

COMMENTS ON TRAKYA CAM SANAYİ A.Ş. Q1 2018 CONSOLIDATED FINANCIAL STATEMENTS

Based on Q1 2018 IFRS results,

Consolidated Financials (TRY mn)	2017 Q1	2017 Q4	2018 Q1	QoQ Growth	YoY Growth
Revenue	956	1.289	1.222	-5%	28%
Gross Profit	312	426	396	-7%	27%
Gross Margin	33%	33%	32%	-66 bps	-24 bps
EBIT	187	267	264	-1%	41%
EBIT Margin	20%	21%	22%	88 bps	200 bps
EBITDA	265	344	343	0%	29%
EBITDA Margin	28%	27%	28%	141 bps	34 bps
Net Income after non-controlling interest	115	221	207	-6%	80%
Net Income Margin	12%	17%	17%	-23 bps	491 bps
Capex	34	124	98	-21%	190%
Capex/Sales	4%	10%	8%	-157 bps	449 bps
Adjusted EBIT*	163	214	219	2%	35%
Adjusted EBIT Margin*	17%	17%	18%	134 bps	92 bps
Adjusted EBITDA*	240	290	298	3%	24%
Adjusted EBITDA Margin*	25%	23%	24%	187 bps	-74 bps
Adjusted Net Income*	115	221	207	-6%	80%
Adjusted Net Income Margin*	12%	17%	17%	-23 bps	491 bps
Analyst EBIT**	126	142	183	29%	45%
Analyst EBIT Margin**	13%	11%	15%	395 bps	180 bps
Analyst EBITDA**	204	219	262	20%	29%
Analyst EBITDA Margin**	21%	17%	21%	448 bps	14 bps

One-Off Impacts:
Excluding From EBIT:

- **Q1'18: TRY 45 Million:** Revaluation gain/loss on fixed income instruments amounting to TRY 45 Million
- **Q4'17: TRY 53 Million:** Revaluation gain/loss on fixed income instruments amounting to TRY 53 Million
- **Q1'17: TRY 25 Million:** Revaluation gain/loss on fixed income instruments amounting to TRY 25 Million

Trakya Cam got off to a good start in 2018, reported a **28% year on year growth in sales reaching TRY 1.2 Billion in the first quarter**. Strong growth in revenue was primarily driven by pricing actions taken starting from February of 2017 in domestic market, higher contribution of auto and encapsulation business, favorable product mix in European sales and positive foreign currency translation effect on the back of 19% appreciation of EUR against TRY and 7% appreciation of RUB against TRY. In Q1'18, total pricing effect was 8% in addition to 9% of positive currency effect and 11% of product mix compared to Q1'17. Total flat glass production came in at 577K tons in Q1'18

b) **Turkey operations**: Turkey operations represents 52% of total revenue, which increased by 25% year on year in Q1'18. Trakya Cam went for a price hike in domestic market within the range of 2.5%-8% for basic glass products excluding clear flat glass earlier this year in addition to price hikes made in 2017, totaling 20%. Sales volume regarding basic glass in domestic market grew higher than the market growth as import volumes decreased by 17% as of February compared with the same period of prior year. Share of imports originating from Russia have shown 67% decline thereafter 8%-10% anti-dumping tax per ton started to impose on Russian clear flat glass starting end of 2017. Favorable currency conditions on EUR denominated auto glass sales continued to support the revenue generation in Turkey.

Trakya Cam recently announced a price hike in basic glass products with an effective rate of 10.7% starting from April 25 in order to neutralize the impact of rise in raw material prices primarily driven by natural gas price hikes announced by Turkish natural gas provider and negative effect of currency fluctuations.

c) **European operations**: European sales grew by 28% year on year, which was primarily attributable to higher contribution from encapsulation business, which came in at EUR 47 Million, posting 31% YoY growth in TRY terms as EUR appreciated against TRY by 19% YoY. Romania doubled up its revenue generation in Q1'18 compared to prior year first quarter, owing to improved capacity utilization rate with high technical capacity and increased orders from its clients. Sales from Bulgarian operations increased by 17% year on year despite recording lower sales volume compared to Q1'17. Positive product mix effect, higher sales prices in the region and EUR appreciation lifted up the revenue generation of Bulgarian operations compared to Q1'17 regardless of sales volume decrease mainly due to temporary decline in its technical capacity. Demand kept strong in Italy, which coupled with positive impact coming from increase in sales of value added glasses

d) **Russian operations**: Sales from Russian operations grew by 21% year on year in Q1'18 , which was mainly driven by slight increase in sales volumes, positive mix effect coming from increase in mirror sales, higher contribution from auto-glass sales and appreciation of Russian Ruble against TRY by 7% .

e) Share of **international sales** was 53% in Q1'18, 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, 47% of Trakya Cam's revenue is denominated in hard currency in Q1'18, that was among the supportive tailwinds of the strong topline growth apart from improved industry dynamics

Gross profit increased by 27% year on year in Q1'18. Auto-glass unit witnessed over 200 bps increase in gross profit margin as a result of better project mix, cost efficiency measures and favorable currency conditions, of which share in total gross profit increased to 25% in Q1'18 from %22 in Q1'17. Increase in natural gas prices both in Turkey, Bulgaria and Italy limited the margin

increase in basic glass segment, yet consolidated gross margin was slightly narrowed down by 24 bps in Q1'18 compared to prior year quarter.

(Detail on natural gas pricing: In January 2018, Bulgargaz announced 2.75% increase on natural gas prices and made another price hike on natural gas by 2.6% in April. Recall that, within 2017, %7 decrease on natural gas prices was announced in October following 5% hike in January and 29% hike in April. 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 was up by ~14% YoY in Turkey. In April, Botas announced another price hike on natural gas by 9.7%)

In Q1'18, **main operating expenses increased** by 23% year on year mainly due to increase in sales and marketing expenses which were up by 31% year on year. This increase was primarily attributable to increase in transportation costs parallel to currency fluctuations, royalty fee payment to Şişecam which was not booked in Q1'17 and increase in sales and marketing expenses of Russia after calculation change in third party logistics expenses. G&A expenses decreased by 1% as a result of less charged expenses related to holding services in order to comply with amendments in OECD legislation. Main operating expenses to revenue decreased to 17% in Q1'18 which was 19% in Q1'17.

The company's **net other income from operations** came in at TRY 26 Million in Q1'18 which was TRY 25 Million in Q1'17.

Investments in associates and joint ventures increased by 29% YoY to TRY 10 Million from TRY 7 Million mainly due to income generated from Çayırova of which contribution increased to TRY 2,4 Million in Q1'18 from TRY 0,2 Million in Q1'17.

Net income from investing activities was recorded at TRY 46 Million in Q1'18, increased by 57% year on year. TRY 45 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 Q1'18, total investment balance was USD 197 Million in 2017. In Q1'17, revaluation gain on Eurobonds was TRY 25 Million.

Excluding the revaluation gain on financial instruments, Company's **EBIT** would be TRY 219 Million in Q1'18 with 35% YoY increase compared to TRY 163 Million in Q1'17. **Adjusted EBIT margin would be 18%** in Q1'18, ~**100 bps** higher than prior year quarter.

Depreciation expense recorded as TRY 79 Million in the Q1'18, increased by 2% YoY

Consequently, **after the adjustments, EBITDA recorded at TRY 298 Million with 24% YoY increase, recording 24% margin.**

Trakya Cam posted a solid **net income after non-controlling interest at TRY 207 Million**, representing 17% margin

Tax expense was TRY 28 Million in Q1'18, remained almost yearly flat. TRY 28 Million reduced corporate tax was recorded mainly attributable to coated glass line investment in Yenışehir, Turkey.

Net financial expense came in at TRY 20 Million in Q1'18, which was TRY 39 Million in Q1'17. Trakya Cam incurred TRY 55 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 55 Million

FX gain and interest income earned by time deposits. Apart from those, TRY 27 Million financial expense was recorded related to FX loss on hard currency denominated bank loans. There was no significant change in debt position in Q1'18 compared to 2017. Cash and cash equivalents increased to TRY 1.5 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 3 Billion in the first quarter of 2018, as 64% were long-term liabilities including USD 250 Million Sisecam Eurobond. Trakya Cam's net debt came in at TRY 690 Million equivalent of USD 175 Million (USD/TRY=3.9489) including total of Eurobond investments amounting to USD 197 Million.

FCFE came in at -TRY 14 Million in Q1'18 compared to TRY 97 Million in mainly due to less recorded non-cash items as a result of less adjustments recorded for provisions.

The company's **net long FX position** was TRY 134 Million in Q1'18 versus TRY 138 Million long position in 2017.

Capital expenditures were TRY 98 Million in Q1'18 (USD 25 Million), %20 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 increased to 8% in Q1'18.

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 is expected to become online in 2020. Total investment will reach USD 127 Million

Trakya Cam proposed to distribute TRY 170 Million gross dividend that was approved by General Assembly

Negotiations regarding purchase of remaining 50% share in Hindusthan National Glass and Industrial Limited has started



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