

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş. 1Q21 Financial Results Conference Call and Live Webcast

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Conductors:

Mr. Cengiz Eroldu, CEO

Mr. Fabrizio Renzi, CFO

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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 Kunter Selim with AK Investment. Please go ahead.

KUNTER S: Hi, everyone. Thank you for the opportunity. Well, I have a question on the global microchip issue. We know that you had a 2 week break due to this supply disruption, but are you seeing any further interruptions down the road. I see that you are not changing your guidance, but it may be just too...it may be compensated through production during the summer season. Are you seeing any further interruptions on this front? Thank you.

EROLDU C: But actually not according to knowledge that we have yesterday, after the closure that we had in March for 2 weeks, now in April and May, we are working with full working days and our also forecast and plans for the moment are not considering any important issues regarding the chip or other kinds of materials, because nowadays the problem is not only the chips, also the other raw materials are also creating problem to the OEMs. Thank you.

KUNTER S: Thank you very much.

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

BESPALOV V: Hello, thank you for this presentation. Congratulations on good results. Could you maybe comment a little bit first on the stocks of vehicles that you and your dealers have and how many

I would say, months of potential supply you can satisfy in the event you face certain problems with microchip supplies or whatever. And maybe could you provide a little bit more color on the European demand, when do you expect this to pick up, you left your guidance unchanged, maybe a little bit more on this? Thank you.

RENZI F:

Hello, hello Vladimir. Let me start from the last question, so exports or let me say, let me comment the overall guidance. So, at the end of the first quarter, we decided to keep unchanged the total guidance, in spite of let me say the result of the first quarter. So, in the local market, 60% up in the first quarter, but we keep the... unchanged the guidance because we are seeing some risk in the upcoming period, due to the macroeconomic instability, currency fluctuation, interest rates connected to this one. For exports, our guidance in this one is a bit more optimistic and aggressive, you're right, but we believe there are some good points that might be... could improve the situation.

First of all, we expect normalization in the COVID-19 emergency in the coming months, and this could be a positive evolution for the European market. On top of that, we believe also that the fiscal measures and the fiscal subsidy that in some country could continue for the whole year 2021 could bring some improvement. And on top of that there is for sure a pent-up demand coming from this quarter that has been affected by continuous lockdown. So as a combination of these 3 items, we believe that for the moment, we can achieve the guidance, maybe the low range of the export guidance, but for the first quarter, we decided to keep this as our target.

Also let me add that for the local guidance, we are autonomous as Tofaş, but the guidance and the outlook for the export is a jointly activity with our colleagues in former FCA, so this is something that is jointly let me say outlook on the future of the FCA performance in Europe.

About the first question was related to the...

EROLDU C: If I'm not wrong, was linked with the stock level of the dealers and Tofaş. So, the level is very low. So, at the end of March, probably we are at one of the historical low-level of complete car stock. But as I said, at the beginning, so in April and May, we are not forecasting any issues on the production side. So, it won't create a problem for the second quarter.

BESPALOV V: Thank you very much. And can I clarify one more thing? For example, in your take or pay arrangements, for example, you are compensated for the volumes, which were not required, let's say, by FCA. But if we assume that the situation is kind of force majeure and it's... because of the microchips or whatever, right, and you cannot supply vehicles, do these provisions do apply in a sense that if you cannot supply because of the microchip issue, would you be still compensated for the volumes covered by take or pay contracts?

EROLDU C: But I think here we cannot talk about any force majeure issue, because FCA also is getting materials in some cases, but using for the U.S. market needs, for example. So for this reason, we don't see any possible potential problem between Tofaş and

Stellantis, regarding the shortage of materials. So, we're at the safe side, I can say from this perspective.

BESPALOV V: Okay. Thank you very much.

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

KURBAY B: Good afternoon and thank you for taking questions. I have 2. The first one is, again about supply issues. You mentioned that there are problems or potential problems with respect to other components as well or other raw materials as well, in addition to chips. Are you working with Stellantis for the procurement on all of these? Meaning is Stellantis basically procuring the chips and allocating it across the production facilities. So, it's... the decision is ultimately up to them as to how they are allocated or is it Tofaş has alternative suppliers that they...that you can resort to in any of these critical components?

And my second question is about a comment you made earlier in the presentation that you are working on upgrading investments for the passenger car family and there is going to be the launch of new versions in the fourth quarter of this year. Are these mainly for the export markets or for the local markets? Can you comment on that, please? Thank you.

RENZI F: Thank you, Berna and thank you for your question. So, about the semiconductor issue or microchips shortage, you're right. So, the major parts of these components are managed by FCA purchasing. So, as you know, in our organization, we have a basket of supplier that are managed locally, so a major part of

these are Turkish suppliers. But when it comes to the international supplier and the... major part of this electronic component are provided by international supplier, this procurement part is managed by FCA. So, as Cengiz mentioned before, in this moment it's FCA that are managing the distribution of the available material to the different production facility and production hub.

So, in this moment also in FCA, there is a kind of...in every company, every carmaker in this moment is trying to distribute in the best... in the most profitable way the components available. So, to answer your question, also this part is managed by FCA, and this is the reason why we don't expect any potential issue related to the length of stoppages that we can have in the future.

Your second question, it's related to TIPO. As I mentioned before, the investment for Tipo/ Egea is not finished yet. So, as you remember, we approved €200 million of investments, part of this is already done, but the second step of the investment will be finalized this year in the second part of the year.

Of course, we are going... we know that we have some back... some gap to close compared to the competitors. And for sure, we are going to add some additional power train. We are going to enlarge our offer to the customer. For the local markets, that we know that, we... need in this moment an automatic transmission. So, our target now is to close this gap and to introduce in the local market on automatic transmission by the year-end. We have also some other news in the export, but we cannot disclose in this moment this additional content that will

be also available for the export markets. In this moment, we cannot comment this. Thank you.

KURBAY B: Okay. Thank you very much. And if I may, just I have one follow-up question. In the local market now that we are at the end of April, have you seen any major slowdown yet, since you haven't changed the guidance. I was wondering if you've observed some weakness in the local markets in April, and also related to that you're not changing guidance, is it because you're cautious about potential problems down the road in terms of the supply issues, so that you don't want to up the guidance at this point?

EROLDU C: So, in the... Cengiz speaking. Good afternoon. First of all, in the... after the high level of depreciation of Turkish lira at the beginning of the month, in April, so we are seeing significant slowdown in the local market. And the... this is of course, it's not only due to the price increases in the market due to the exchange rate, but also high interest level, because as you know, in the Turkish automotive industry, most important enabler, I can say is the level of interest rates. So, in 2020, we all benefited in the market from the low level of interest rate, and this impacts also mainly the second part have already sales. So, we are seeing a slowdown in the local market, but as a Fiat brand, what we believe, we are not following the complete market we have other dynamics. So, we have advantages compared to other players in the market. So, we will always perform better than the others this year. This I can say.

And secondly, of course, we are not increasing our guidance. The main reason is the interest rate level in the... in Turkey. So,

this level of interest will create a problem on the demand. That's the only reason, not for the... our forecast for the material issues.

KURBAY B: Okay. So, if there's more demand in the domestic market than you currently expect, do you think you'll be in a position to produce as needed going forward?

EROLDU C: Yes, of course.

KURBAY B: Thank you very much.

EROLDU C: You're welcome.

OPERATOR: Ladies and gentlemen, 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 F: Thank you, operator. Thank you all for participating in the meeting. I wish you all a good day.