

**TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.**

**TOFAŞ Türk Otomobil Fabrikası A.Ş. Q3 and YTD September 2017  
Financial Results**

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**Conductors:**

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**&**

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Conference Call Conducted by Chorus Call Hellas



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Q&A SESSION

OPERATOR: The first question comes from Kılıçkiran Hanzade from JP Morgan. Please go ahead.

ANALYST: Hi, it's Samis. Thank you for the presentation. I have questions about your exports, I remember that next year PSA contracts are going to expire and I think you are not going to renew this, and can you please confirm it? And the second question is that, is it possible to see an increase in the exports next year even though there won't be, let's say, PSA contracts?

And the final question is about the margin improvement. on the EBITDA side, we see a significant improvement, I presume that this is mostly because of the domestic market, but I am also in doubt that maybe less exports may be and some pay revenues and also improve the margins. Can you give some I mean explanation about the margin improvement as well? Thank you.

REGANZANI S: Okay, thank you very much for your questions. Quick answer, yes, you are right, you remember well. Next year the contract with PSA will expire, but as you might remember, the actual expire date was 2015 and we prolonged the contract for two more years and the volumes we are committing with PSA are very low, so that will not affect dramatically our export figure for the next year as you see, given from the sales by model this year.

Second question, as for volumes grow next year, definitely, I tell you that would definitely grow. I am sure that even if it took a little bit more time than what FCA was expecting, the Tipo vehicles family will have a great success even in the fleet market in Europe and they will reach the expected market share and this means for us good news and additional export volumes, well above the reserved capacity we have.

As you might remember, for Hatchback and Station Wagon we just have 100,000 and then we have 25,000 for the Sedan and we are well above these figures.

Third question; yes, as displayed in the chart, our margin, gross margin you see are improving, and improving for two main reasons. One is on the export side, the FX impact, but as Dogu was explaining, we also have a special program now cost crunching in the plant that we call value optimization. This is really delivering extremely good results which result into a better margin.

And some of you guys analyzing our cost of goods sold could have realized that the percentage of cost of goods sold on turnover has been dramatically reduced in these months, in this last three months. This is the benefit of this action and driving an improvement of results as you can imagine. I think this is the....

ANALYST:

And okay, so we could expect the continuation of the strong margins in 2018 as well?

REGANZANI S: Absolutely. This is a carryover to the 2018 and not only I can anticipate we want to do more, we are not happy with what we achieved, we can achieve more, we can be more competitive on the product cost side. Of course, this is just half, I will say the one side of the coin, the other side is revenues and we are struggling to keep our revenues at very good level and robust, even though as you know it's very hard and I look at Altan right now because in the Turkish market the fleet channel is more and more competitive and somehow they are really pushing on our margins and...

But as we said many times, we don't accept losing proposition deals on fleet, I don't want to mention our competitors, they can do whatever they want, but we won't be satisfied that we have losing proposition deals, that's it.

ANALYST: Okay. Thank you, Stefano.

OPERATOR: The next question comes from Mr. Bespalov Vladimir from VTB Capital. Please go ahead.

BESPALOV V: Hello, thank you for taking my questions and congratulations on good numbers. Could you provide, first, some color on your figure foreign expansion plans, especially given like that there is some extra capacity in Turkey, so are those plans still on table or when we might hear anything on that? And could you also comment a little bit what's the bid effect from your take-or-pay contract on your margins in the third quarter reported and given that in the fourth quarter we usually see lower margins than like in the previous quarters, what do you expect from the fourth quarter this year? Thank you.

REGANZANI S: Thank you Vladimir for your questions. So, let me tell you about our expansion plans, of course, it's again a little bit too early to talk about it. We have several as you know, it's not only one, but we cannot disclose anything about our activities. Of course, as I told you many times, one strategic pillar for Tofaş is future development and exploiting the Egea Tipo project in several other countries as we do believe that this is the right project for many others. But still this quarter... sorry, it's too early, we might have good news for you soon, but for the time being no way. Sorry for that.

Second question, the take-or-pay, take-or-pay is not effecting this quarter profitability more than what it used to be in the previous quarters. Again, our margin as I was explaining, are mainly affected by FX impacts and this cost reduction activity we are running in the plant. So, as you know, as we always explained, due to the contractual scheme we have with FCA whenever there is devaluation of the Turkish lira, we take the benefit of course because the market... the mark ups we have on our sales are fully protecting us from cost variation or whatever and they are delivering a better margin of course because they are euro-based.

And the cost reduction is really an important factor, I would like to... I like to gain this second and thanking all the technical team and the purchasing team of Tofaş for their huge job they are doing in reducing the cost of the vehicles, which is not an easy task once the vehicles are developed, believe me.

BESPALOV V: Okay. Thank you. And on the fourth quarter outlook for margins, as this is usually seasonally weaker?

REGANZANI S: No, I don't think margins are going to be weaker in the next quarter, believe me. We are going to keep to this level up. EBITDA, let me tell you, EBITDA is over aware... over the consensus and well over everybody's expectation. But there are several factors for that. I continue to say that we can easily be above 10% in any case with our EBITDA. This quarter has been 12% which is an extremely good result, several factors have driven this fantastic result, but you can rely on the fact that we will always be above 10%.

BESPALOV V: Thank you very much.

OPERATOR: The next question comes from Mr. Demirtaş Cemal from ATA Invest. Please go ahead.

DEMİRTAŞ C: Stefano, thank you for the presentation. My question is again related to export performance. It's the second time we see a cut in the, you know, export guidance revision. I would like to understand you know, and you mentioned that is very much related to inventory. I would like to understand how the inventory levels were comparable to other products, on you know, the produce by Fiat Group. Is there any specific market share loss in Tipo compared to others, and also Doblo. I tried to understand that whether it is a general thing in all autos or specific brands produced in Turkey. I just want to understand that, because it's the first time I see, you know, two times in a row... not in a row, but in a year, we see downwards revision. And do you see any signals and

what do you think the major reason, maybe market specific reason behind that? And related to this, do you see any risk of moving to two shifts from three shifts going forward in 2018? Thank you.

REGANZANI S: Okay. As I said, actually the export performance is not really worrying us too much. It's not only related... there are two main phenomenon. So the focus inventory, I think is general and is not coming and affecting only the products we manufacture in Turkey. It's actually a general issue that FCA is facing now, trying to reduce this top levels for both property and dealer stock which, of course, is generating a financial burden for the network that sometimes becomes an issue.

I don't... the second phenomenon, I mentioned already is, really the fact that the market share in the fleet channel FCA was forecasting was very, very aggressive. We achieved a very good performance, but still we are not at the level they we are expecting. So as you know, the fleet market has a seasonality and that's why this seasonality reflected into a reduction of FCA withdrawals in this quarter. They have stock, they have... they are serving the fleet with the... what they have and they are, of course, purchasing a good level of car.

By the way October figure for export again is 22.5k units, which is very satisfactory for us. So we see that there is a slowdown, let's say, compared to the previous months. But in the long term, we don't think that this will be an issue frankly speaking. And we don't see any risk for the Tipo

program, and we do believe that it's going to be a success; the launch is going to continue throughout Europe.

Then, oh I see another question here. Sorry, I forgot maybe the last part of your question.

DEMİRTAŞ C: It was, you know, you already answered my questions, you know, three shift question and the market share and the market conditions.

REGANZANI S: Okay yes, that's what I was... there is no risk at all for the... to go down to two shifts believe me. And as I said before, we are still working in three shifts practically using all the capacity we have in the plant. So I don't see any major risk for that, frankly.

DEMİRTAŞ C: Yes, because you now, Stefano this is the critical, I think, you know, critical factor, the export performance this year, because over the last two years, that was you know, Tofaş has one of the best stories, still it's one of the best story in Turkish auto or the Turkish industry universe.

But you know, since, you know, second quarter, when you started cutting the guidance, the stock reflected negatively. So any, you know, going forward, I think we are going to be looking for upward revisions rather than, you know, rather than downward revisions. I think that would be the catalyst for Tofaş. Thank you.

REGANZANI S: You're right, and we definitely will protect our export sales and by adding new programs and we will definitely keep on using the Bursa capacity at fall as we do now.

DEMİRTAŞ C: Thank you.

REGANZANI S: You are welcome.

OPERATOR: The next question is from the webcast participant Kunter Selim from Deniz Invest: "Would it be possible to provide information as to the scale of the cost reduction Tofaş attained during 3Q'17, and how much of the margin improvement is coming from FX impact. In other words, could you give color on what would be your EBITDA margin adjusted for FX impact? Thank you".

REGANZANI S: Okay. As you can imagine this is very sensible data because cost reduction plans throughout the automotive industry are very secret especially the level we can achieve because it's not easy. What I can tell you is that in terms of percentage on the total vehicle cost we are around 3% little bit more than that. FX impact is driving instead, let's say, on EBITDA an improvement that is not... is around 1% a little bit more. That's the estimate magnitude.

OPERATOR: The next question is from a webcast participant, Kaya Serap from Vakif Invest: "Thank you for the presentation. My question is about the OPEX trajectory. When we look at the OPEX growth on a year-to-year basis, it is far beyond the volume growth and revenue growth in 3Q17. What are the reasons behind this 28% increase in OPEX year-on-year?"

According to my calculations, the huge amount of increase came from the warranty expenses in 3Q17. Are there any change of the method of the calculation in warranty expenses, for example guaranteed period or guarantee amount assumptions? What would we expect OPEX growth in the coming quarters?"

REGANZANI S: Actually, there is no evidence of increasing warranty cost. Of course, in absolute figures, our car park is much greater than it used to be, and this in absolute terms is driving an increase of warranty figures, but this is in line with volumes, of course, so, we are not generating any deviation.

We are not changing any methodology just, okay, the fact that passenger cars in terms of mix are having, let's say, higher impact on the warranty cost and then in terms of per unit amount, warranty costs of passenger cars can be slightly higher than the SUV at the end. But frankly, I don't see such an impact.

If you want to know why we are increasing our OPEX; actually, this is mainly driven by the fact that in those values we have also the labor costs that is increasing a lot. So in Turkey, there is a huge inflation as, you know, and in labor cost, it is much higher than the average inflation of the country. So we have... we had an increase, but altogether, it doesn't seem to me to be anomalous.

In OPEX, well, I don't see any reason, really specific reason for having an anomalous growth. And I don't think you should expect OPEX to be higher in the future than the

current level. So they will always be somehow related to the fact that we are increasing volumes and increasing our car park basically.

OPERATOR: The next question is a follow-up question from Mr. Bespalov Vladimir from VTB Capital. Please go ahead.

BESPALOV V: Thank you for taking my follow-up question. First I would like...could you comment a little bit on narrowing your CAPEX guidance? What was behind this like FX effects...some CAPEX optimization or maybe you moved some CAPEX into the next year. And if you could provide some outlook what we should expect next year on this site?

Then I have a question on dividends. What is the outlook? Do you have any better view on what could be the dividends? And maybe you could comment a little bit on domestic margins versus export margins, and whether this increase... better domestic sales are helping your margins while export sales are lower than expectations? Thank you.

REGANZANI S: Thank you, Vladimir. So CAPEX; CAPEX guidance, you know, takes into consideration a lot of the structural investment that can be postponed actually. As you know, this year, we don't have a major product investment, meaning, of course, we have the liquidation of those investment related to the increase of capacity we performed at the end of last year and in the first months of 2017.

And when you look at the detail of investment, you see that, I think, 70 million out of the total comes from this Egea family

investment which... and most of them are related to the capacity increase.

So at the end, coming to the... at the end of the third quarter and seeing what the orders we have for CAPEX in... we really think that we might end-up the year with a much lower spending. That's the main fact about CAPEX.

Then dividends will be okay. Dividends as, you know, are linked to the statutory result. First of all, we told you many times. So IFRS results as described here are important, but then we need to check exactly the statutory accounts at the end of the year, and this statutory accounts they do not allow us to use hedge accounts as you know. So in this case, again, we will see that IFRS result is, at the end, much higher than at the statutory, and we will be able to distribute dividends.

The expectation certainly is that this year dividends will not be lower than the previous year, but we need to check exactly the exchange rates at the yearend. Today, Turkish Lira unfortunately is at 4.5 vis-à-vis the Euro, but if you want my, let's say gut feeling about this, is that we will be able to distribute something that will be in a region of 380 million to 400 million Turkish Lira, this is what I expect.

Regarding the domestic margins, of course, the cost reduction activities are affecting in a positive way, also the domestic margin. As we told you many times, the difference between export margin and domestic margin is not dramatic.

We are more or less in line now and we got the same margin from domestic sales we get from export.

Of course, export margin, take now the benefit of a weak Turkish Lira. So when you see our results in Turkish Lira they are magnified by this impact. But I can tell you, we still keep this balance and we have similar margins for our domestic market and export. I hope this clarifies.

BESPALOV V: Thank you very much. That's clear. And on CAPEX, could you provide some broad maybe guidance, what should we expect next year?

REGANZANI S: Well, CAPEX, I... well, taking into consideration that the main product activities on the gear assemblies are done, and we will start working on the new, let's say, regulations for Europe. As, you know, that Europe is entering into Euro 6B stage soon, B and D; B and then D. As you know, the R&D activities start much earlier, and so we are already working on that.

This means, I can foresee something like more or less the same amount this year, 150 million will be an appropriate figure that you can consider for your models, unless we have some really very new and disruptive programs to announce. Let me tell you, in this case investment can be totally different, but even our business can be different at that point.

BESPALOV V: Yes. Thank you very much.

REGANZANI S: You are welcome.

OPERATOR: The next question comes from Kurbay Berna from BGC Partners. Please go ahead.

KURBAY B: Thank you, gentleman, for the opportunity to ask questions. I have a few follow-up questions on the export side; you have mentioned that the penetration of Tipo in the fleet market in Europe has been a little bit slower than expected. Is this problem pertaining mainly need to Sedan? That's my first question.

And my second question is you mentioned that you see signs that export volumes next year will be higher than this year. Is this because these problems currently faced on the fleet side are going to be somehow resolved or are you seeing perhaps better demand from some of the relatively new markets like Mexico, Poland or are there any new markets in Europe that you think that there is more potential room for you to go, and you haven't entered early enough?

REGANZANI S: Thank you, Berna, for your question. Okay, let's start, first of all, when I talk about Europe and fleet channel in Europe, I mainly think about the Station Wagon and Hatchback. As you know, these are the two most popular bodies in Europe whereas the Sedan is mainly a car for Eastern Europe and few other countries.

So, actually the penetration in the fleet channel was for Hatchback and Station Wagon definitely. Yes, we were FCA said it is lower than expected, but consider one thing; Fiat didn't have a C segment car like this for years. So, it means

that whatever you get in the segment and channels has to be conquered, it's all conquest. And you know how difficult it's to conquer a market share especially in a competitive market as Europe today. So, that's why they were a little bit too optimistic at the beginning because when they saw the car, they said wow, this is so great that definitely we are going to destroy the competition with this car, this is happening, but is happening at a slower pace than expected.

But, when you look at that the performance and you see that Hatchback and Station Wagon, that was over 100,000... I mean a possible 100,000 unit-target, right, it's a big achievement for a car that had just being launched in the market after many, many years and leaving such a huge gap, and that's also without any particular I would say advertising and a push on this, because I don't see so much frankly. So, I think it's a terrific performance.

And when I see a 2018 kind of ping for us, it's just because I see some data regarding volumes and I see also the possibility of exploiting some new markets, and really the more the car is in a market, the more people they see the car, the visibility increases and this is really dragging an improvement of the market conditions for people in Europe.

KURBAY B: And do you think that perhaps it would then be possible for you to achieve the export volumes you originally had forecast for this year, maybe next year?

REGANZANI S: Well, I think so, y, I am pretty confident.

KURBAY B: Okay. That's more than... I mean that would be probably double-digits export volume?

REGANZANI S: Yes, let me add one more thing. We are, of course, adding some new markets that at the beginning we couldn't serve because of the limited capacity, we had. So we discussed before we just approved some new openings for countries in South America, which in any case will generate additional business. So, it's a developing thing.

Actually I think even for FCA it's difficult to manage the product properly now because there are on one-side afraid of losing some opportunities in Europe. On the other hand, we have to think that this is a product that is a kind of worldwide potential that should be exploited.

KURBAY B: Thank you very much.

REGANZANI S: And when we finish with earth, we start with the moon or Mars, I don't know.

KURBAY B: That's great. Thank you.

OPERATOR: The next question comes from Mr. Memisoglu Osman from Bank of America, Merrill Lynch. Please go ahead.

MEMISOGLU O: Hello, thank you very much for the presentation. I wanted to follow-up on the cost reduction topic. I know it's sensitive, but any color you could give would be highly appreciated? Can you... how confident... it's sticky savings, I guess that's the first question, for example is this just changing suppliers,

do you think there is any chance that some of that may need to comeback?

And then, the other maybe more important point is on the export side, I believe you have a cost plus with a percentage mark up. So, can we assume that percentage mark up is still the same, did your export margin benefit maybe temporarily or were you referring to absolute numbers improving? Any color there would be helpful, thank you.

REGANZANI S:

Osman, I was waiting for you. Sooner and later I knew that you would show up. Okay, so about the cost reduction, very sensitive again, what I can tell you is that is full engineering of the project, what we often tell is that, it's a big thing that is not only dealing with the ability of purchasing department of negotiating better prices with suppliers, because we know, we all know that this at the end is not win-win game. If we strangle our suppliers at the very end, this will not be positive for the Company.

So, what we are doing is really a reengineering, starting from technical cost reduction, reviewing each and any single component in the car, trying to optimize, not reducing the perception of quality that customer have about this product. So, we are not spoiling the contents and the quality of the product, but we are just re-engineering, something that usually we do much later in the life cycle of a product.

But, we started this activity just after I would say one year from lunch and this activity is not limited to Turkish product, let me tell you, it's just FCA running this activity, but we are

among the best performers in FCA world, achieving important targets especially on Hatchback and Station Wagon. We didn't have enough time at the beginning to optimize the cost of the product, even though at the start of production we were very happy because we achieved significant savings. There was still room, and so discussing with FCA, we are finding good technical solution in order to reduce the cost.

So nothing visible to the customer, let me say, but important to reduce the cost and optimize it. But it's not only an activity related to, to the way the component themselves, that is also the process. A lot of saving comes from the manufacturing process that is been reengineered and as well as from the logistic process.

So it's really a full scope reengineering activity what we are doing and this is why the results we are achieving are so impressive because one single stream of cost reduction wouldn't produce this impact in our accounts. And the good thing is that, this will be definitely a carryover for the future years.

MEMISOGLU O: Okay, and for the export margin?

REGANZANI S: So about the export margin. Ye, about the export margins, our contract, you know, they are very robust with FCA, and for all contracts we achieve basically the same level of marginality. So there is no difference between a Sedan or a Hatchback or a Doblo, I mean, it's our contractor schemes are very robust and consolidated.

Of course, so there is no difference mainly, you know, take-or-pay close how they work very well, and so they protect us every time. So and we are very happy the way they are working by the way.

There are some main... little differences between the contracts, but at the very end when you club together all the different items, you reach the same level of marginality which is important for us, of course, to protect our results. And I don't expect any major change in the schemes, frankly speaking, because it's a mutual interest.

MEMISOGLU O: So, but then from second quarter to third quarter you had this cost reduction, right? We see it in the raw material cost per unit. Then is that correct to assume export margins did not improve because you have fixed margins?

REGANZANI S: But they actually visually incurred in Turkish lira because of the impact of FX, of course, and also export margins, you know how it works; practically as we use the full cost plus a markup rule so, they mainly improve for this reason, so we...Tofaş is just releasing to FCA, all the cost advantage that is generated and this keeps, of course, the level of Turkish production competitive in the European market.

But again, if last year was the year of launches and the start of production, of course, of the vehicle, we had to rush for doing that because it's always like that when you rush, but this year really we are just exploiting the benefits of our cost reduction and world-class manufacturing activity which is as, you know, we are Gold Ranked in the world class

manufacturing and this is a big plus for the... for Tofaş. But sometimes, we forget to mention, but this is so important.

MEMISOGLU O: So just... and I apologize if I am not being sharp on this. But you mentioned though that for an earlier question, 3% or more reduction, and then you mentioned 1% EBITDA margin from your responses to my question, I'm not assuming that 1% was FX driven, is that?

REGANZANI S: Yes, exactly. That's why I'm saying 12%, we achieve in this quarter. To me it's quite surprising in terms of EBITDA. And I will still, I will still sign now to keep our EBITDA level above 10% as it happened in the previous quarters, of course, 10%, 10.5%, but 12% we achieved this year was a surprising for me too... in this quarter sorry was surprising for me too.

MEMISOGLU O: So with the way FX usually affects you, you benefit from it on that quarter and then there is some kickback in the next quarter. Should we expect that, even though I think you said you don't expect... I am not sure whether you meant there is no decline quarter-on-quarter, but maybe some of this catches up?

REGANZANI S: The kickback actually can happen if the FX conditions turn the other way around, but as long as the... this FX conditions...

MEMISOGLU O: As long as, it depreciates you are going to keep it right? I guess that's...

REGANZANI S: Yes, correct.

MEMISOGLU O: Easy way to get it. Okay. Thank you very much.

REGANZANI S: I hope we can surprise you even though with yearend results.

MEMISOGLU O: Y, I'm looking forward to it.

REGANZANI S: But the big surprise will be the dividend distribution...

MEMISOGLU O: Well, yes.

REGANZANI S: That's it. Thank you for all your questions, Osman.

OPERATOR: Mr. Reganzani, there are no more questions registered at this time. You may now proceed with your closing statements.

REGANZANI S: Okay, guys. Thank you very much for joining us today. As ever it is a pleasure to come and have a kind of confrontation with you and answering to your questions. Of course, we are very happy what happened in the third quarter and our performance. And again, let's continue like this, we try to do our best to surprise you quarter-after-quarter and leading to better results every time.

So, I look forward to understand what will be the consensus about the fourth quarter and then we will see; altogether. I can announce you that as many of you requested actually for the full year results, we will try to have a meeting here at our headquarter with a cocktail after the meeting and at the same time the webcast for those investors that cannot be present.

So you are all invited, of course, to join us in this presentation. We will communicate, as soon as, possible the day for the final full year event.

Thank you very much for joining again and also from my fellows that are here with me, my Company mates. Thanks very much for following Tofaş with this great attention. I've already read some of the comments you posted and thank you very much for that. Okay. Bye-bye.