

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

**TOFAŞ Türk Otomobil Fabrikası A.Ş. First Quarter 2018  
Financial Results & Key Performance Indicators**

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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 Kılıçkiran Hanzade with JP Morgan. Please go ahead. Excuse me; I think the line is muted. Can you please un-mute your line? I am afraid...

KILIÇKIRAN H: Hello?

OPERATOR: Now, we can hear you.

KILIÇKIRAN H: Sorry, I didn't realize my name. Hi this is Hanzade from JP Morgan. I have a follow-up question on EBITDA margin. Is it possible, I mean, we realize that your exports are declining because of the inventory, I mean the previous inventory levels in FCA. But does it mean that you may also receive some pay revenues from FCA which may end up in... with higher EBITDA margin?

EROLDU C: Actually not... this is Cengiz, because on the missing volumes of exports, is coming from the commercial vehicles on the Tipo/Egea family sales. We are in line with our, let's say, planned figures at the beginning of the project, so for this reason I don't think any different impact between 2017 and 2018 on the EBITDA margin.

KILIÇKIRAN H: So I mean, I just want to be sure about this... Typically, I mean your export contracts are fully, I mean, in line with the existing size on the light commercial vehicle side, but on the passenger car, you are already exceeding your contract size. So that's the reason there is no pay revenue on the passenger car side, right?

EROLDU C: Right.

KILIÇKIRAN H: Okay, thank you very much.

EROLDU C: You 're welcome.

OPERATOR: The next question comes from the line of Bespalov Vladimir with VTB Capital. Please go ahead.

BESPALOV V: Hello, thank you for taking my questions. My first question would be on the export side and the trends that you see. There was a pretty good improvement in February and March, and the volumes in February and March if you annualize for example they suggest that you could well exceed the guidance that you are providing for the full year. So could you elaborate a little bit what do you see as a trend in April probably you have a good picture in May and do you think that the guidance you are providing is fairly conservative and there is some room for outperforming on this guidance?

RENZI F: Okay, Renzi speaking. I believe that in this moment we don't have ground to improve our guidance, so for the moment in particular for export we can confirm our guidance but in this moment having a look to the trend of the European market in the first quarter, we want to be prudent and for the moment we don't see ground to improve our guidance on exports.

So the European market remains stable in the first quarter with some improvements in some country, but also some reduction and some drop in other market like, UK and Italy. So in this moment, we prefer to be prudent also because we don't want to

repeat the mistake made last year when our guidance was a little bit optimistic.

BESPALOV V: Probably, you know, the picture for April and you have a good visibility for May, what do you say for these two months?

EROLDU C: I mean, as you can see, the high base year effect will still, will be in effect in the second quarter although at a very lower rate compared to the first quarter. But we can say that our export volumes are going in line with our projections, and the growth will come especially after August because that's when the base year effective reverts in our favor.

BESPALOV V: Thank you. And my second question is on margins, your EBITDA margin is again somewhat a buffer like sustainable margin that you are guiding previously which is, as far as, I remember, somewhere around 11%. Was there something special in this quarter that helped you achieve this higher margin or just this is the new reality, and this is the result of those cost savings? So how should we look at the EBITDA margin going forward?

EROLDU C: But actually our cost savings program is continuing, you are also see on the expense side on our financials all the general expenses are at 2017 level also in 2018. But from other angles, I should say there is a help coming from the exchange rate increase. As you know, Tofaş is here today... nearly 80% exporting company so I should say also the exchange rate also improved positively our margins.

BESPALOV V: And given the volatility of the exchange rate and the depreciation of the Turkish lira in April, what would you expect for the second quarter, if we assume that the rate, the exchange rates will stabilize at current levels?

EROLDU C: But in Turkey, nowadays it is not easy to make a forecast of the currency. As you know, we will have also the unstated elections at the end of the June, what I see personally until the elections, the tension in the Turkish market will continue from the also currency side. I think our trend also can continue if they... if the exchange rate will be at that level.

BESPALOV V: Okay. And my last question. Maybe you could give us some update on the overseas project that you've been considering for a while. So are you any closer to signing any deal? What is the current status, are you still discussing at it with FCA? So could you give some update on that?

EROLDU C: But actually, also at the past meetings we always said that, we were studying on the different issues, different projects, but for the moment we don't have anything to disclose so. Because in automotive industry it's not easy to make this kind of moves.

BESPALOV V: Okay. Thank you very much.

EROLDU C: You 're welcome.

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

KAYANI M: Yes. Hi, this is Muneeba from Morgan Stanley. What are inventory levels now across the chain... channel in Europe, and have they come down significantly? It's my first question. And then secondly, on the domestic guidance, with the elections coming up do you... are there risks to the downside for the domestic market volumes for the rest of the year? Thank you.

RENZI F: Yes, Renzi speaking. About the stock, you know, the strong activity performance by Fiat that they hand over last year. So now, we can say that the stock is stabilized and we are at a level of two months that could be considered normal compared to the big data we reached in 2017 that was around four days... four months, sorry. So about the stock this is the situation, so this is a good situation stabilized about the impact on the local market I give the stage to the other colleagues.

EROLDU C: Yes, regarding the local market, of course, as an industrial company working in Turkey we are happy with the anticipation of elections, because in this way we can have better second half in 2018. Until the election we are not waiting big changes so this, let's say, this trend will continue, so the market will be, let's say, more or less at the level of 2017. In fact, after the election, if... so according the results of the election, of course, so we can have better second semester. So overall our expectation is positive for the second half.

KAYANI M: Thank you.

OPERATOR: The next question comes from the line of Memişoğlu Osman with Bank of America Merrill Lynch. Please go ahead.

MEMİŞOĞLU O: Hello, thank you very much for your time. I have a question on your CAPEX and outlook for next year and potentially for 2020. And in particular regarding Minicargo, are you planning to... because that contract ends, I believe at the end of 2020. So we are towards the middle of 2018 now. Are you planning to make new investments for a new vehicle? And in general, how do you see CAPEX progressing? I am asking this because your dividends were quite strong at this versus my expectations, I am trying to get a feel for cash flow. And then on a different topic, you mentioned in the first, your fleet market performance in Europe was not really as high as expected. If you could give us an update, how do you see in the first three/four months so far or maybe you have some more visibility, do you see the improvements that you are planning, are they taking place or is it still a very challenging market in Europe from that perspective? Thank you.

EROLDU C: Okay. Thank you, Osman. First of regarding the Minicargo project, the end of the contract is 2021...

MEMİŞOĞLU O: Okay.

EROLDU C: ...not 2020, so we have one more year. But this year, I think, will be important year for also all of our future decisions. So, we're looking mainly for the future of our light commercial vehicle product range because also the Doblò contract will end at the same year.

MEMİŞOĞLU O: At the end of 2021?

EROLDU C: Yes, not only the Minicargo, both of them.

MEMİŞOĞLU O: Okay.

EROLDU C: For this year, we are working on the issue and we will see how we will end-up, but the issue is not only the Minicargo Doblò, it is also light commercial vehicle range in the future.

MEMİŞOĞLU O: Can I interject Cengiz-bey? The Ducato which is currently being produced, I believe by Sevel still, but it's ending in 2019. Is there a decision on that or is it a potential for Tofaş?

EROLDU C: No, this is not a potential for Tofaş, because as you know, Ducato is a midsized light commercial vehicle, and our also paint shop, so physically is not suitable for this kind of cars. So technically it's possible, of course, but we need to stop at once for one year in order make the adjustment for this reason is not the option for us. What was the other question now, I...?

MEMİŞOĞLU O: No, it's the fleet markets performance.

EROLDU C: The Fleet market with respect to last year they are doing better, but you knew there is another issue that the... also in Turkey we're facing the same, so there is some message from the CHVAC segments to see SUV segments also. So this is also you can see on the European reports, so both... so nearly all markets in Europe also in Turkey, we're seeing also this kind of rent.

MEMİŞOĞLU O: Okay. Need to get an SUV contract from FCA.

EROLDU C: Yes, we need to have an SUV. Thank you.



MEMİŞOĞLU O: Thank you, Cengiz.

EROLDU C: Thank you.

OPERATOR: A question from the line of Kilickiran Hanzade with JP Morgan. Please go ahead.

KILICKIRAN H: Cengiz-bey, I just want to make a follow-up on the Minicargo contracts and that was one asked. And I remember that a Minicargo was not supposed to be renewed after 2020-2021, on a take or pay contract size, I mean, there were some discussions in the past that, Tofaş will continue to produce but it will completely depend on the European market demand. Is this right or am I remembering completely in the wrong way?

EROLDU C: Not wrong page, but we don't have a still decision on the subject, because as I said... so our issue for the future is not only the Fiorino but also the Doblo, so because both cars contractually will be end at 2021. So for this season, we want to see all together, this range, and see how we can go to the future. So for the continuity of Minicargo after 2021, so still we don't have such a decision because we can have different options on the subject.

KILICKIRAN H: Yes, sure. On a technical basis, can you produce a passenger car on the Minicargo platform?

EROLDU C: No, because the existing Minicargo platform is an old one; so in the, let's say, best solution because the Egea/ Tipo platform is the last platform that we did. So in the future the convenience

for us will be continued to build the light commercial vehicles on the existing Egea/ Tipo platform.

KILICKIRAN H: Okay, alright. Very good.

EROLDU C: We can have only one, let's say, the base platform inside the plant, which is a... the optimum situation.

KILICKIRAN H: Thank you very much. And I have a technical detail question for say for the... say for actually it's about these FX losses in the P&L. We don't see much change actually in your short FX position, but there was a big deviation in the recording of the FX losses and FX gains versus last year first quarter, even though we have a higher euro depreciation. Is it possible to explain, what makes this fluctuation on the FX losses in the first quarter of this year and also FX income actually?

EROLDU C: But Hanzade, you are asking directly from the report or our...?

KILICKIRAN H: Yes, when I look at your disclosures, and look at the details of the other income, other operating income, and the financial income and expenses, you have some operating related FX losses and gains, and also financial expenses related to FX losses and gains. And this is nearly halved on a gross value versus last year first quarter, but actually we have higher currency depreciation this year. So I am trying to understand, what actually drives this FX losses and gains, what are they related to?

EROLDU C: But as you know, at operative... so in our disclosure according the accounting principles, the FX losses and gains regarding

export and import operations are not reclassified into the financial gain and losses. So inside the operative results, so all the export and import transaction exchange rates we are seeing that; so in absolute terms in 2018 we are lower but as a difference, so one year we have €56 million in 2017 and in 2018 we have €70 million. So the net figures are more or less at the same level and into 2018 slightly higher.

RENZI P: I don't know if an explanation could be that basically in the first quarter 2018, the exchange rate remained stable in the... pretty stable in the first two months, only a sharp increase in March, and this could affect a little bit the exchange rate effect on receivable and payable. So if I remember well...

KILICKIRAN H: Yes, those are... yes, that's what I would like to hear actually, those are all related so the payables and receivables; so you are looking into the average rates rather than the end period.

RENZI P: Yes, most probably January, February was not so sharp the increase, while in March we started to see a significant increase of the evaluation.

KILICKIRAN H: Okay, thank you very much.

OPERATOR: We have another question from the line of Kurbay Berna with BGC Partners. Please go ahead.

KURBAY B: Good afternoon and thank you for the opportunity to ask questions. I have got a few. First on the domestic market, are you seeing any impact from the recently introduced scrape incentives, I know that you didn't really expect much of an

impact to begin with. But, I was wondering if this is actually happening in practice at the moment. And I also, would like to learn, if you are planning on selling more Linea's going forward, maybe the ones from inventory as you did in the first quarter? And again, on the domestic market, I was wondering if you could share with us the splits between passenger cars and light commercial vehicles that go into your guidance of 930,000 to 950,000 units, given that in the first quarter we have seen a contraction in LCVs and an increase in passenger cars? And finally on the exports side, in terms of your capacity utilization and our thinking going forward, you had 16,000 units of Minicargo contract ending with PSA last year. And there is going to be 40,000 units of Doblo that's expiring in the OPEL, Vauxhall contract this year. So we are talking about over 50,000 of capacity to be freed on the LCV side, assuming that your... I mean I understand that you are currently working on your LCV strategy going forward. But what should we think in terms of your exports in 2019 unless there is an overseas contract. I mean, should we expect a major drop in exports volumes or our passenger car exports going to more or less compensate for it or maybe more Doblo exports elsewhere? Thank you.

EROLDU C:

Berna, thank you for your questions. First of all, regarding this scrape incentives, as, you know, still we are waiting for the approval from parliament, but probably due to the elections now nobody is thinking about these kind of issues and our expectation is after the election you can see this new law. But also the rumors that we are hearing that for the passenger cars will be around 5,000 to 6,000 Turkish lira, so if you will be in this size the impact on the market will be limited.

KURBAY B: I thought this was actually published in the official Gazette, but are you talking about further regulatory legislation to enable it in practice?

EROLDU C: No but we need cabinet decision, not signed yet.

KURBAY B: Okay.

EROLDU C: Okay and... the second, the Linea stocks, are not material; that we are carrying at the end of to March, so will not affect our market share or our future sales.

You asked also how we are going to fulfill the capacity usage due to the OPEL and the PSA missing volumes. But actually in the last year's the OPEL volumes as, you know, we have financial volumes and physical volumes. So the physical volumes of OPEL also in 2017, if I am not wrong was around 13 - 12,000 or something. So according the reserve capacity the physical volumes were low. So for this reason physical impact will be lower than the, of course, reserve capacity impact sure we will have some missing profits, but from production side, I don't think we will have important problems. So in 2018 also we are targeting to compensate a losses coming from PSA, so because our guidance is in line with 2017 production volumes. So for this season, we are not waiting an important impact from production point of yours was missing volumes in 2019.

KURBAY B: And from a financial perspective because you are getting paid for the shortfall and the actual deliveries?

EROLDU C: Yes, sure; from financial perspective, we only can make... let's say can manage better the company, this is the only way for 2019. So we can act better in the local markets. So, of course, the pay volumes of OPEL in 2019 will be missing.

KURBAY B: So does that mean you can perhaps become more aggressive in terms of market share in Turkey?

EROLDU C: But without forgetting the profitability of course.

KURBAY B: Okay, thank you very much. And just last question that I had in terms of your guidance for the domestic market this year is what's the split between passenger cars and LCVs, please?

MANAGEMENT: It's nearly 50%. But also keep in mind that the contracts in the first quarter was new to the political background, which made a negative impact on consumer confidence in terms with fixed rate, so once the elections are over, the second half of the year will be timed by the postponed investments for SMEs in the first half starts to initiate, so therefore, we are not changing our guidance at this stage.

KURBAY B: Thank you very much.

EROLDU C: But the other issue that I can under-line, our market share at the CDV segment, so we are at 42% of market share. So also this is where we are a very strong part of the market; that part also respectful 2017 is shrinking, but we will try to improve our market share, because as you know, also it's important from... for the profitability of Tofaş, the present on CDV market.

KURBAY B: Thank you.

OPERATOR: We have another follow-up question from the line of Memisoglu Osman with Bank of America Merrill Lynch. Please go ahead.

MEMISOGLU O: Cengiz, when you said CDV market share, I remembered the regulation issues on the sectors and particularly the restrictions on the leasing side of these vehicles. We discussed in the past on and off. Do you have any latest, you know, info or how your sentiment on obviously not sometime between the elections, but maybe after the elections, would there be an opportunity, upside opportunity there? If would they go and ease these restrictions? Thank you.

EROLDU C: Osman, I don't think so because we push several times this issue in Ankara but also last, let's say last release is still... is not opening the door for the renting of light commercial vehicles in the Turkish market. But as Tofaş, in order to reinforce our position as you know, last year we launched 1.4 Gasoline Fiorino at a very competitive prices and the car is doing well. And the... at the end of the March, we launch also 1.4 Gasoline Doblo, because as you know, the Turkish market starting from 01<sup>st</sup> of January entered into the 6B regulation rules, where all the market also faced increase on the diesel engines. As you know, until now the... on the light commercial market, the main, not the main, the only engine was diesel, but now we are increasing our penetration on the gasoline side. So also this is an important competitive advantage for us into the light commercial vehicle market.

MEMISOGLU O: Okay. Thank you.

EROLDU C: Thank you.

OPERATOR: Excuse me; there are no further questions at this time. I will now turn the conference over to Mr. Renzi for any closing comments. Thank you.

RENZI P: Okay, I wish to thank you for participating. I hope you have appreciated the presentation, the performance, explanation. So I thank you for joining this, attending this conference. And I hope you will continue to follow Tofaş in the coming months. And I hope you will attend our next conference call that will take place in July; and for the moment, that's all from my side.

I wish you a nice weekend, a nice evening and keep in touch.  
Thank you all.