

COMMENTS ON TRAKYA CAM SANAYİ A.Ş. 2019 Q4 CONSOLIDATED FINANCIAL STATEMENTS

Based on 2019 Q4 IFRS results,

Consolidated Financials (TRY mn)	2018	2019	YoY Growth	2018 Q4	2019 Q3	2019 Q4	QoQ Growth	YoY Growth
Revenue	5.875	6.651	13%	1.661	1.631	1.754	8%	6%
COGS	3.955	4.625	17%	1.111	1.109	1.277	15%	15%
Gross Profit	1.920	2.025	5%	550	521	477	-9%	-13%
Gross Margin	33%	30%	-223 bps	33%	32%	27%	-479 bps	-592 bps
EBIT	1.479	1.085	-27%	197	234	306	31%	55%
EBIT Margin	25%	16%	-887 bps	12%	14%	17%	307 bps	557 bps
EBITDA	1.856	1.548	-17%	304	331	429	30%	41%
EBITDA Margin	32%	23%	-831 bps	18%	20%	24%	416 bps	613 bps
Net Income after non-controlling interest	951	750	-21%	181	170	259	52%	43%
Net Income Margin	16%	11%	-491 bps	11%	10%	15%	435 bps	389 bps
Capex	361	1.035	186%	141	151	499	231%	253%
Capex/Sales	6%	16%	941 bps	9%	9%	28%	1919 bps	1994 bps
Adjusted EBIT*	1.107	917	-17%	335	245	235	-4%	-30%
Adjusted EBIT Margin*	19%	14%	-505 bps	20%	15%	13%	-166 bps	-680 bps
Adjusted EBITDA*	1.483	1.380	-7%	442	342	358	5%	-19%
Adjusted EBITDA Margin*	25%	21%	-449 bps	27%	21%	20%	-56 bps	-624 bps
Adjusted Net Income*	902	786	-13%	181	178	262	47%	45%
Adjusted Net Income Margin*	15%	12%	-353 bps	11%	11%	15%	401 bps	407 bps
Analyst EBIT**	816	668	-18%	236	183	143	-22%	-40%
Analyst EBIT Margin**	14%	10%	-385 bps	14%	11%	8%	-307 bps	-608 bps
Analyst EBITDA**	1.193	1.132	-6%	343	279	266	-5%	-23%
Analyst EBITDA Margin**	20%	17%	-329 bps	21%	17%	15%	-198 bps	-552 bps

*Excluding one-off impacts

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

Important Notice: Trakya Cam acquired 50% stake of HNG Float Glass Limited and assets of Sangalli Manfredonia in Southern Italy within the last days of second quarter 2018, which are fully consolidated starting Q3'18 under P&L.

With a change in the implementation of IFRS 16, accounting standard on leases, effective January 2019, total assets and total liabilities & equity increased by TRY 51 Million while no material impact was recorded on P&L.

Financial statements of Q2'18 was restated after PPA valuation of HNG acquisition. Since HNG acquisition was booked on provisional accounting basis by the end of 2018 and this has been restated as per the results of PPA study by end of Q2'19.

Financial Highlights (Q4'19 vs Q4'18)

- **Revenue** came in at TRY 1.8 Billion, up by 6% YoY (EUR 274 Million, up by 5% YoY in EUR terms), coming from +4% volume, 0% pricing and product mix, 2% currency impact
- **Revenue** from **international** operations was at 57%; while share of **domestic sales** was 43%
- **Architectural glass revenue** in total was at 65% and **auto glass** was at 35%
- **Gross profit** is down by 13% YoY (EUR 74 Million down by 14% YoY in EUR terms) with a margin of 27%
- **Adjusted EBITDA** came in at TRY 358 Million (EUR 56 Million, down by 21% YoY in EUR terms) with 20% margin
- **Adjusted Net Income after Minority Interest** came in at TRY 262 Million with a margin of 15%
- **Capex** came in at TRY 499 Million (EUR 78 Million) in Q4'19. Capex to sales ratio is at 28%
- **FCFE** came in at TRY 42 Million in 2019 with an improved cash conversion cycle by shortening collection period

Operational Highlights (Q4'19 vs Q4'18)

- Cold repair in Bulgaria and South Italy were completed in July and October, respectively
- **Total flat glass production** was at 636K tons in Q4'19, **up by 2%YoY** after the termination of cold repair in Italy and Bulgaria. CUR in Q4'19 (actual output/effective capacity) **was at 83%**
- **Total auto glass production volume** in Q4'19 increased **by 3% YoY**
- **Total sales volume** (total of architectural glass (tonnes), auto glass (converted from m2 to tonnes) and encapsulation (converted from units to tonnes)) increased by **4% YoY** in Q4'19
- Share of **domestic sales volume was at 50.8 %** in Q4'19, decreased from 51.4% in Q4'18

Regional and Divisional Analysis in Q4'19

Intra-group revenues are eliminated from the analysis figures below

- **Turkey;** has the highest contribution to topline growth, in where revenue increased by 20% YoY mainly due to positive pricing adjustments¹ in the local market. Domestic sales volume was up by 3% YoY, mainly driven by increase in local dealers' exports and uptick in the construction activities in the low interest rate environment. Contraction in domestic sales volume hit 13% YoY in 2019, which was at 20% YoY in the first half. Exports volume from Turkey to international customers were up by 5% YoY in Q4'19 as its contribution to the revenue decreased mainly due to lower pricing conditions in export regions. Comparatively higher spread between local and export sales prices in the fourth quarter pressurized the profitability in Turkey by resulting in increased rebates given to exporter dealers.
- Revenue generated from **Russian operations** was down by 9%YoY in Ruble terms (remained flat in TRY) mainly due to lower pricing in the region. Total sales volume decreased by 3% in Q4'19.
- Revenue from Europe was down by 10% in EUR terms (by 9% in TRY) YoY mainly due to the lower pricing in connection with the oversupply conditions mainly triggered by increase in import pressure in the region

¹ Price adjustments in Q4'18 (13-16% in October-mostly effective starting 2019), Price Adjustments in 2019 (5% in May, 6.5% in August)

while TRY depreciated against EUR by 105 bps YoY on average terms in Q4'19. Aggregate sales volume in the region decreased by 4% YoY mainly due to lower client orders especially in Italy. Revenue generation of **encapsulation unit** came in at EUR 35 Million, 19% lower than Q4'18.

- Share of **Indian** operations in total revenue was at 6% in Q4'19, decreased by 9% YoY in TRY terms despite positive currency impact amid weak pricing in the region.
- Share of **international sales** was at 57% in Q4'19, down from 62% in Q4'18. 69% of Trakya Cam's revenue is denominated in FCY in Q4'19 (including EUR linked auto sales in Turkey) while 62% is in hard currencies

P&L Analysis (Q4'19 vs Q4'18)

- **Revenue** was up by 6% YoY and **Consolidated COGS** was up by 15% YoY in Q4'19, that resulted in 592 bps YoY decrease in **gross profit margin** mainly due to pricing spread that narrowed down both for architectural operations in Turkey and Europe in Q4'19.
- **Main operating expenses** increased by 7% YoY, while opex to sales ratio remained almost flat YoY, came in at 19.05% in Q4'19 vs 18.88% in Q4'18. Higher royalty fee*² charged by holding company Sisecam, had an increasing impact on opex to sales ratio by 43 bps.

Excluding royalty impact, **Analyst EBITDA**³ margin would increase to 15.5% from 15.1% in Q4'19

- **Net other income from operations** came in at TRY 68 Million in Q4'19 vs TRY 73 Million in Q4'18, out of TRY 26 Million was booked as financing income on trade receivables and payables and TRY 3,2 Million one-off expense was recorded in Q4'19 in relation to restructuring expenses in encapsulation unit.
- **Investments in associates and joint ventures** was at TRY 17 Million in Q4'19 vs TRY 38 Million in Q4'18 which had been higher in last year's fourth quarter due to insurance payment of flood damage in Egypt.
- **Net income from investing activities** was at TRY 77 Million in Q4'19 vs TRY 139 Million net expense in Q4'18. TRY 72 Million revaluation gain was recorded from USD denominated Eurobond while TRY 6 Million provision income was booked on fixed income securities & time deposits TRY -2 Million was related with Eurobond investments in order to comply with IFRS 9
- **Adjusted EBIT** was at TRY 235 Million with 30% YoY decrease in Q4'19 compared to TRY 335 Million in Q4'18. **Adjusted EBIT margin came in at 13% in Q4'19** vs 20% in Q4'18
- **Depreciation and amortization expense** was recorded as TRY 123 Million
- **Adjusted EBITDA recorded at TRY 358 Million with 19% YoY decrease, recording 20% margin** in Q4'19 vs 27% in Q4'18
- **Adjusted Net income after non-controlling interest was at TRY 262 Million**, representing 15% margin in Q4'19 vs 11% in Q4'18
- TRY 93 Million **tax income** was recorded in Q4'19, increasing from TRY 64 Million tax expense in Q4'18, mainly due to lower reduced tax income YoY in relation to incentives taken for new line investment in Turkey

² Sisecam made a revision in royalty fee rate, charged as a percentage of Sisecam Group Companies' revenues stemming from third party sales, to better align with global transfer pricing regulations

³ Gross profit minus main operating expenses(G&A,S&M,R&D)

- 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 as USD 233.3 Million guarantee was provided by Trakya Cam on the new issuance. USD 200 Million of the issue size of existing Sisecam 2020 notes (USD 500 million issuance back in 2013) was purchased via a tender offer in March, out of USD 100 Million had been guaranteed by Trakya Cam. Aggregate guaranteed amount for Eurobonds due 2020 and 2026 increased to USD 383 Million
- **Net financial expense** came in at TRY 135 Million, which was TRY 53 Million income in Q4'18. TRY 43 Million net fx loss on financial assets and liabilities including derivatives was recorded in Q4'19 vs TRY 73 Million net fx gain in Q4'18. A cross currency swap was made for USD 175 Million, out of the total guaranteed amount of USD 283 Million bond, TRY 49 Million financial expense was recorded from this transaction. TRY 92 Million interest expense was recorded in Q4'19 vs TRY 20 Million interest expense in Q4'18 mainly due to increase in average borrowing cost after the bond issuance back in March and syndicated loan taken with the borrowing rates of Euribor+2.65% (for EUR 175 Million) and Euribor+2.95% (for EUR 25 Million)
- **Gross debt** (incl. other payables to related parties) came in at **TRY 6.6 Billion** equivalent of **USD 1.1 Billion** in 2019 which was USD 647 Million in 2018. USD denominated loans increased by 130 Million⁴ in parallel with the new bond issuance and buyback of existing notes while EUR denominated loan increased by 183 Million in relation to syndicated loan taken. TRY 60 Million financial lease was recorded under financial liabilities in accordance with the amendment on accounting standard of the IFRS-16. 61% of gross debt were long-term liabilities, which was 62% in 2018. Sisecam 2020 notes, which were issued back in May 2013 will be matured in May.
- **Cash and cash equivalents** (including fixed income securities investments and other receivables from related parties) was at TRY 5.2 Billion in 2019, increased from TRY 2.5 Billion in 2018. USD 133 Million cash inflow was booked in parallel with the new bond issuance while TRY 83 Million was paid in relation to acquiring 15% stake of Şişecam in plants of Yenişehir and Polatlı. **Net debt** came in at TRY 1.3 Billion equivalent of USD 226 Million (USD/TRY=5.9402) including total of Eurobond investments amounting to USD 224 Million. **Net Debt to EBITDA was at 0.9**
- **Net long FX position** was TRY 679 Million in 2019 versus TRY 192 Million long position in 2018, having USD 234 Million long position while EUR 113 Million short position was recorded mainly due to cross currency swap for USD 175 Million bond.
- **Capital expenditures** were TRY 499 Million in Q4'19 – out of 70% was spent for new line investment in Turkey, 50/50 percent of the rest was paid for autoglass operations and cold repair investments in Bulgaria & Southern Italy. Capex to sales ratio came in at 28% in Q4'19.

⁴ USD 233.3 Million cash inflow of 2026 bond minus USD 100 Million cash outflow (buyback) of 2020 bond. Please also note that a cross currency swap was made for USD 175 Million of 2026 bond, resulting USD 42 Million decrease in total USD loans

Material Events After the Reporting Period

Şişecam made the following announcement at Public Disclosure Platform on 30th of January

“Having considered Şişecam’s Group’s long term strategies, its global competitive environment, and the potential synergies that could be captured by combining all of Sisecam’s activities in one entity, it was decided in the Board of Directors Meeting of our Company on January 30, 2020 to engage in negotiations regarding a merger with Anadolu Cam Sanayii A.Ş., Denizli Cam Sanayii ve Ticaret A.Ş., Paşabahçe Cam Sanayii ve Ticaret A.Ş., Soda Sanayii A.Ş. and Trakya Cam Sanayii A.Ş. This is pursuant to Capital Markets Law Number 6362, Capital Market Board’s Communiqué Number Seri:II, N 23.1 on Common Principles Applicable to Important Category Transactions and the Right to Exit, Capital Market Board’s Communiqué Number Seri:II, N 23.2 on Mergers and Spin-offs, Turkish Commercial Code number 6102, Corporate Tax Law number 5520 and other applicable legislation. The expected synergies will be achieved through an efficient, lean and agile governance that will maximize shareholder value through increased trading volume and depth of shares”

One off Impacts Excluded from EBIT & Net Income Analysis:

Excluding From EBIT:

- **2019: TRY 168 Million:** Revaluation gain on fixed income instruments amounting to TRY 204 Million including IFRS-9 adjustments, TRY 25 Million one-time retrospective payment regarding carbon emission quota acquisition, TRY 12 Million one-time expense in relation to restructuring in encapsulation
- **2018: TRY 373 Million** Revaluation gain on fixed income instruments amounting to TRY 324 Million, TRY 49 Million income regarding acquisition of HNG
- **Q4’19: TRY 71 Million:** Revaluation gain on fixed income instruments amounting to TRY 74 Million including IFRS-9 adjustments, TRY 3 Million one-time expense in relation to restructuring in encapsulation
- **Q3’19: (TRY 11 Million):** Revaluation loss on fixed income instruments amounting to TRY 2 Million including IFRS-9 adjustments, TRY 9 Million one-time expense in relation to restructuring in encapsulation
- **Q4’18: TRY 138 Million:** Revaluation loss on fixed income instruments amounting to TRY 138 Million

Excluding From Net Income:

- **2019: (TRY 36 Million):** TRY 25 Million one-time retrospective payment regarding carbon emission quota acquisition, TRY 11 Million one-time expense in relation to restructuring in encapsulation
- **2018: TRY 49 Million** income regarding acquisition of HNG
- **Q4’19: TRY 3 Million expense** relation to restructuring in encapsulation
- **Q3’19: TRY 9 Million expense** relation to restructuring in encapsulation



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