ŞİŞECAM GLASS PACKAGING

## COMMENTS ON ANADOLU CAM SANAYİİ A.Ş. 2Q2019 CONSOLIDATED FINANCIAL STATEMENTS

| Financials (TRY mn) | 2Q2018 | 1Q2019 | 2Q2019 | YoY Growth | QoQ Growth | 1H2018 | 1H2019 | YoY Growth |
|---|---|---|---|---|---|---|---|---|
| Revenue | 837 | 775 | 1.112 | 33% | 43% | 1.382 | 1.887 | 37% |
| Gross Profit | 247 | 257 | 367 | 48% | 43% | 413 | 624 | 51% |
| Gross Margin | 30% | 33% | 33% | | | 30% | 33% | |
| EBIT | 145 | 145 | 177 | 22% | 22% | 238 | 322 | 36% |
| EBIT Margin | 17% | 19% | 16% | | | 17% | 17% | |
| Adjusted EBIT* | 101 | 114 | 163 | 61% | 43% | 178 | 277 | 55% |
| Adjusted EBIT Margin* | 12% | 15% | 15% | | | 13% | 15% | |
| Analyst EBIT** | 106 | 98 | 159 | 51% | 63% | 164 | 257 | 57% |
| Analyst EBIT Margin | 13% | 13% | 14% | | | 12% | 14% | |
| EBITDA | 228 | 242 | 283 | 24% | 17% | 399 | 525 | 32% |
| EBITDA Margin | 27% | 31% | 25% | | | 29% | 28% | |
| Adjusted EBITDA* | 184 | 212 | 269 | 46% | 27% | 339 | 480 | 42% |
| Adjusted EBITDA Margin* | 22% | 27% | 24% | | | 25% | 25% | |
| Analyst EBITDA** | 188 | 195 | 265 | 41% | 36% | 325 | 460 | 42% |
| Analyst EBITDA Margin | 23% | 25% | 24% | | | 24% | 24% | |
| Net Income after Minority Interest | 166 | 102 | 155 | -6% | 53% | 229 | 257 | 12% |
| Net Margin | 20% | 13% | 14% | | | 17% | 14% | |
| Capex | 242 | 187 | 385 | 59% | 106% | 333 | 572 | 72% |
| Capex/Sales | 29% | 24% | 35% | | | 24% | 30% | |

*Excl. non-recurring income/expense
**Calculated by deducting the sum of COGS and OPEX from Revenues

### Financial Highlights (2Q19 vs. 2Q18)

- **Revenues,** recorded at TRY 1,11bn, were up by 33% (EUR 169mn, up by 5% in EUR terms), with 21% positive pricing and product mix, 18% local currency depreciation impact and 6% decrease in sales volume
- **Gross profit** increased to 367mn, up by 48% (EUR 56mn, up by 17% in EUR terms), with a margin of 33%
- **Adjusted EBITDA**, recorded at TRY 269mn, was up by 46% (EUR 41mn, up by 15% in EUR terms), with 24% margin
- **Net income** was TRY 155mn, down by 6% (EUR 24mn, down by 26%), and the net margin stood at 14%, down by ~600bps
- **Capex**, recorded at TRY 385mn (EUR 58mn), corresponded to 35% of the revenues
- **FCFE** came in at TRY -586mn in 1H19

### Operational Highlights (2Q19 vs. 2Q18)

- In relation with the scheduled cold repair work process, 100K ton-Mersin AF30 furnace was offline since February and it was ignited back in mid-June with an increase of annual production capacity by 30K tons. The furnace became operational in July.

- Mersin Plant 4th Furnace investment, announced in September 2018, was finalized within the reporting period. Accordingly, 80K ton-new furnace was ignited in May and became operational in June.
- **Total glass packaging production** was at **508K tons**, **up** by **4%**. Domestic output increased by 4% while international production grew by 3%. CURs were **94%** and **99%** in Turkey and in Russia plants, respectively.
- **Total sales volume** was **down** by **6%**. Domestic sales declined by **12%** due to slow-down in demand mainly because of clients' intention to keep inventory levels low relative to their decelerated revenue and contracting non-alcoholic beverages consumption due to inflationary pressure seen on product prices, while international sales were down by **1%**; a) exports from Turkey increased by **13%** b) sales from Non-Turkey operating facilities were down by **4%** due to extremely strong sales recorded in 2Q18 for World Cup event, Russian local championship and also favorable weather conditions
- **Share of international sales volume** (incl. exports from Turkey)**,** recorded at **62%**, was **up** by **+280 bps**

**<u>Regional Analysis of 2Q19 IFRS Results In Comparison with 2Q18 Results</u>**

**Based on figures excluding intra-group sales;**

- **Turkey operations (incl. exports)**;
  - **54%** share in the consolidated topline figure, with **TRY 604mn** sales revenues (**up** by **28%**)
  - **COGS** was **up by 22%,** from **TRY 338mn** to **TRY 411mn**, mainly due to natural gas and electricity tariff increases implemented throughout the year 2018, and the rise in hard currency denominated-raw material expenses such as soda ash and packaging materials with increased commodity prices and depreciated local currency
  - **Gross profit** stood at **TRY 192mn**, **up** by **46%,** with a margin of **32%** (vs. **28%**), while its share in consolidated gross profit declined by **100bps** to **52%**
  - **Adjusted EBITDA margin** (to one-off gains/losses), recorded at **24%**, was **up** by **140bps**

- **Non-Turkey operations;**
  - With revenues, recorded at **TRY 508mn** and **up** by **38%**, contribution to the consolidated topline stood at **46%**
  - **COGS** was **up by 32%,** from **TRY 252mn** to **TRY 334mn**. Although percentage increase in per ton raw material costs was at mid-single digit levels in RUB terms, the impact was higher due to the accounts' translation into TRY, as RUB was stronger than TRY against USD
  - **Gross profit** was **TRY 175mn**, **up** by **52%,** with a margin of **34%** (vs. **31%**), while its share in consolidated gross profit increased to **48%**, **+100bps**
  - **Adjusted EBITDA margin** (to one-off gains/losses), recorded at **25%**, was **up** by **300bps**

**<u>P&L Analysis (2Q19 vs. 2Q18)</u>**

- **Revenues,** recorded at **TRY 1,11bn**, were **up** by **33%**

- **Consolidated COGS** increased by **26%** to **TRY 745mn**

- Gross profit moved **up** by **48%** and increased to **TRY 367mn**. Gross profit margin was **33%** (vs. **30%**)

- **Operating expenses** were **up** by **47%** (**TRY 208mn** vs. **TRY 141mn**)**,** while OPEX/sales ratio increased by **~180 bps** to **19%**, mainly due to S&M expenses, having grown by **63%** in nominal terms and contributed to the rise in OPEX by ~85%, due increased logistic expenses with local currency depreciation, inland transportation costs, larger scale of exports and revision in royalty fee rate charged as a percentage of Sisecam Group Companies' revenues stemming from third party sales

- **Net other income from operations,** recorded at **TRY 3mn** (vs. **TRY 5mn**). Anadolu Cam had a net financing expense on trade receivables and payables due to higher raw material and general production expenses and lower local currency depreciation based on q-o-q period-end FX rates.

- **Net income from investing activities** stood at **TRY 15mn** (vs. **TRY 34mn**) including the share in net income generated by associates and joint ventures and impairment gain in relation with IFRS 9 standards, out of which **TRY 0,3mn** was booked on Eurobond investments. With the **2%** q-o-q rise in period-end USD/TRY rate, Anadolu Cam recorded **TRY 14mn** as revaluation gain on its investment portfolio incl. gain on provision for potential losses (vs. **TRY 44mn**), which is composed of **TRY 385mn** equivalent USD-denominated long-term fixed income securities with semi-annual coupon payments

- **Adjusted EBIT** (to one-off gains/losses and provision for potential losses on the fixed income securities investment) was **TRY 163mn** (**up** from **TRY 101mn**). Adjusted EBIT margin stood at **15%** (**up** by **250bps**)

- **Depreciation expense,** recorded at **TRY 106mn**, was **up** by **28%** and depreciation/sales ratio came **down** by **40bps** to **10%** thanks to higher growth in revenues resulting from positive pricing and local currency weakness

- **Adjusted EBITDA** (to one-off gains/losses and provision for potential losses on the fixed income securities investment) increased by **46%** to **TRY 269mn**, hence the margin stood at **24%** (vs. **22%**)

- **Net financial expenses** increased from **TRY 33mn** to **TRY 97mn**. Net interest expense rose by TRY 30mn to TRY 67mn while net FX losses stood at TRY 31mn (vs. net interest income of TRY 4mn) due to issued bonds and increased leverage while lower net FX gain on time deposits due cash outflow in relation to increased capex

- **Tax income** increased to **TRY 75mn** (vs. **TRY53mn**) with higher level of tax incentives in relation with cold repairs and new furnace investment. Indexing rate (revaluation rate) announced by Turkish Revenue Administration had a positive impact on deferred tax income of the unused portion of incentives in relation with already completed investments

- **Net income** in relation with the period was **TRY 155mn** (vs. **TRY 166mn**) Although the company was very strong from an operational point of view, significant jump in its below the operating line financial expenses absorbed the positive impact of its operational performance. Net margin stood at of **14%** (vs. **20%**)

- As it was reported in 1Q2019 earnings release, Sisecam issued Eurobonds with a coupon rate of 6,95% and maturity 2026 with an aggregate issue size of USD 700mn and Anadolu Cam acted as a guarantor for USD 140mn of the new issuance. Sisecam bought back USD 200mn of its 2013 Eurobonds, out of which USD 40mn covered by Anadolu Cam. As a result, amount guaranteed by Anadolu Cam on Sisecam Eurobonds due 2020 and 2026 stands at USD 200mn, in total

- **Gross Debt** (incl. other payables to related parties) increased TRY 3,8bn equivalent **USD 664mn** (vs. TRY 2,1bn equivalent **USD 395mn** as of 2018 year-end). USD denominated financial liabilities rose by USD 100mn parallel to the new bond issuance and the buyback of existing notes. TRY 43mn financial lease liabilities were recorded in accordance with IFRS-16 standard. Rest of the increase was in relation with cash dividend payment, debt repayment and financing of capital expenditures

- **Cash&Cash Equivalents** (including fixed income securities investments and other receivables from related parties) stood at TRY 1,4bn equivalent **USD 251mn** (vs. TRY 543mn equivalent **USD 103mn**). USD 100mn cash inflow was booked with the new bond issuance

- **Net Debt** position was TRY 2,4bn equivalent **USD 413mn**, and Net Debt/Ebitda at **2,3x**

- **Net Long** FX Position was **TRY 2,5mn, up** by **TRY 56mn**, compared to 2018 year-end net **short** FX position of **TRY 53mn**;

  - **Net long USD** position of **89mn, up** by **USD 116mn,** out of which USD 102mn was in relation with cross currency swap transaction on USD 100mn out of the total guaranteed amount of USD 140mn for Sisecam Eurobond
  - **Net short EUR** position of **79mn, down** by **EUR 92mn,** out of which EUR 90mn was in relation with cross currency swap transaction on USD 100mn out of the total guaranteed amount of USD 140mn for Sisecam Eurobond
  - **Net long position of other currencies: TRY 8mn, down** by **TRY 5mn**

- **Capital Expenditures**: Anadolu Cam had a total capex of **TRY 385mn** (vs. **TRY 242mn**) in relation with its new furnace investments together with cold repair expenses, mold and operational efficiency investments

**Important Events during and after the Period**

- In relation with the scheduled cold repair work process, 100K ton-Mersin AF30 furnace was offline since February and it was ignited back in mid-June with an increase of annual production capacity by 30K tons. The furnace became operational in July
- Mersin Plant 4th Furnace investment, announced in September 2018, was finalized within the reporting period. Accordingly, 80K ton-new furnace was ignited in May and became operational in June

**One-Off Impacts Excluded from EBIT & Net Income Analysis:**

**Excluding From EBIT:**

- **1H19: TRY 45 Million:** Revaluation gain on fixed income instruments amounting to TRY 45 Million including IFRS-9 adjustments
- **2Q19: TRY 14 Million:** Revaluation gain on fixed income instruments amounting to TRY 14 Million including IFRS-9 adjustments
- **1Q19: TRY 31 Million:** Revaluation gain on fixed income instruments amounting to TRY 31 Million including IFRS-9 adjustments
- **1H18: TRY 59 Million:** Revaluation gain on fixed income instruments amounting to TRY 59 Million including IFRS-9 adjustments
- **2Q18: TRY 44 Million:** Revaluation gain on fixed income instruments amounting to TRY 44 Million including IFRS-9 adjustments

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