

COMMENTS ON TRAKYA CAM SANAYİ A.Ş. Q4 2017 CONSOLIDATED FINANCIAL STATEMENTS

Based on Q4 2017 IFRS results,

Consolidated Financials (TRY mn)	2016	2017	YoY Growth	2016 Q4	2017 Q3	2017 Q4	QoQ Growth	YoY Growth
Revenue	3.016	4.331	44%	963	1.011	1.289	28%	34%
Gross Profit	888	1.400	58%	289	311	426	37%	47%
Gross Margin	29%	32%	290 bps	30%	31%	33%	229 bps	303 bps
EBIT	721	840	16%	185	209	267	28%	44%
EBIT Margin	24%	19%	-452 bps	19%	21%	21%	0 bps	148 bps
EBITDA	976	1.147	18%	256	287	344	20%	34%
EBITDA Margin	32%	26%	-586 bps	27%	28%	27%	-169 bps	10 bps
Net Income after non-controlling interest	547	644	18%	95	161	221	37%	133%
Net Income Margin	18%	15%	-326 bps	10%	16%	17%	124 bps	729 bps
Capex	250	233	-7%	86	37	124	234%	44%
Capex/Sales	8%	5%	-292 bps	9%	4%	10%	593 bps	66 bps
Adjusted EBIT*	369	760	106%	122	196	214	9%	75%
Adjusted EBIT Margin*	12%	18%	531 bps	13%	19%	17%	-278 bps	392 bps
Adjusted EBITDA*	624	1.068	71%	193	273	290	6%	51%
Adjusted EBITDA Margin*	21%	25%	398 bps	20%	27%	23%	-447 bps	254 bps
Adjusted Net Income*	275	644	134%	95	161	221	37%	133%
Adjusted Net Income Margin*	9%	15%	573 bps	10%	16%	17%	124 bps	729 bps
Analyst EBIT**	223	584	161%	60	161	142	-12%	138%
Analyst EBIT Margin**	7%	13%	607 bps	6%	16%	11%	-488 bps	484 bps
Analyst EBITDA**	478	891	87%	130	238	219	-8%	68%
Analyst EBITDA Margin**	16%	21%	474 bps	14%	24%	17%	-657 bps	346 bps

*Excluding from both net income and EBIT: One-off figures for 2016 = TRY 284 Million income from Soda Stake Sale recorded in Q2'16 (TRY 271 Million net income effect)

Excluding from EBIT: One-off figures for 2017 & Q4'17= TRY 80 Million revaluation gain on financial instruments (2017), TRY 53 Million revaluation gain on financial instruments (Q4'17), TRY 284 Million income from Soda Stake Sale (2016), TRY 68 Million revaluation gain on financial instruments (2016), TRY 63 Million revaluation gain on financial instruments (Q4'16),

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

Important Notice: Balance Sheet & P&L Items starting from 2017 includes financials of Italian Flat Glass Company, Şişecam Flat glass Italy Srl, which took over assets of Sangalli in November, 2016

Trakya Cam today reported solid 2017 and Q4'17 operating results, **sales rose by 44% in 2017 and 34% in Q4'17 YoY**, reaching TRY 4.3 Billion in 2017 and TRY 1.3 Billion in Q4'17. This was primarily attributable to higher sales prices in Turkey, Russia and Europe as well as strong demand for auto-glass and encapsulation business. Excluding Italy (Trakya Cam took over the assets of Italian Flat Glass Company Sangalli in November 2016), like-for-like increase in consolidated revenue would be 31% YoY in Q4'17 and 34% YoY in 2017. 34% YoY growth was mainly driven by 6% YoY growth in total volume, 8.5% YoY growth in price, 14% YoY growth in currency and 6% YoY growth coming from product mix. Total flat glass production increased by 11% in 2017 and reached to 2.4 Million tons in line with growth in flat and processed glass demand globally.

b) **Turkey operations:** In Turkey, sales improved by 40% YoY in 2017 and 33% in Q4'17 compared with the prior year quarter, including export revenues, constitutes 54% share in total revenue. This was mainly due to strong demand as most of construction projects closed-out through the last quarter, following our 8% flat glass price hike in October. Recall that, Trakya Cam had made a price hike by 12% at the beginning of the year. Total domestic demand for flat glass grew by 13% in 2017 reflecting positive results of government initiatives to encourage development in construction industry. The requirement of flat glass usage was increased by widespread use of laminated and tempered products in motor vehicles and buildings, as industry growth patterns indicates value added glass demand to be escalated going forward. Import volumes in the domestic market decreased by 8% compared with the prior year. The Ministry announced its decision upon the completion of the anti-dumping investigation on clear flat glass originating from Russia within the fourth quarter; 8%-10% anti-dumping tax per ton was imposed for 5 years. Favorable currency conditions on EUR denominated auto glass sales continued to support the revenue generation in Turkey. Total motor vehicle production in Turkey increased by 4% YoY in Q4'17 with exports to EU countries growing at a faster rate.

c) **European operations:** Europe improved, posting 54% YoY growth rate in 2017 and 40% YoY in Q4'17, trending well with the positive price effect coming from increased sales of value added glasses and strong contribution from auto glass business in line with the good momentum in the market. Italy sold over its annual production capacity in 2017 as volume trend over the quarter was similar with the previous ones. Both in its domestic market and in its export regions, demand was strong. Revenue generation from encapsulation business came in at EUR 172 Million in 2017 with 38% YoY growth in TRY terms. Demand was quite well when compared to previous year as EUR appreciated against TRY by 23% YoY. Romania doubled up its revenue generation in 2017, owing to improved capacity utilization rate, high technical capacity and increased orders from its clients.

d) **Russian operations:** Russia grew by 85% YoY in 2017 and 64% YoY in Q4'17. Internal consumption for flat glass remained constant in 2017 compared to previous year, however Trakya Cam increased its market penetration, which lifted the sales up in the region; increase in average sales prices and appreciation of Russian Ruble against TRY by 38% YoY also supported the consolidated results. In Q4'17, market was seasonally quiet, region's profitability slightly came down.

e) Share of **international sales** was 52% in 2017, as a result of increased presence in Europe after consolidation of Italian operations, recovery in related industries and favorable foreign exchange translation effect. Given the geographic mix, 46% of Trakya Cam's revenue is denominated in hard currency in 2017, that was among the supportive tailwinds of the strong topline growth apart from improved industry dynamics

Gross profit increased by 58% YoY in 2017 and 47% in Q4'17. Lower marginal cost in Turkey was the main driver of the gross margin expansion in 2017 owing to price hikes between October 2016 and 2017 with a total effective price impact of 19% YoY (Oct'16-6%, Feb'17-12%, Oct'17-8%). Increase in natural gas prices in both Bulgaria and Italy, limited the margin expansion, yet consolidated gross margin improved more than 300 bps in Q4'17 compared with prior year quarter. No major change seen in unit soda ash cost in USD terms in Q4'17 compared with prior year quarter, apart from 21% foreign currency swing in USD/TRY.

(Detail on natural gas pricing: Starting October 2017, Bulgargaz announced 7% decrease in natural gas prices. Considering 5% hike in January and 29% in April in 2017, total negative impact on natural gas prices came down to 26%. In October 2017, Italian Energy Authority announced ~3% price increase on natural gas due to increased transportation cost in line with increased consumption. Starting 2018, natural gas prices will be up by ~14% YoY in Turkey)

In Q4'17, **main operating expenses increased** by 23% YoY mainly due to increase in sales and marketing expenses which were up by 82% YoY. Main operating expenses to revenue increased to 22% in Q4'17 from 17% of average rate in the first nine months. This was mainly attributable to increase in transportation expenses especially in Turkey and Russia, related to increase in oil prices together with unfavorable FX translation impact. Royalty fee paid to Şişecam of which calculation changed in 2017 in order to comply with amendments in OECD legislation and consolidation of Italian operations were also among the other reasons of increase in sales and marketing expenses. General administrative expenses decreased to TRY 55 Million in Q4'17 from TRY 95 Million in Q4'16 mainly due to less charged expenses related to holding services in order to comply with amendments in OECD legislation. Recall that, one-off expense was incurred after takeover of Italian assets and excess provisions made within in Q4'16 (In Q4'16: TRY 11 Million transaction tax paid for takeover of Italian assets and TRY 13 Million provision expense made which was written back in 2017).

The company's **net other income from operations** increased to TRY 43 Million in Q4'17 from TRY 36 Million in Q4'16 mainly due to increase in other income related to mould sales recorded within Q4'17 as well as TRY 7 Million franchise income. In Q4'17, income on trade receivables decreased compared to Q4'16 as a consequence of less volatility seen in FX rates compared with prior year quarter. TRY 13,1 administrative fine recorded in other expense within Q4'17.

Investments in associates and joint ventures increased by 32% YoY to TRY 24 Million TRY from TRY 18 Million owing to increase in net income realized from Indian operations. In Q4'17, TRY 12 Million net income recorded in the region, highest quarter level in 2017 mainly due to positive impact coming from change in tax calculation regarding deferred tax. By the year end, Çayırova land was revalued, yet net income generated from Çayırova decreased to TRY 6 Million in Q4'17 from TRY 8 Million in Q4'16 mainly due to less recorded revaluation gain.

Net income from investing activities was recorded at TRY 65 Million in Q4'17, remained almost flat with prior year quarter. TRY 53 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 Q4'17, total investment balance was USD 196 Million in 2017. In Q4'16, revaluation gain on Eurobonds was TRY 63 Million. In this quarter, TRY 12 Million income was recorded from asset sales. Recall that, TRY 24 Million dividend income was recorded within the first quarter of 2016 from Soda Sanayi A.Ş. Trakya Cam sold all shares of Soda Sanayii in Q2'16.

Excluding the revaluation gain on financial instruments, Company's **EBIT** would be TRY 214 Million in Q4'17 with 75% YoY increase compared to TRY 122 Million in Q4'16. **Adjusted EBIT margin would be 17%** in Q4'17, **~400 bps** higher than prior year quarter. TRY 13,1 administrative fine also carried a one-off impact on EBIT. If it is excluded, **EBIT margin would be recorded at 18%**.

Depreciation expense recorded as TRY 77 Million in the Q4'17, increased by 9% YoY – TRY 8 Million coming from Italian operations

Consequently, **after the adjustments, EBITDA recorded at TRY 290 Million with 51% YoY increase, recording 23% margin**. If TRY 13,1 administrative fine is excluded, **EBITDA margin would be recorded at 24%**.

Trakya Cam posted a solid **net income after non-controlling interest at TRY 221 Million**, representing 17% margin, and strongest quarter level in 2017

Tax expense increased to TRY 40 Million in Q4'17 from TRY 9 Million tax income recorded in Q4'16 mainly due to strong bottom line. Less recorded deferred tax income was recorded in Q4'17 compared with prior year quarter. Recall that, in Q4'16, TRY 31 Million deferred tax income was recorded mainly due to finalization of cold repair in Mersin facility.

Net financial expense improved to TRY 26 Million in Q4'17, which was TRY 86 Million in Q4'16. Trakya Cam incurred TRY 66 Million financial expense from FX loss and interest expense related to repayment of Şişecam's bond issue amounting to USD 250 Million. On the contrary, TRY 63 Million FX gain and interest income earned by time deposits. Apart from those, TRY 29 Million financial expense was recorded related to FX loss on hard currency denominated bank loans. There was no significant change in debt position in Q4'17 compared to Q3'17. Cash and cash equivalents increased to TRY 1.4 Billion in line with the increase in collection of trade receivables, also receivables from related parties and positive currency translation effect, which was booked from time deposits, 61% of which is denominated in EUR&USD. Trakya Cam's **gross debt** came in at TRY 2.8 Billion in the third quarter of 2017, as 76% were long-term liabilities including USD 250 Million Sisecam Eurobond. Trakya Cam's net debt came in at TRY 459 Million equivalent of USD 122 Million (USD/TRY=3.7719) including total of Eurobond investments amounting to USD 196 Million.

FCFE increased to TRY 423 Million in 2017 compared to TRY 39 Million in 2016 mainly thanks to increase in operational cash flow as a result of material increase in net income and effectively managed working capital requirements

The company's **net long FX position** was TRY 138 Million in Q4'17 versus TRY 362 Million short position in 2016 due to increase in USD denominated assets including corporate Eurobond purchases. EUR denominated financial liabilities also decreased by EUR 41 Million (TRY 60 Million) compared to 2016

Capital expenditures were TRY 125 Million in Q4'17 and TRY 233 Million in 2017 (USD 65 Million) %25 was attributed to maintenance while the rest mainly belongs to coated glass investment in Turkey (Yenişehir plant), energy efficiency investments in Turkey and Italy and small sized line investments in Bulgaria (laminated automotive glass) and Romania (auto - sidelites). USD 6 Million capex made for cold repair in Bulgaria, which will start in August 2018. Capex to sales ratio increased to 10% in Q4'17. Apart from this, TRY 34 Million of advances given in 2017 in the cash flow statement includes cash outflow related to capex.

Important events during and after the reporting period:

Trakya Cam submitted a bid for Sangalli Manfredonia in Italy, result of which is not yet finalized

Trakya Cam announced a greenfield investment for an additional float line in Polatlı, to meet the growing demand across Turkey and surrounding regions, which will become online in 2020. Total investment will reach USD 127 Million

[Şişecam will be holding an Audio Webcast Call to present its 2017 year-end results on March 6, 2018.](#)

[Please see the registration details below](#)

Event Time:

5:00 PM (İstanbul)

2:00 PM (London)

9:00 AM (New York)

Dial-In Info:

UK Toll Number: +442030092462

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USA Toll Number: +16467224914

Webcast Link: <http://edge.media-server.com/m/p/ngqizhtd>



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