Anadolu Efes

CONFERENCE CALL TO DISCUSS ANADOLU EFES FINANCIAL AND OPERATIONAL RESULTS FOR THE THIRD QUARTER OF 2020.

Company: Anadolu Efes

Presenters:

- Can Çaka, Chief Executive Officer
- Orhun Köstem, Chief Financial Officer
- Asli Demirel, Head of Investor Relations

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Asli Demirel, Head of Investor Relations
Ladies and gentlemen, welcome to Anadolu Efes latest third quarter financial results, a conference call and webcast. My name is Asli Demirel. I'm the head of Investor Relations of Anadolu Efes. Our presenters today Mr. Can Çaka, the CEO; and Mr. Orhun Köstem, the CFO. All participants will be in listen-only mode. Following the first part of this call, there will be a Q&A session and you will be able to write down your questions on the question box on your web screen during the presentation.

Just to remind you, this conference call is being recorded and the link will be online. Before we start, I would kindly request you to refer to our notes in our presentation regarding forward looking statements. Now I'm leaving the ground to Mr. Can Çaka, Anadolu Efes CEO.

Can Çaka, Chief Executive Officer
Hi, everybody. Good afternoon, and good morning to those in the US. Again, thank you. Thank you for all joining our third quarter earnings call. And I hope you and

your families are healthy and safe. First of all, I'm pleased to report that as Anadolu Efes team, as Anadolu Efes family we are all safe and healthy as well, so that's a great achievement all through this period of time. As it continues to be a uniquely challenging year.

Also, I'm glad to report another solid quarter. This is a result of the dedication of our colleagues where they worked so hard to brew joy in such unprecedented times. And I'm inspired by the agility and adaptability of our teams, where the circumstances were quite challenging throughout the year. This period performance in execution by offering the right choice of brands while adapting to the realities of the world, lead to such a set of results in the quarter. It tends to be another quarter where we were able to grow our EBITDA ahead of our revenues, and revenue ahead of our volumes as we initially targeted. The volume growth was driven by both Beer and Soft Drinks, addressing to sharp recovery compared to the first two quarters of the year; increased mobility, reopening of the on-trade sale channel and the favorable weather conditions to the season, all assisted the volume growth in the period. At the same time, we maintained our savings in OPEX and CAPEX in this quarter as well, while at the same time, we were carefully ensuring that we spend on everything required for the business continuity as well, and our discipline focus on spending led a margin improvement similar to the previous quarter.

Working capital management has been one of the competitive advantages of our company, where we were able to improve it to a record low levels even under such challenging times. It is encouraging for me that we have generated 1.9 billion TL free cash flow that both business lines contributed to this strong free cash flow generation significantly.

However, we remain cautious for the last quarter of the year as many uncertainties lie ahead, mainly driven by COVID-19 situation. For the Beer Group, our volumes were up by 4.4% in the third quarters, and our international beer volumes increased by 6.2%. Russia was the highest contributor to the growth in the Beer Group, as it continued its growth momentum in this quarter as well. For the rest of the CIS countries volumes were also up despite ongoing challenges in respect of beer markets. Turkey beer volume showed a significant progress compared to the first half, which I'm going to go through in details in the following slides.

All in all, our Beer Group sales volume in third quarter was parallel to our initial pre-COVID expectations at the beginning of the year. On the Soft Drinks side, volumes increased by 1.8% with the support of the sparkling category that had a robust performance in third quarter, growing by 9% on a year-on-year basis. Still category showed an important progress compared to the second quarter, where the year-on-year decline was limited to 8.5%. Similarly, water category showed recovery, yet it was deliberately the weakest performer as a result of our value focus and small pack prioritization. Here you see a fantastic chart; I would like you to focus on the specific quality chart in the middle. These are Beer Group numbers, all in growth mode with a significant positive string versus last year, obviously, and also to the first half of the year.

Not only we were able to improve our volumes, but also managed to translate this improvement in volumes into margin expansion and free cash flow generation. We managed to grow our EBITDA for more than 25% and generated 466 million TL free cash flow in the quarter versus last year. Obviously, our top line was assisted by the price increases and positive effects translation.

While our operational profitability was positively impacted by the savings in OPEX, free cash flow generation was also supported by the improvement on the working capital that I mentioned earlier. A strong quarter helped us recover the gap in the first half we have seen and so, we achieve positive growth for the year-to-date performances in all key metrics as well.

Our international beer business continued to drive the volume growth for the Beer Group, In Russia, Kazakhstan and Moldova posted volume growth in the third quarter compared to a year ago.

Russian beer industry showed improvement during the period as the COVID-related restrictions were relatively easy in the summertime. And on the pricing side, competition was very high since the beginning of the year in Russia and further accelerated in third quarter. And such price promotions by the competition also contributed volume growth in the market. Domestic consumption was higher than last year due to the relatively lower number of Russian tourists traveling abroad this year as a result of the pandemic, I would say.

And our Russian operation continued its resilient growth and grew by double digits despite the intense competition. Our aim to keep the balancing volume and value share is on track. And as shown on the graph, we have higher share value vs the volume where the positive difference is expanding, unlike the competition.

In Ukraine, our volumes were under pressure in the period due to the increased competition again, slightly below the industry where demand was negatively impacted by the restrictions on the pandemic. However, we were able to grow the license portfolio, especially ex-Efes brands that we introduced last year. So, that continued to develop in the quarter and at the business. For the rest of the business for CIS countries where our volumes were up in the period except in Georgia where the market was impacted by lower tourism throughout the season.

The volume pressure was mitigated again by savings in OPEX and CAPEX and also the price increases supported the profitability. So again, throughout the period, despite the ongoing challenges, we continued our successful brand launches execution in all countries across the board. And that's that energy, that exercise was -- you would remember in our first off call, we talked about our relaunch of Efes family in Turkey. So, in Turkey also we have seen the positive developments related with our brand launch.

Despite that, our volumes significantly recovered in Turkey compared to the first half and declined mainly 4.2% in the third quarter versus last year. Obviously lack of tourism, low consumer confidence eased but still ongoing restrictions and concerns on the pandemic impacted our volumes negatively through the period. Yet we were able to generate volume growth in July and August with the help of the increased mobility after the easing of some of the restrictions and favorable weather conditions. A pressure on trade volumes continued, as expected. However, the demand for open-air events supported off trade volumes in the period.

On the other hand, the volume slowed down in September being impacted by the price increases following the excise tax increase and accelerated number of COVID cases in the country like many countries facing now. Also, the macroeconomic environment was unfavorable. Therefore, we remain cautious stance for the last quarter of the year. Since COVID cases are increasing, there can be possible lockdowns going forward and also there are recent changes in terms of restrictions. As I mentioned, our “+1” launch of Efes family had wide coverage throughout the season in the country. We are getting very positive feedback from the market as proven by the increasing brand love scores as well as higher quality and taste perception by our consumers. We are witnessing an increasing market share in the Efes Pilsen brand yet it's too early to make a judgement rather than talking about this early positive indications and our craftsmanship efforts and seasonal offerings continued in the period, including Efes Summer Blue, Varım Limon, Bomonti IPA launch being supported to our volume platforms through to quarter.

A few words on the Soft Drinks side of the business as well. Consolidated sales volume was up by 1.8% in the third quarter, significantly improved compared to the previous quarter. Volume seen in Turkey continue to recover gradually benefiting from easing restrictions as well, being only down by 1.9%; favorable weather conditions, well-managed promotions in the case of Soft Drinks also contributed to the domestic volume performance. Sparkling category, as I mentioned, was the most resilient part of the business, showed growth on a year-on-year basis. There has been improvement in the share of immediate consumption packages compared to second quarter although it's still below last year's level.

International operations volumes were strong in the period as a result of higher share of sparkling category. The international part of the business volumes grew by almost 7% on a year-on-year basis; Kazakhstan and Azerbaijan were the only laggards. Pakistan was one of the best performers and grew by almost 13%. Successful consumer activities and right execution on the field supported our volumes. Middle East volumes were also up by 4.8% with the superior performance in Jordan that sparkling category grew and in Iraq was close to 11% with the big contraction in water category.

Finally, looking at on Anadolu Efes consolidated results volumes grew by 2.5% in third quarter driven by the growth in both business lines as mentioned, down for our robust performance in the quarters mostly offset the challenges in the first half.

Consolidated net revenue grew more than 24% on a year-on-year basis in the quarter and reached to 8.7 billion TL. Top line performance was assisted by higher volume, price increases as well as the revenue growth management initiatives to drive the value.

Also, there was a currency translation impact of around 11% in the periods. We have delivered almost 48% EBITDA growth and more importantly more than 380 basis points margin expansion and as a result of the tight cost and expense management, as well as the top line performance support on the profitability.

We have recorded a net profit of 460 million in third quarter contributed by the improvement in operational profitability obviously, despite high profitable decline on the bottom line is due to lack of one of the income impact incurred in third quarter last related to FX gains of more than 210 million as a result of repatriated cash from international operations to Turkey.

It is also worth mentioning that Anadolu Efes net FX position turned into positive this quarter for the first time that the contribution from both business lines. Free cash flow in third quarter more than doubled similar to the previous quarter and reached to 1.9 billion TL. There was an increase in free cash flow in both business lines. And this cash generation is a result of driven by the superior performance in working capital management, prudent CAPEX spending as well. As a result, our consolidated net debt / EBITDA margin was improved to 0.8x as of end of September.

And Orhun is going go over the details in the coming slides for his financial review.

Orhun Köstem, Chief Financial Officer
Thank you, Can. Good morning. Good afternoon, everyone. Again, I hope you and your loved ones are all healthy, everyone's well, since we last spoke and hope it continues that way, as we go through these interesting times. Now, I'm going to take you through the financial results. I'm quite happy that we are reporting another strong quarter after the second quarter of the year. And here you see some of the key items I'm going to talk about bottom to top; I'm going to start with big beer business outside of Turkey.

As Can was saying, our business in Russia especially is driving much of the volume growth on the beer side, this is true for the third quarter, and obviously in the nine months resulted in 4% growth outside of Turkey. And if you look at revenues and EBITDA, I'm also quite happy to say we are growing revenue and the volume and EBITDA, let's say, ahead of the revenue in the third quarter of the year. In the nine months, we more or less caught up with the last year; you remember, especially in the first quarter of year, there was margin contraction in our businesses in Russia and Ukraine, primarily in Russia, that was coming from the promo transition between two years, which since the last two quarters had more or less normalized as we look into a more balanced volume versus value growth.

And if you look at businesses, outside of Turkey, Russia and Ukraine internationally, the volumes are softer, but developing, but financials continue to be very strong. And therefore, you see these good set of results. If we come to Turkey, we already talked about volumes. But given the fact that the volume performance was comparatively better in this quarter of the year, obviously, we're looking at a very good set of results in the third quarter where revenues were up by 12.3%. This is also assisted by the fact that now we're looking at price increases in the second quarter after July, which obviously helped the top line growth. As well as if you look at the margin together with the cost savings and expense management initiatives, we have been able to deliver 190 basis points margin expansion in Turkey, and all in all, they're only about 60 basis points behind last year's a EBIDTA margin at the end of nine months at 15.9%.

Now, just to give an indication, because that's something we'll discuss in the last quarter as well. Take Turkey, we have a number of initiatives taking place. One of them obviously, is zero base planning and spending programs that more or less touches at about 40-45% of the overall OPEX base. And we've separately at the end of 2019 initiated what we call a crushing initiative that's primarily directed towards cost of goods sold and CAPEX. We were not necessarily knowledgeable about the fact that any pandemic was going to hit. We were just trying to find ways to make sure that we reduced our cost and expense base in doing so. But between these two, I would have said, if you look at the first, and if you look at 2020, let's say, we have been targeting about maybe 5% of the net sales revenue in total savings. We are on track to achieve that for fully in probably, you know, about 100 basis points of net sales revenue is going to stay with us. Because the changes that we have been making on OPEX or cost of goods sold base, these are permanent changes we may structure. And if you look at the Beer Group, therefore, in total, in the third quarter volumes were up by 4.4%. In the nine months, 1.5% to growth. Obviously, revenues have been growing ahead of the, let's say, red volumes. And then in the third quarter, again, we're looking at 110 basis points margin expansion at 18.1%.

And if you look at the first nine months, we're at 13.9%, and only 50 basis points behind last year's margin base. Now, I'm sure you would recognize there has been significant FX volatility, especially in the third quarter, which flows into our results as well. So, if you just based on constant currencies, we would have looked at about maybe 2% growth in terms of nine months figures for revenues. And our EBITDA margin probably was about 13.8% or 10 basis points reduction, if the rates were to remain similar. When we come to Anadolu Efes, actually, we must have seen and listened to the CCI set of results, which were quite strong as well, in the period, which is you see in the third quarter. We still see volume growth, despite the fact that volumes are relatively softer, but very strong financials that flows into Anadolu

Efes results, where we see mid 20s revenue growth, and then about 380 basis point margin expansion again in the third quarter, and for the nine months, we're looking at 150 basis points margin expansion in EBITDA, with revenue growth of 12.5%. So, all in all, good results.

I'm going to touch base, especially on the Beer Group side. Free cash flow and EBITDA contribution in the next few slides. Now, if you look at the balance sheet, on the Beer Group side, we are at 1.3x net debt to EBITDA and Anadolu Efes at 0.8x. And obviously we have been growing our cash flow. And just remind you these results are after the fact that we have actually paid some dividends.

So, that's from quarter to quarter may change the free cash flow position. But nevertheless, we're still looking at very healthy set of leverage, which we were planning against and doing quite well. And our average debt maturity now is 1.7 years. The biggest chunk of that remains to be the Eurobond that matures in November 2022. So, as we discussed earlier, starting from next year, obviously we will be reviewing our liability management alternatives for that debt. But in the meantime, a few things that you can expect us to continue doing; and again, as we discussed, we will further reduce the FX debt exposure in our balance sheets. I said in this forum at the end of 2020, we're expecting the Eurobond to be the only remaining FX debt exposure in our balance sheet, and it is going to be that way. Secondly, we will continue to hold a majority of our cash in hard currencies. As you know, our entity Efes Breweries International outside of Turkey receives dividends from outside operations, very healthily. And as we said that we maintain a certain amount of cash outside of Turkey and from time to time repatriate it in Turkey, if we find that we need to pay higher interest rates for working capital reasons, from time to time. That happened, by the way between 2019 and 2020. So, when you look at quarterly differences, in 2019, there was a big chunk coming from EBI in the third quarter in 2020. Most of that was in the first half. So that makes a difference in terms of numbers because we, let's say we record a positive FX income from those exercises.

As I said, we recorded a record low level of working capital, our core working capital to net sales revenue at the end of nine months was minus 16.9%. And on the Beer Group, if you exclude the Russian, Ukrainian businesses, which traditionally delivers negative working capital, we reach 0% on across all other operations, on average, so we we've been doing quite well, which we expect to stay with us.

And I'm going to touch base on that in a bit in the following pages. And from our hedging point of view, we normally see this year anyway, so it's there. Again, as we discussed, we started hedging, obviously, for next year, but we're also starting hedges for the longer term, especially the commodities and in this period, given that from time to time, the demand was low. We have found it very opportunistic to hedge our positions. In aluminum, for example, we are hedged about over 60%. For 2021, we are hedged about over 10% for 2022. We started using plastics, we have about a quarter of our position for 2020. And for FX, also, we're looking at something close to 60%. In Turkey, we managed to hedge that positions already. And these positions as coming out or you know, cost of goods sold or OPEX and interest basis.

So, this is at the end of the day, how we manage a relatively healthy balance sheet. If you look at the EBITDA, as you see, in the third quarter, obviously, partly from the volume growth, mostly from the pricing, again, the price increase, especially in Turkey was a contributor to that; we have positive revenue, obviously difference that offsets most of the costs of sales in the period.

Basically, as you see our SG&A marketing expenses, OPEX in general was close to being flat. And the other number you see that 52 million is mostly the FX or the currency conversion, difference for the period and therefore we have been able to deliver 25.5% EBITDA growth with margin expansion on the Beer Group.

If you look at the breakdown of the free cash flow. Now, obviously, we talked about the positive EBITDA difference. But the majority of the difference is coming from working capital, as I said, we were at minus 16.9% at the end of nine months compared to minus 10.5% at the end of nine months in 2019. We've constantly reducing that, especially as I said, in Turkey, we have had very significant headway in all across the operations, our receivable management was stellar. We were not that far in most of the operations, we were better in terms of receivable days compared to last year's periods, our inventory levels were at par, sometimes a little bit higher, because we've made that conscious choice. In the second quarter that we were going to make sure that we manage it through certain buffers in order to make sure that there were no business interruptions, you know you go into times of let's say COVID expansion or second waves, basically, so that's safety factor. On the inventories and payables, in general, we're managing quite successfully, so that we end up with very good working capital management. We will obviously continue doing this. So I'm being very, very careful in working capital management, especially if next year things were to go better than this year. Hopefully they do.

Obviously, we will have some pockets of opportunity in that, especially in the inventory levels, but we will continue, as I said, managing that quite carefully.

Now, again, if you look at the CAPEX numbers, that's the other important contributor to the cash flow generation, basically, which is about 5 million in the third quarter, obviously, that's a small number. And this year, in general, we can say compared to last year, the CAPEX would be a check. So far, I mean, even though we may think of and this is what we're doing currently looking at the options to start spending some CAPEX so that we would be ready for next year. We shouldn't expect any hikes in CAPEX net revenue for Anadolu Efes or Beer Group in general for the full year in 2020, as we suggested in our guidance. And then you see, in the third quarter, then we had a shift, positive swing from minus 22.8 in the third quarter of 2019 and close to 450 in the third quarter of 2020. Now, with this, I will give the word back to Can, for his closing remarks of the moment, thank you.

Can Çaka, Chief Executive Officer
Thank you, Orhun. Obviously, there are still challenges and uncertainties ahead of us, especially considering that we are all facing, experiencing accelerated number of COVID cases across our operations across globally.

And moreover, obviously, the pandemic period created a lot of pressures on the economy. So, we are all facing the volatile macroeconomic environment in our countries. So, this is creating a lot of challenges or national uncertainties going forward.

Despite having strong results in third quarters and fourth quarter, it is being a relatively small quarter, we reiterate our year-end Beer Group outlook, assuming the restrictions in on trade are going to be tightened. We have seen the one example in Turkey recently with possible lockdowns can come as we have seen in Europe. So those developments, those changes in the environment, making us cautious. Therefore, we keep our Beer Group volume expectation of mid-single digit decline unchanged.

As discussed during this call, and previous calls, cost mitigating measures taken as well as the CAPEX and OPEX savings are in place and will continue their significant support in our profitability, especially in the second and third quarter this year. However, as we make our plans for the coming year, we will procure certain raw materials early to ensure lower price volatility and make some shifts in OPEX and

CAPEX spending. Therefore, these may impact our working capital in the last quarter as well. And on the other hand, we still expect to generate positive free cash flow in the Beer Group in 2020. And yet lower than its record level we reached last year. That concludes our presentation. Now, we are ready to take the questions. Actually, there are already two questions published. Asli, are you going to read the question though?

Asli Demirel, Head of Investor Relations
The first question comes from VTB Capital.
I have a couple of questions. First one is what are your sales in October 2020 in Russia and in Turkey? Are the trends better than third quarter? What's your CAPEX guidance for 2021?

Can Çaka, Chief Executive Officer
Thank you for the questions. Obviously, when we had revised guidance for 2020, actually, the beginning of the summer period, they were still cautious on the pandemic. So basically, our guidance as of today incorporates that cautious approach. And frankly speaking, given the third quarter performance we were thinking and hoping for that could be a little bit more upside to that. Having said that, what we are trying to explain in the outlook, as we are experiencing in Russia is we are experiencing Turkey, every other country, we are seeing the COVID cases, increasing; that's creating a lot of tension and concerns among consumers and among governments, and they are acting to take additional restrictions. So basically, that is creating concerns, those concerns among consumers are also reflected to the trend. And early summer, June, July, August, especially after the lockdowns when our consumers were able to go out, and the weather conditions were good; so they were happily going out spending some time outdoor and consuming more of our beers that was contributing to the growth, to the numbers that we are sharing with you today.

But then as the fourth quarter, I would say our cautiousness is linked to the increased number of cases, weather conditions becoming cool again. So, in that perspective, we see again, less mobility, less going out. So, that's why I wouldn't be able to say we expect the trends going the same manner. With respect to the CAPEX guidance, obviously, this year when we hit by the happenings with the pandemic, we cut a lot of CAPEX. We have kept our, let's say, that really prudent approach, frozen and then release whatever necessary to ensure the sustainability our business going forward.

Planning as of today, for 2021. Obviously, there are certain needs, certain opportunities as we see. So, we expect to have higher CAPEX compared to what we had to this year, I would say very, very minimal. However, again, we will be very prudent, we will see the developments, we will have certain parts frozen, and we will be releasing those as quarters go by as we see the progress, as we see how the pandemic problem would impact our markets, how the economy with macroeconomic conditions will evolve. But our initial expectation and our let's say planning is higher, would be higher, obviously, compared to this year.

Orhun Köstem, Chief Financial Officer
But just maybe to add. If you take what we spend this CAPEX as a percent of revenue, over the course of last few years we'll get to the bandwidth between let's say 8% to 10% and still expect at this point in time we will stay within the bandwidth but you will need to discuss this in our next call in detail.

Asli Demirel, Head of Investor Relations
The next question comes from Ak Investment.
Thanks for taking the questions. Congratulations on your successful results at such a challenging environment. I must admit that it was quite surprising to see domestic volumes remaining so resilient despite the absence of tourism activity, at least from outside of Turkey, among other adversities. How do they explain this performance? Would it be fair to say there was a change in consumer behaviors like trade down impact, etc. In Russia, you seem to have benefited from COVID linked restrictions. How sustainable is this performance in short, in light of underlying market conditions? How do you see the demand outlook in Turkey and outside of Turkey. Thank you.

Can Çaka, Chief Executive Officer
Thank you for the congratulations as well. As I tried to explain, through the summer, we have seen our consumers going out and spending some time outdoors and that with the weather conditions, we are also consumers, we all need to pamper ourselves so that was a good occasion. That was a good opportunity. So, we, throughout the season, we have seen the support, especially in Turkey in that perspective, despite the rightly stated low tourism activity impacted our volumes. Still on on-trade the consumers were, let's say concerned to go out and eat outside on their on trade, our on trade volumes, were still below last year numbers, but at least sitting outside on an open terrace on the pavement was possible throughout

the season. So, that covered to some extent; the impact was less compared to the prior or second quarter I would say. That is specifically for Turkey. And obviously our rebranding Efes family, helped us thtough the season. Outside of Turkey, I would say that there are a couple of let's say probably Russia was benefiting from a smaller number of Russians going out of the country to the season, so they stayed at home. And let's say we benefited from the volume.

Let's also note that, you know, last year in 2019, July was quite unusually cold, unusually cool. So, basically, that was a low comparable on the month of July, specifically for Russia again. So, we've benefited from a low comparable in July. The final remark I would like to make that is culturally, structurally difference of our international markets versus Turkey, the alcohol consumption behavior a bit, so on so forth. So, what I'm going to try to explain is very difficult to put it into numbers to prove with numbers. But let me give you the example from Georgia. There is a wine culture, the celebration, family gathering, family fests are celebrated by the wine. Basically, it's locally produced wine, it's a nice wine that's been of some advertisement on this, as well. And I was asking them, and as we've seen the beer market coming up. Initially, I think I explained this in the second quarter call as well. Initially, as I was expecting less beer consumption, maybe staying at home, I was expecting the Georgians to drink more wine. And I was discussing that was not true, so beer consumption turned out to be resilient. And I was discussing with my colleagues and they were saying that staying at home alone, you don't have the gathering, you don't have the festive. So basically, that is not a wine coincidence. So that's, and beer consumption is not considered as a high alcohol consumption. So, basically, this behavior change was kind of, let's say supportive for beer in the region. And similarly, we see that in Russia, probably in the region. Instead of drinking vodka, probably we have seen some of the consumers trading to beer, being lower alcohol content basis. So that's one thing. Partly one question within the question was about trade down. Basically, I would say at the beginning of the April, May, we have seen some trade down but throughout the season, as I said, people spending some time outdoors. Basically, we have seen the consumer behavior getting back almost to the normal. So, that wasn’t trading down throughout the season, so we benefited from that in our markets as well.

Asli Demirel, Head of Investor Relations

The next question comes from JP Morgan.

Thank you for the presentation. I have two questions. Can you please provide further color on Russian operations such as what's your current market share? Do you continue to develop margins here? Despite stiff competition in which segment do you face higher competition, higher price competition. The second question is, would you repeat the FX hedging on raw material cost site? I misunderstood this sorry, if that's the case, and provide the details of what level of FX did you hedge the cost?

Orhun Köstem, Chief Financial Officer
Thank you. Yes, the answer to the second question is yes, we continue hedging both, the commodity price and also the FX component. So therefore, we do that, especially for Turkey, we do that for cost, OPEX, as well as interest payments that we have. And if you look from today, on the cost and OPEX side, we are hedged about 60%, 61%, 62%; something like this. And if you convert everything to dollars, our average should be over 7, 7.1; should be something like that. So quite beneficial. We do that, that's a continuous process. It's not like we take a decision and then we take a decision again. It's a continuous process on a drawing, it's a 12-month basis, let's put it this way. So, at any given time, you should find us hedging for FX.

Can Çaka, Chief Executive Officer
Thank you, Orhun. And thanks for the question, In Russia on a year-to-date basis, we had higher market share, more than 2 percentage points, higher market share compared to last year period. So, in that perspective, I mean, the gains that we had last year, at the end of last year and earlier this year, was reflected in this one.

And basically, the more important thing, we are balancing our market share development and revenue development as well. And given the pricing environment being tough in terms of competition point of view, we were very much looking to balance this, and we have, let's say a clear prioritization on the value share development. And we are very happy that our value share gain is higher than our volume share gain, which is great. So, that's a good balance of volume development, and that value share is also reflected into revenue growth, despite the pricing environment and what we have seen every other quarter, our margins improved versus the prior quarter. That is very important for us, that means basically very good balance with respect to the top-line growth and the bottom-line growth. So, that is our strategy, that is how we are going to act in the market. So, this is what we are trying to do. Obviously, we have seen, I would say the price competition is in every other segment. But usually in Russia, the main, the biggest competition is at the core, is at the lower premium segments, which makes a significant part of the beer market. So, that continues to be tough. This is how it is progressing for the time being. Thank you.

Asli Demirel, Head of Investor Relations
The next question comes from Wood and Co.
Do we expect the competitive environment in Russia and Ukraine to impact the pricing in fourth quarters?

Can Çaka, Chief Executive Officer
Yeah, I mean, for the time being, obviously, the competition, just on the pricing side, the pricing environment continues to be the same. So, that's going to have an impact and also on the pricing side with all this stiff competition. Actually, Russia model takes a significant part of the pie within the channel, similarly in Ukraine as well. So, the modern trade is benefiting from this and putting additional pressure in terms of pricing environment. So that is a trend in the market that will continue in the fourth quarter, as well.

Asli Demirel, Head of Investor Relations
A next question comes from Yatırım Finansman.
My question is going to be whether you can provide an outlook Anadolu Etap's financial situation and profitability.

Orhun Köstem, Chief Financial Officer
That's a good question. And apologies, maybe it should have been in our presentation, because I'm sure you must have seen accelerated numbers in the third quarter. You know, equity income flows. Now, as you know, first of all, Anadolu Etap is a subsidiary of ours, we hold about 76%. It's probably the largest fruit producer in Turkey, at least an organized or corporate one, it grows fruit, and it produces and sells fruit juice concentrates and also sells, you know, fresh fruit. About 70% of its revenue base is driven by exports. And if you look at 2020 on operational level, it's not a loss-making company.

Having said that, as you remember, last year, there was a restructuring of this company, it used to be a three-party joint venture, it's now a two-party joint venture. And through the transition the process, let's say, the governance arrangements between the JV partners don't allow any one partner to consolidate this business. So, some equity pickup basis through the process. The debts for Anadolu Etap was also restructured, you may also have seen and remembered that it has taken over debt from the EBRD. And we have been guarantors for that, for the project completion. And then what you've seen the third quarter are primarily noncash FX loses due to this long-term FX denominated debt. Now, obviously, going forward, the expectation is that they're going to have to invest a lot in the fruit business. I can't say much about the specifics of the fruit business, but all I know is different than the beverage business. Obviously, it takes longer to grow fruit and harvest them, and sell them. So therefore, there has been a long period of investment. And hopefully going forward, the expectation is that there will be limited investment and more revenue generation. So that’s for Anadolu Etap.

Asli Demirel, Head of Investor Relations
Moving on to next question.
Could you please provide insight on growth trends in Russia beer market for 4Q 2021? Would you expect market growth for Russia in 2021 after a strong base? Would it be fair to assume that the stiff competition would remain further upside to EBITDA margin around 16%, would it be limited? Thank you. And congratulations on robust performance as well.

Can Çaka, Chief Executive Officer
Thank you. Thank you, very good question. Well, I mean, obviously, it is really difficult, premature to make any statement for the fourth quarter at all. But let's look into what happens according to the retail audits, the uptake of the trade in Russia. The beer market in the third quarter grew by around 6% which is a good growth, as I explained the reasons in the previous questions, partly impacted with the July low base, and with this number is nine months, full year – nine-months growth was around 5.5% which is again good and Rosstad’s, the statistics agency of Russia also reported the production numbers growing for the first nine months around 4%. So, overall, we see mid-single digit growth in the market through the first nine months, with the results that I explained earlier. So, in that perspective, that is a good growth.

How would this trend continue in fourth quarter? I mean, that's really difficult to make any judgments right now, because as I try to explain in every other country, we see the number of cases is increasing. Russia is one of them as well, no exception here. So, in that perspective, concerns are increasing. In that perspective, I cannot make any comment on that. But I think it's instead of looking into short term, let's look into a longer-term perspective. And that's we were trying to explain every other, let's say, investor analyst contact; between 2010 and 2020, we have seen a lot of changes that have the firm regulations, limitations in the Russian beer market. And although all of them were implemented before 2018, and also the Russian economy was volatile, so on so forth. Basically, what we have seen 2018, last year, bit more economic stability, no further new implementations in the markets or so forth. We see the market potentially growing. On a mid- to long-term perspective, we see there is potential for the Russian beer market to grow. That is very clear, we see that with the up trading of the consumers as well, especially in large cities. There is potential in terms of volume growth, there is potential in terms of value growth. That is on a longer-term perspective. Having said that, as you rightly stated, also, the pricing environment, again, is probably on a short perspective, it is competitive, it will continue to be competitive, we know the aspirations of our competitors. I explained this in the prior calls about the fundamentals of our business, the advantages that we see. And again, instead of looking at quarter by quarter, we have a clear ambition in the market. On the mid-to longer-term perspective as well, with the brand base we have, with the strong base in larger cities like Moscow, the premium sites and so forth. So, benefiting from that continue delivering both volume and value growth for our business. And in the past two years after the merger, we also benefited from the synergies and we were able to improve our margins significantly.

With the increased price competition, with the increased pressures that we have seen especially in first quarter, slight down in the margins. But again, with our balanced approach, we were able to expand our margins in the coming quarters. So, we believe our balanced approach will help them in the midterm and we have our, let's say, target set and moving on that rather than just looking at quarters. I think Russia is a good market, there is potentially volume growth, value growth and profitable growth potential there. And I believe we all be more rational and benefit and create more value to our shareholders.

Asli Demirel, Head of Investor Relations
There is one more question.
How is competition in the market in your early guidance for 2021?

Can Çaka, Chief Executive Officer
I mean, competition in every other market continues to be same as we discuss in Russia, in Ukraine and even, let's say increasing from the pricing point of view, discounting point of view. That's too early to make any guidance for 2021.

Asli Demirel, Head of Investor Relations
The last question is anonymous.
Do hedge the FX on interest or the principle of Eurobond. What's your intention with refinancing the Eurobond? Will it be for the full $500 million or lower given the focus on reducing FX spend?

Orhun Köstem, Chief Financial Officer
Thank you, Mr. or Mrs. Anonymous. That's a good question. First of all, we are hedging, we do both with different instruments and principal. We hedge through the net investment hedge. For interest, as I explained for Turkey, when we think of the FX exposure, we also think of the interest payments. So therefore, we also include it in our currency, hedging initiatives. For liability management of the Eurobond, we will need to see because that also depends on the alternative funding. On one hand, obviously, it's always good to refinance the Eurobond; we're now looking at the most longer-term alternative in that specific market. If we wanted to convert to Turkish Lira, obviously we need to be convinced that costs and terms should be beneficial to us, partly or fully, you know, in what manner. It is early to say, and I don't think this is a good time to talk, given the volatility in the markets. The elections in US on one hand, obviously this extraordinary year, on the other hand, but these all would be our considerations, as we look into the liability management alternatives for the Eurobond.

Asli Demirel, Head of Investor Relations
I think that was the last question. So, if there are no more questions, we may end the call.

Can Çaka, Chief Executive Officer
Thank you Asli. Thank you all for your participation. We would like to see your clear results as well.

Orhun Köstem, Chief Financial Officer
Yes, and hopefully with also good news. So, until then, stay healthy and have a very good weekend.

Asli Demirel, Head of Investor Relations
Thank you for joining. Bye.