses in total main operating expenses decreased to 38% from 45% mainly due to reduction in expenses charged related to holding services in order to comply with amendments in OECD legislation.

The company's **net other income from operations** came in at TRY 46 Million in Q2'18 which was TRY 25 Million in Q2'17 mainly contributable to increase in income on trade receivables as a result of the volatility seen in FX rates. In H1'18, TRY 3.9 Million net other income/expense was recorded due to methodology changes in accounting of provisions on receivables and IFRS 9 standards on trade payables and financial investments.

Investments in associates and joint ventures decreased to TRY 0.5 Million from TRY 8.2 Million as a result of less recorded net income from Egyptian operations mainly due to the technical difficulties caused by flood damage.

Net income from investing activities increased to TRY 186 Million in Q2'18 from TRY 11 Million loss. TRY 131 Million revaluation gain was recorded from USD denominated Eurobond investments with semi-annual coupon payments with an higher effective interest rate of 5.42% than rate on USD 250 Million of Şişecam's bond issue which is 4.25%. No additional Eurobonds were purchased throughout H1'18, total investment balance was USD 196 Million. In Q2'17, revaluation gain on Eurobonds was TRY 12 Million.

Excluding the revaluation gain on financial instruments, Company's **EBIT** would be TRY 256 Million in Q2'18 with 36% YoY increase compared to TRY 188 Million in Q2'17. **Adjusted EBIT margin would be 19%** in Q1'18, **180 bps** higher than prior year quarter.

Depreciation expense recorded as TRY 85 Million in the Q2'18, increased by 12% YoY.

Consequently, **after the adjustments, EBITDA recorded at TRY 340 Million with 29% YoY increase, recording 26% margin.**

Trakya Cam posted a solid **net income after non-controlling interest at TRY 298 Million**, representing 22% margin

Tax expense was TRY 50 Million in Q2'18, increasing from TRY 37 Million in Q2'17 while effective tax rate increased to 14% from 12% on quarter basis as in Q1'18 TRY 28 Million reduced corporate tax was recorded due to coated glass line investment in Yenişehir, Turkey.

Net financial expense came in at TRY 84 Million in Q2'18, which was TRY 14 Million income in Q2'17. Trakya Cam incurred TRY 166 Million financial expense from FX loss and interest expense related to Şişecam's bond issue amounting to USD 250 Million. On the contrary, TRY 128 Million FX gain and interest income earned by time deposits. Apart from those, TRY 44 Million financial expense was recorded related to FX loss on hard currency denominated bank loans. EUR 15 Million bank loan was granted for the payment of Manfredonia plant takeover. There was no significant change in debt position in Q2'18 compared to 2017. TRY 385 Million was paid entirely in cash for acquisition of 49.8% stake of HNG. Cash and cash equivalents decreased from TRY 1.4 Billion in 2017 to TRY 1 Billion in Q2'18. Trakya Cam's **gross debt** came in at TRY 3 Billion in Q2'18, as 61% were long-term liabilities including USD 250 Million Sisecam Eurobond. Trakya Cam's net debt came in at TRY 989 Million equivalent of USD 217 Million (USD/TRY=4.5607) including total of Eurobond investments amounting to USD 196 Million.

FCFE came in at -TRY 28 Million in Q2'18 compared to TRY 38 Million in Q2'17 mainly due to less recorded non-cash items, increase in capex and dividend payment.

The company's **net short FX position** was TRY 33 Million in Q2'18 versus TRY 138 Million long position in 2017 mainly due to converting USD deposits to EUR and cash payment regarding acquisition of HNG.

Excluding asset purchase in Italy (Manfredonia) and acquisition of HNG, capital expenditures were TRY 60 Million in Q2'18 (USD 15 Million), 23% was attributed to maintenance while the rest mainly belongs to coated glass investment in Turkey (Yenişehir plant), cold repair in Bulgaria, energy efficiency investments in Turkey, Bulgaria and automotive. Capex to sales ratio came in at 5% in Q2'18.

Important events during and after the reporting period:

Trakya Cam announced its second float line investment in Polatlı, to meet the growing demand across Turkey and surrounding regions, which is expected to become online in 2020. Total investment will reach USD 127 Million

Trakya Cam distributed TRY 170 Million cash dividend

Trakya Cam acquired 49.8% stake of HNG Float Glass Limited for an amount of USD 85.4 million

Trakya Cam took assets of Sangalli Manfredonia in Italy for an amount of USD 15.7 million

TÜRKİYE ŞİŞE ve CAM FABRİKALARI A.Ş.



Şişecam Genel Merkezi

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

Türkiye

Sezgi Ayhan
Hande Özbörçek
İpek İyisan

+90 850 206 37 91
+90 850 206 33 74
+90 850 206 34 17

SC_IR@sisecam.com
