

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

**TOFAŞ Türk Otomobil Fabrikası A.Ş. First Quarter 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 the line of Bespalov Vladimir of VTB Capital. Please go ahead.

BESPALOV V: Hello. Congratulations on very good numbers and very good profitability. So my question is basically related to this profitability; first will be the EBITDA profitability. It looks like when we look at historical number that the first quarter is quite strong for you historically, in terms of profitability. Is this somehow related to how your SG&A costs are distributed throughout the year to how should we look at your profitability going forward? And my second question is also annexed for shipment. Since you lowered your guidance a little bit, compared to what you have provided previously, will this somehow trigger take or pay arrangements and payments within this arrangements which should help support your profitability going forward? Thank you.

REGANZANI S: Hi, and thank you for the questions, Stefano Reganzani speaking. Well, first let me say that we are not facing our SG&A's in a different way, we just... during the year. So the expectation is actually okay that the first quarter is always pretty strong in terms of profitability, but we don't see and we don't envisage any change in our.... in the phasing of our profit for the next quarters.

I think we can... we are stretching on SG&As, we are in the details of our P&L, I see that we are more efficient that... than what we expected and more efficient than

last year if you want to know, I can disclose this kind of information. At the same time we are reacting of course to respond to the fact that we see a slight... a decrease of our export sales and this answer to your second question of course FCA is driving this slight decrease.

It's just as far as we understood from FCA a stock adjustment that should have a temporary impact on our sales. You might have read recently that FCA was having a very heavy sell in to European dealers, and therefore this is an adjustment that is needed in order to rebalance also the level of stock of European dealers as we believe. And we don't see and we don't envisage a reduction of volumes in the full year as Emre was...we are just increasing the brackets but we are very confident that we might achieve the top hand of this bracket at the yearend.

Regarding the second part of your question if I remember well, was about the take or pay adjustments. Believe me we are above our take or pay commitment of FCA take or pay commitment, and so for the time being this reduction is actually not generating any take or pay adjustment.

BESPALOV V:

Thank you very much. That's clear but could you provide some guidance where we should see your EBITDA margin going forward for the full year? Probably be a 10.6 is quite high, probably where previously I believe the range was between 9 and 10, something like sustainable level?

REGANZANI S: Yeah I can confirm this actually. 10.6 is really a very good EBITDA level and we are very happy of course we achieved this. As I said there was a strict control on our SG&As that was also leading to an improvement of EBITDA. I can confirm in any case that we will try, we will have an EBITDA in the next quarter that will be in a range of 9.5 to 10% I mean this is I think doable for us to keep this level. But achieving more than 10%, okay, it's an additional effort that we need to share with our functions in the year because it means a lot of stretch in terms of cost reduction and expenses reduction.

BESPALOV V: Thank you very much.

OPERATOR: The next question comes from the line of Demirtas, Cemal of ATA Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation. Congratulations for very good results especially in terms of margins. But my question is related again, exports. You know it's the third or the second year of the new products and you know are we... previously we had better expectations and your guidance was more optimistic or just contracted for the future. For the time being you are a little bit revising down, but I would like to understand why do you think the... any slowdown or destocking is temporary? Do you have any supportive arguments that will help us to understand that the product is welcomed in the European market, in Italy? Do you have any reference that will support at least our hypothesis that

your product is welcomed in the market? And you know it's because the acceptance of the product is key for the future store of this company, so maybe you know if you help us to give some reference, to explain our, even you know our the clients that's, you know, that's only temporary? Because the first impression, our impression is you know it's the first testing because until this time we didn't have any concern. But right now a little bit maybe you know maybe our reaction is kind of mixed, but I would like to understand you know or you know could you give us some arguments that would support that any slowdown or you know destocking is temporary? Thank you.

REGANZANI S: Well, Stefano Reganzani speaking. Let me tell you if you go to Chart 18 of our presentation, you actually see the breakdown by country of our exports. And I think this is quite helpful to understand this, as Emre was pointing out during the presentation. We have countries like Poland for example that are becoming really meaningful for our export, and we are increasing in these countries. We recently launched the car in this country because last year we were mainly focusing our export to Western European markets, and now we are extending the launch of vehicles to Middle East and Eastern Europe. So we have evidence that the car is really well accepted in all the three different bodies, meaning Hatchback or Station wagon mainly for Western Europe and even the Sedan.

Of course, we were expecting a reduction of the Sedan corresponding to the launch of Hatchback and Station Wagon and you can see in our detail by body that Sedan is decreasing compared to last year figure, both in exports, slightly even in the local market, because completing the launch with the three bodies, we generated some alternatives for our customers. But we have evidence of a very strong demand for our products, wherever we have launched it and we have not completed the launches yet, let me say.

And therefore we are pretty confident that we can reach the top of this bracket that we delivered. We just wanted to be a little bit cautious in delivering to high expectations to our investors. But as... again as I was explaining before, we are receiving from FCA a very strong demand and we have a different kind of different phasing because of this stock level adjustment that will be happening in... let's say that already happened in March and even stronger in April and will continue a little bit in May. But again is a temporary impact as we forecast that for the second half of the year we will definitely be up to speed.

You might remember that we invested in a capacity increase for the family and Emre explained before, so we are currently still in the ramp up stage of this capacity increase. And so, I don't... I'm very optimistic about the second part of the year frankly speaking.

DEMIRTAS C: Regarding second quarters, what could be the trend because in January it was around 19,000, February and March it was 29,000 and in April it was 23,000, so for May and June how do you expect, you know, what could be the catalyst for us to see that there is, you know, which month would be the critical in terms of the seasonality? Which month would be the key period that will give us, you know, some indication that, you know, the restocking will start, let's say?

REGANZANI S: Well, I believe April was actually the month in which the stock adjustment took place and was very evident in our exports. I believe that May and June actually will be higher, much higher, than April in terms of export volumes. And this is a list what we are envisaging now according to let's say programs we received.

DEMIRTAS C: And maybe as a follow up, related to Doblo you know, we see some decline in Doblo sites, is there any new, you know, face-lifting or something like that or you know, what's the trend on that side? And when we look at the PSA numbers the MCV PSA numbers, in domestic market you didn't sell, you know, they didn't sell any product. Is there anything, you know, related to it, is it normal? Or the PSA orders, any slowdown or any company-specific issue that leads them to you know, cut their demand or anything, you know, especially in the domestic side?

REGANZANI S: Well, let me start from the second question. So about PSA choice of not selling the vehicle in the domestic

market, this is basically profit driven sale. So their sales in France or in Western Europe are much more profitable than the current sales they are having in Turkey and of course they compete directly with Tofas products in the Turkish market. So, as you know, they have a limited volume of vehicles this year because it will be their last year actually manufacturing the vehicle in Turkey with us. And we can only deliver a limited number of vehicles that is their choice where they can sell it and of course they are picking the most profitable markets. I believe most of these vehicles are being sold in France.

And going back to the Doblo; Doblo is not subject to any face-lift, we just had a face-lift of the Doblo in 2014. And the Doblo vans are really respectable and as you can see I mean even in Europe we are not performing too bad. We had a slight adjustment again on the volumes due to this stock adjustment that is affecting all FCA models, so, including the ones manufactured in Turkey. But the performance is still very strong and we see a full year value for Doblo for your expectation that is in line with our capacity actually. We are really working full-time under the goal line.

ERTURK E: Cemal, this is Emre, I want to add a few comments to this.

REGANZANI S: Oh, sorry and there is another thing I wanted to mention that of course the increase of capacity that we are having now, the ramp up is also affecting our ability to manufacture Doblo. So, compared to last year 2016,

we are... we have a different mix because in this increase of capacity we moved Fiorino to the Doblo line as you know, and so the combined capacity in the first quarter was lower. That's another important fact.

ERTURK E:

Also Cemal, about this PSA sales issue, as you know, whether they sell in Turkey or they sell in other markets, this is of course their choice and it doesn't bother us because the capacity that we can reserve to them is limited to the same volume. And there is no dropdown in their orders from us. So what we manufacture for them, what they order to us is the same exact of last year and even if they want to increase their orders for the local market we cannot do that. So, whether they sell in Turkey, in Poland, in France, actually this is not the business of Tofas. They get all of their reserve capacity, okay? So this is the comment from PSA side, I wanted to correct that one.

Also on the rest of the issue, I think one thing that's not going as good as last year was the U.S. sales of Doblo. This is apparent. It is decreased down. But about the European part, I definitely agree with Stefano, we could do better if we did load the line together with the Fiorino site to increase the capacity with 50,000. But do not forget Doblo is a take or pay vehicle for us, okay, and also it was below the take or pay threshold anyway. So the dropdown that you see here is also covered by this export contract. So in the income statement site the effect of Doblo is not present.

You will not see a dropdown coming from Doblo. There is no change on Fiorino or Mini Cargo as he said, it is the same. The Egea for family is important here and we want to be cautious to see more visibility for the rest of the year in Europe to manage this. As Stefano said and as I already commented before, definitely we think that the upper side of this expectation record 330,000 is already doable. We want to be more prudent in giving our guidance to you. You should consider this together with the increase we provide for the local market.

They are not totally independent from each other because they use the same capacity. So part of the increase that we have in the local market is also related to part of the export performance as well. Thank you.

DEMIRTAS C: Thank you.

OPERATOR: The next question comes from the line of Kayani Muneeba of Morgan Stanley. Please go ahead.

KAYANI M: Hi, thanks for the call and congrats on a good quarter. Two questions for you please. One, on your balance sheet, do you think you can come to a net cash position by year end? And secondly, now that most of this expansion and the new product launches are done, what next? What are you looking to invest in and how should we be thinking about 2018 and 2019? Thank you.

REGANZANI S: So, regarding to our cash position, well....

ERTURK E: We are almost there.

REGANZANI S: We are there, actually.

ERTURK E: Negative trick.

REGANZANI S: Yes, so, it will not be difficult. I mean we are milking the cow, that means from now onwards. So our investments are sensibly lower than last year of course and our guidance shows it and now that we are done, it's just a matter of having good profits from the sales we have in the domestic market and as you know we have kind of granted margins on all our export. I think we can make it easily I mean to have a net financial position.

Regarding the second question, what can we expect for 2018 and 2019, of course, we will enter into the... some product upgrades because Europe is moving to new ecology standards and so we will have Euro 6D for the Doblos and for Fiorino and for all our vehicles, of course in different times but these are the main things happening in our plant.

What's next? Okay. As you know, many times we discussed about possible developments for Tofas that might happen not only in Turkey but out of the Turkish let's say border. We are working on several programs together with FCA of course and this is a possible development for our business. We think we have the right vehicle now with the Tipo for several other

countries that are currently out of the scope of this program so this is what we envisage and we very clearly stated in our strategic guidelines this is one of the pillar of our strategic development.

Tofas can really become a partner for FCA in other countries, not only in Turkey and this is I think the best way to look at it.

KAYANI M: Thank you. Any timeline on that, that we can expect any announcement?

REGANZANI S: Alright, we don't want to anticipate news. I mean it's... but keep on following us and covering us in this way and you will be informed I think very soon about something happening.

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

KURBAY B: Good afternoon gentlemen and thank you for the opportunity to ask questions. I have got three questions. The first one is really a clarification on your earlier comments on outlook for EBITDA margin. If I understood correctly, you mentioned that, in the coming quarters you would expect the EBITDA margin to be between 9.5% – 10%, the first quarter margin was 10.6%, so we understand that you are more optimistic about the domestic market than you were before but you see the EBITDA margin slightly contracting

compared to the first quarter? I was wondering what's driving that.

My second question is about again an earlier comment made in terms of the capacity you had available in the first quarter with the ramp up, with the capacity expansion of 50,000 units; you mentioned that the available capacity for Doblo was lower because it's now on the same line with the Fiorino or Mini Cargo. Is this a temporary thing or this going to be the capacity going forward for your light commercial vehicle production? And along those lines we have seen on the export side, particularly the Doblo and Mini Cargo coming down and I was wondering if that was in line with your expectations or is this also a part of the reason for the slight downward revision to your export guidance?

And my final question is just about the last comment you made in terms of you partnering with FCA in other countries perhaps. I understand that there is no timing but is there anymore color that you can share with us. Is it going to be a know how sharing agreement licensing sort of thing or whether you know establishing a new plant? Or any color that you may share would be very much appreciated? Thank you.

REGANZANI S: Thank you Berna for you questions. About the last one, I can only repeat what I said before so just follow us and I think we are going to have news for you soon but I cannot anticipate anything right now. Of course, we are working on several programs with FCA. Again and we

hope really we can finalize at least one of them in a short time.

Regarding Mini Cargo and Doblo, I repeat we are actually... of course it was not free to increase our capacity by 50,000. Even though we had this shutdown of the plant at the beginning of the year and we actually worked for our structural investment and the new set up of the plant.

Of course, when you transfer a product from a line to another line, the result is a temporary slowdown and you need a ramp-up stage because of products have to be re-qualified because they are run on a different manufacturing setup. So, in total, this is affecting your ability to manufacture the two vehicles that run now on the same line. This is a temporary impact of course and we are not reducing our capacity for LCVs in the plant, that's for sure.

And the first question was about EBITDA and I confirm 9.5 to 10 is a reachable level for us. Again, this was obtained and achieved by cutting some expenses that we forecasted in the budget and we have some positive impact in our EBITDA for this. Also the level of investment was not at high as expected that when we billed the budget. So, it's a combination of different factors what we see now affecting in a positive way our EBITDA and we can confirm that this is going to last, but I think it's going to be difficult to repeat a 10.6 frankly that we in the first quarter because we did not invest

much in advertising; for example in the first quarter in the local market as we thought that the market mends was a kind of low. But, now we see that the Turkish market after the referendum catching up again to a good level very close to the 900,000 that was an unexpected figure for us and for some months, so we might increase our efforts in the local market to even better our market share that was pretty good by the way in the first quarter as we see, the first four months and we are very happy with that. I don't know if this answered your question Berna.

KURBAY B: Thank you very much.

REGANZANI S: Okay.

OPERATOR: The next question comes from the line of Mandaci, Ece of Tacirler Investment. Please go ahead.

MANDACI E: Hi, thank you for taking questions. I have a technical question, regarding your take or pay contract. We have seen a substantial decline in your contracts, in your deliveries as to OEMs mainly, GM and PSA and we have seen decline in your deliveries to the USA. So, going forward will you or have you revised the contract amounts for the take or pay contracts with these OEMs? And secondly, given that there is substantial decline in the amount similar to these regions or companies in the first quarter. Is there, is it reasonable to assume there is... there was an insulated EBITDA margin effect in the first quarter due to this takes or pay agreements? And

excluding this effect what would be the EBITDA margin in the first quarter? Thank you.

ERTURK E: Hi Ece, thank you for our questions, this is Emre. First let me start with your question, there is no change in our take or pay contracts or export contracts arrangements with our customers. As I mentioned before to Cemal's question there is also no change to total deliveries to PSA compared to previous year as well, also as a GM side, so what we delivered them as Opel Combo there is no change. This is true also for FCA, so we have the same structure. Also, I should mention that as, you know, the export contracts we have, this committed volumes for the whole calendar year. So, these are not quarterly or monthly arrangements, so we should also consider this when we are evaluating the effect.

Then, coming to your last question is there effect of the take or pay boosting the EBITDA margin more than usual in Q1? No. There is not. As you can see also in the shipment volumes, the main driver was just like previous years, Doblo which can only be affected by take or pay. And there is no significant change in what we recorded there. And as Stefano mentioned I can say that especially in Q1 the expense management of the company was very conservative. So, there were almost very few expenses for advertising or dealer developments or other usual expenses that we have.

REGANZANI S: Even overheads were lower.

ERTURK E: Even overheads, I agree. So, we are trying to be as conservative as possible as, you know, as a company for all the past years that giving our guidance. We will try to continue to be prudent in our expenses. But, we are not guiding the same EBITDA margin of Q1 continuing forward, this is what I can tell you. Because there is also seasonality in local market as, you know, for example, in January there is very few small sales, which is around maybe 30,000 only whereas in the middle of the year you reach 60,000 to 80,000 units per month. So, there is also seasonality coming from them. We will see, we are happy with 10.6. We want to keep going with high levels of EBITDA, but what you saw there is not attributable to take or pay or one of the effects of the take or pay. It is company performance. Thank you.

REGANZANI S: By the way, the 10.6 we achieved in Q1 2017 is not dramatically different from the 10.2 we actually add in Q1 2016, if you read it. So, seasonality is quite important to that to.

OPERATOR: While waiting, we will take two questions from our online webcast participant Toygun Onaran with Oyak Securities. The questions are, and I quote: "Many thanks for the presentation. Can you evaluate the reasons behind your revision in export guidance, where you provided a wider range and lowered the upper range of the previous guidance? Are you seeing any initial indications of softening demand from export markets"

And the second question “What was the impact of TL weakness and change in product composition on your margins for the Q1 2017? (with respect to increasing share of PCs)” Thank you.

ERTURK E:

Toygun thank you for your question. First of all, I guess, you sent these questions before to our other colleagues; I am talking about the first one in export guidance. So, as you are waiting we already described answers to this, I'm skipping to your second question. What was the impact of TL weakness and change in product composition with respect to increasing share of PCs on your margins in Q1 '17?

Well, of course you know that the company is very well protected against fluctuations in foreign exchange rate. This is given, because we have both local market sales and export sales. So if Euro is depreciating if it has a negative impact in one market, it also has a positive impact in the other market. So, there is a balancing structure of the company that also proved to be right in Q1 '17.

About products though, I can say that now there are new entries to our portfolio such as the Hatchback and the Station Wagon, which was not there in Q1 2016 and also there is a full steam production of the Sedan.

Of course, when you look at the segmentation of the customers that prefer these vehicles compared to what we used to have, as passenger cars in the previous

years, first of all, I can say that the private sales of these vehicles are higher. For example, if you compare a gear family to linear family, the private sales are much more... higher than what they used to be and fleet sales are smaller than what they used to be. This is a positive contributor to local margins of the company.

On the other hand, of course these vehicles gave us additional volumes, which increased the revenue dramatically whereas the OPEX part is not increasing with the same magnitude of the revenues. This is also generating a second positive impact to us coming from these new passenger cars. So in both senses, we enjoy a better profitability of the full company results for these vehicles. Thank you.

OPERATOR: Thank you. We have another question from our webcast participant Sidak Singh with Concorde International. The question is, and I quote: "How much of your Fiat Tipo volumes are exported to Italy, what are you hearing about the Italian auto market? The reason, I'm focusing on Italy is because vehicle sales in April declined by 5% y/y in Italy, the first decline in 34 months". Thank you.

REGANZANI S: Well, let me go back again I think to this chart number 18 that we saw before. You see how we are focused on the Italian market, actually the total export we have is almost 40% of our export. Of course, in Italy Fiat has 30% of market share, so that's why is such an important market for us. I think that the Tipo family really reflect this kind of percentage. We see a decline of Italian

markets after 34 months, right? Everybody disclosed it but remember that, I remember that last April, last year's April was really a very strong month and so everybody was expecting such an adjustment actually and this corresponded also to a reduction of Fiat selling in the markets.

So, again, I think it's just a temporary impact what we see in the Italian market. There is still room to grow. Remember Italy used to be a market of over 2 million units and it's lower than that level. So definitely Italy will be back to the pre-crisis levels very soon. And that this means that there is additional room to grow for the Italian market.

OPERATOR: Gentlemen there are no more questions registered at this time you may now proceed with your closing statement. Thank you.

REGANZANI S: Okay. So first let me thank everybody for taking part to this call and for the questions that came after the presentation. They really expressed a good interest, a fantastic interest I would say of analysts for Tofas, which will continue to perform well in 2017 and deliver results that you all expect. So keep on following us in the next quarters. We are sure that we can have even a better and more optimistic view of 2017 in the next quarter. So thank you very much again.

ERTURK E: Also I would like to thank you for participating to our Q1 results webcast. As we see, this has been one of the

most popular webcast participations we have seen so far. I hope it will continue. As mentioned before, we are very glad about our performance in the first quarter when we cannot say that it was the highest Q1 for the local market. So many uncertainties and we were able to show the strength of Tofas in such a volatile environment.

Now for the rest of the year, there is a more positive expectation for the local market as well and I think as mentioned before, we can reach the top line of our expectations that we delivered at the end of our presentation. So keep on following us and we hope to talk to you again after our second quarter results. Thank you.