TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş. Full Year 2017 Financial Results and Key Performance Indicators

Friday, 2nd February 2017, 17:00 (TR Time)

Conductors:

Mr. Cengiz Eroldu, CEO

Mr.Stefano Reganzani, CFO

Mr. Erman Tütüncüoğlu, Investor Relations Manager

&

Mr. Dogu Ozden, Head of Financial Planning & Controlling

Conference Call Conducted by Chorus Call Hellas

CHORUS CALL HELLAS

PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: www.choruscall.com

Q&A SESSION

ANALYST: Okay thank you for the presentation. The first question is definitely on margins. Because when I look at the… at your fourth quarter margins and EBITDA margins, that it looks a bit counterintuitive to me. First correct me if I am wrong, previously you said many times that your export margin car picked as a percentage of revenues. So there couldn't be any increase in margins from the export side. This means that basically that was driven by domestic market. But on the other hand, my assumption would be that with the Turkish Lira depreciating, you… it would be extremely difficult for you to get an increase in prices and to boost to margins through that. So could you provide some color on how this happened and how we should look at margins going forward?

EROLDU C: May I answer? I used to be CFO of this Company and… So in the past meetings, I always said that to follow the Tofaş performance is much more important the profits to be pre-tax numbers, not the EBITDA. Why? because as you know, we are applying the hedge accounting methodology and so between our financial gains and losses and operating numbers, there is a passage, okay? If you can go to the Page 26, if I am not wrong, here we can see the… yes here; here we can see the evolution of our profit before tax margins. So each quarter, we improved our margins, okay? So as Erman mentioned, so this year we applied very tough costs and expense management tools. This has helped us not only in export market but only mainly in local market side. We benefited from this cost and expense efficiency management. So I cannot say that they only improved at the last quarter.

So you are seeing from the first quarter 5.6%, 6.5%, 7.2% and 8.6%. So each quarter, we continuously improved our margins. So this is not an extraordinary last quarter issue.

But when you are seeing from the EBITDA perspective and due to the fact that the exchange rate fluctuated heavily, we saw after September. So, last quarter because at the middle of September, the exchange rate was 4.3 levels, after it went to 4.7 and after it came down to 4.5. So when you see the exchange rate levels in October and November, we faced the highest figure, the higher pick there. Of course, this is in Turkish lira terms, it is generating a certain number, but there is a correction on the hedge accounting side. So because as you know, the hedge accounting in mechanism we are also putting some exchange rate differences as a loss in our P&L because in a practical way we are postponing the exchange rate differences with hedge accounting application in our equity.

But each quarter, partially we are also putting in our can of solvent), so when we have the high exchange rate level, so we have the high OP but higher also exchange rate loss; which is compensation of the depreciation in one sense. This is not because we are bookkeeping in Turkish lira terms and where depreciations are coming in let's say Turkish lira terms, but the bonds that we have for those business are in euro. So in our hedge accounting front, we are carrying the exchange rate figures coming from 2009-2010. Also we have a financial status correction, for this reason we are not seeing important fluctuation on the EBITDA, on the PBT side.

So for me, the understanding of the market on the last quarter is not correct. So there is no any extraordinary issue or the extraordinary numbers on the last quarter figures. So as I am seeing here, so every quarter, we are also trying to improve our performance.

REGANZANI ST: But if I may add something, we were mentioning this value optimization program; that is a cost crunching program. Of course, the cost crunch program started even in 2016 and we have carryovers to 2017, but every single month there are actions that are reducing the cost of our product. So this is also explaining why we are taking the benefit and we are steadily increasing our margins, our PBT margins along the year. And this will continue and will be carried over for 2018, so good news for everybody.

There will be additional spending in our company to reduce the cost. This is a basic thing in order to be competitive and we cannot avoid it. What we discussed even in the previous quarter presentation is that thanks to this program this year, the efficiencies we achieved on our prompt cost are practically doubled compared to the usual efficiencies eventually. This drives a great difference in our accounts, for sure.

ANALYST: But how much scope is left for the improvement after all this achievements because these margins are pretty high for the industry, right? And the second question is just a follow-up on the labor issues, recently, there were pretty big hikes in your agreement with trade unions. So how this is going to affect your margins in 2018?

REGANZANI ST: Again, I think Cengiz can answer better than I do, even though this was kind of forecasted in our scenarios for 2018, I don't know, Cengiz, if you want to say something about this.

EROLDU C: No, because in order also to offset the huge increase it's also true, because the… there is no any macroeconomic reason to giving this kind of huge increase, but this is the main, due to the minimum wage increase of the government done in 2016. So you will remember at the time they increased 30% the minimum wage in Turkey and now the gap between the minimum wage workers and the industrial workers are… was very close for this season. We, in one sense, we were obliged to make a correction. So this is what is going, what happened in the contract, there are certain corrections of the past years' actions.

So for offsetting this in short, of course, we are going to use the productivity issue, so every year we have a huge target of hour per vehicle performance reduction. So approximately we are going to reduce 4%, 5% every year our workforce. That's the only way for us to offset.

REGANZANI ST: And that's what we achieved this year introducing low cost automation in the plant, we achieved almost 800 people reduction and the target for next year of course is to reduce again. Combining this with the product efficiencies, we think we can offset the impact of this [multiple speakers].

EROLDU C: So compared to 2016, we realized some daily speed of production with 1,000 more workers, 1,000 less workers sorry. But that's a part of the game, the competition is tough you know, from what we said, so we are obliged to work hard in order to not lose competitiveness.

REGANZANI ST: And taking into consideration that workforce in the total cost of our product accounts for 6% to 7%, we are talking direct; I mean of course we have an impact on our suppliers, that we need to evaluate but we are not talking about the main item for our product cost.

ANALYST: As you said, if there is an opportunity in the operating margin, what are the underlying reasons of the upper trend in OPEX and that sales ratio?

REGANZANI S: Of course if you read it in Turkish lira, there is an increase in trend of expenses and that's for sure because there is a component of expenses. In any case, that's a natural increasing area in our expenses, we also have salaries and other stuff that of course are steadily increasing in the country. So we cannot avoid this trend, but we can offset with reduction in the product cost, as we said above the line of our OPEX.

ANALYST Yes, there is also a scale effect, economies of scale effect, you produce more, but in terms of the ratio its…there is a contrast…

REGANZANI ST: Just a second, I think we need to wait for the webcast to be… they lost the line.

MANAGEMENT: Okay. They can hear that

REGANZANI ST: So, we are back in the webcast, alright. Okay, the question was about OPEX to net sales ratio, and if you want to repeat maybe for everybody, because they were not connected on the webcast.

ANALYST: Okay. Well, I was wondering what are the underlying reasons in the upper trends in the OPEX net sales ratio spike affect, higher production and everything there is an economies of scale effect, and you are implementing various cost cutting measures and there is an improvement in the gross margin side in terms of the cost management and everything but….

MANAGEMENT: Okay. I need to talk, because when we are talking about expense side, I am very keen of the expenses. So when you see in details, we have the OPEX increase, we can talk about the sales and marketing issues, okay?

ANALYST: Yes.

MANAGEMENT: Here only the increasing expense are the… expense related with the volumes like warranty front that we are calculating for each cars sold in the Turkish market or some expenses regarding the transportation of the cars, because we sold more in the local markets. These in 2017; but all other expenses are under control because when you see the overheads the increase is less than 10% which is lower than the inflation rate in Turkey in 2017. So don't worry about the expenses are…

REGANZANI ST: Yes, usually we managed to be below the inflation rate. Expense volumes are driving; there are some expenses we are paying in our currency, of course they…

ANALYST: So it's a more related to export to total sales ratio. So is that changing the overall composition of sales?

MANAGEMENT: No, more of this will be increasing in local markets…

ANALYST: Yes.

MANAGEMENT: Because compare 2016 and 2017, we sold more cars in Turkish market. Hopefully, also we increased the market share as you know. Okay…

ANALYST: Thank you for the presentation. I am looking at your expectations, and I am calculating that you are not expecting any market share gains for next year. You expect a flat market share progression for 2018. So it is true to think that you will keep the profitability gains in the Company and you will not offer further discounts to gain market share for next year. And to further clarify on the PBT on EBITDA level, what should we expect the margin for next year?

REGANZANI ST: So you're right, I mean, we discuss many times we are not pushing for market share in the Turkish market because, as far as, we have quite a good export alternative we will not drive ourselves in the local market to spoil our margin. It is true that in 2017, our mix in terms of retail sales and fleet sales changed to the fleet sales quite a bit, but what Erman was telling us before is that we did it without spoiling the margins which is very important for us. So we are not rushing for market share in Turkey. Yes, even in 2018 we will to pursue the same policy at local market.

And in terms of EBITDA, I think… frankly speaking I am always convinced that this 12 plus is a very high level of EBITDA. So, in all the previous conferences I said that I will be happy to be around 11 in terms of EBITDA. But, we are doing very well and also with post crash .

EROLDU C: But the Turkish lira EBITDA figure, has also in our case this is heavily depending from exchange rates. So this should be clear, because as I try to explain because we have the correction on the financial part of EBITDA. So if the exchange rate will be same of 2017 as a trend also in 2018, we will see, let's say, more or less same. But, of course, how the exchange rate will move is impacted, so I cannot say that this only the success of the company management.

ANALYST: So, which one has been more effective this year, in this year on the margin expansion side: the FX or your cost optimization activities?

EROLDU C: Let's say more FX of course in Turkish lira terms and if we are talking about EBITDA.

REGANZANI S: EBITDA, and of course with the devaluation of 22 points…

EROLDU C: We are working 75% on export business, it is normal.

ANALYST: Okay. Thank you.

ANALYST: If you kept profit before tax wise, I mean, can we say again about FX impact in the improvement. I mean, if we assume that 2017 the euro was flat…

EROLDU C: 2018.

ANALYST: No, 2018. I mean we are seeing it climbing profit before tax margin, I mean if you exclude the FX impact, what was the average margin in 2017?

EROLDU C: PBT; there is a hundred of other issues, so that it is not… Either of… probably 1...

REGANZANI ST: 1.5 or less maybe; 1 to 1.5 less, that's also what we discussed before.

ANALYST: This is a second question.

REGANZANI ST: Same impact on EBITDA margin, so that's why I am targeting an 11%, it was 12.8% we achieved in the last quarter was very heavily affected by this steep devaluation of the Turkish lira in the last part of the year.

ANALYST: You… for the missing part of exports, I mean, initially the target was 300 to 330, and it came below 300. And one of the reasons was lower than expected fleet sales, if I am not wrong. What was the reason for lower than expected part? I mean, was it pricing part for the products or the features of the product, I mean was there an attack from a competitor or a couple of competitors in those market?

MANAGEMENT: Actually, it's not a price; it's not a product. Because when you are away from the certain markets, so it's not easy to penetrate on those markets, so the Western European fleet markets are not look like the Turkish one. So in Turkey, if you apply the high discount with only the financial operation, but in Europe it is not like this. Because if you think last Station Wagon version of FCA in Western Europe was the Stilo which is going to 2005… so more than 10 years where the brand was not there. So the main issue is this, because we are not in the shopping list of the customer, because last 10 years there were no offers. For this season they needed time in order to convince that they are there, they have the product and so on. So that was the main issue in 2017, in the Western European fleet market, because the Station Wagon was made and also built for the fleet markets. Not because… in those markets and in C segment there is no private customer so much, because the Station Wagon users in Europe, they are preferring D or E segment cars. So in Western European countries, you can see lot of Station Wagons but not B & C segments, mainly they are the D and/ or E segment. So the issue was this, this is only I think is a matter of missing long time effect, which is a good presence.

REGANZANI S: And it takes a long time to be in the shopping list of these buyers basically. So because it's a long lasting activity, you go with your car, they test the car for some time and they understand the features of the car, like it fits for the demand of their employees or customers. And so, actually targeting for the first year for the launch over 5% as FCA was doing wasn't very challenging. Of course, everybody accepted this challenge, but at the end the result is penetration in the fleet sales in Europe was around 4.4, and so this generated a big difference because as Cengiz was mentioning, it is a huge market with a fleet sales of the system and cars in Europe…

EROLDU C: But also, on the other hand, I would like to underline another issue. So our export sales of Tipo in Europe are in line with our forecast, with our feasibility and also with our reserve capacity, because at the end of the day when we see the figures total, we export 130,000 of passenger cars which perfectly is in line what was our plan in the beginning when we made the investment. In 2016, I should say that we should see an opportunity and we pushed the system but system doesn't work, but we are still at the level of our beginning expectation so for this season also we are happy with the performance of the car.

ANALYST: For the pipeline, management part, I mean the second reason for the decline, do you expect a replenishment in 2018? I mean, when I look at the market figures, there was a decline in Germany but increase… I am sorry, Italy, but increase in Spain and France which are the main markets, if I am not wrong. So do you expect an improvement in those main markets which will replenish the pipeline, inventory pipeline for dealers?

EROLDU C: But more than this, when I see the… we also made this disclosure of our expectations so those are the now the figures that we are working on, but my personal expectation that I see the upside potential on export but downside on local markets. Now, frankly speaking, though… so for this season, we are still disclosing the similar figures in 2018 with respect to 2017, because Europe is doing well, so on each markets we are seeing the improvements every month. Of course, we have some exceptions inside the big five, UK is another story and so on. But Western Europe, because as you know also our business on total export more than 85% is linked with the Western European markets, so more than the inventory issues, the structure improvement on the Western European market side are much more important for me. And so from this perspective, we are optimistic for the export markets.

REGANZANI ST: We can be optimists. We don't want to be too optimists as we were last year and then we had to reduce our guidance. By the way, it is not that our guidance came out of the blue. Of course, this was a number and the figure agreed with FCA. So then they corrected gradually the demand and we had to correct our guidance. So this year, let's keep feet on the ground and hold the horses. We are optimists, but these are the figures we can project. I think it is very safe; to be just on the safe side then again.

ANALYST: And can I ask as a follow-up to that, so should we understand comes to 2019 spending, you can achieve more than 300,000 units as you have initial guidance beginning of 2017. So do you think that if the penetration takes time and you are missing 2017 as a market share again opportunity comes in the next two years, you are going to hit the under 30 whatever figure that you provided previously, can you hit that?

EROLDU C: We, of course, can but as you know, we are not managing the commercial activities in the Western European markets. But what I am seeing that our products are the main products of FCA in Europe. So if they want to keep and improve their market share at the end of the day they should sell our products, not because we have our cars, now, are not the secondary versions in the range. The FCA in the Western European markets they are fighting with Panda 500 and our family cars. They also decided to stop the Punto production, so this was another additional advantage for us because when they are going to stop it…

REGANZANI ST: They've already stopped it. They already stopped at the end of 2017 because they will be not compliant with the new regulations in 2017, so they stopped the production last year. Figure for Grande Punto was about 60,000 units. So it is kind of a gap they have to cover with the vehicle and I believe, I personally believe that there is an opportunity for our vehicles because the closest vehicle…

EROLDU C: Yes, but of course, we are not managing the commercials.

REGANZANI ST: Yes, exactly.They might try to replace it with Panda, as well as, with our vehicle. By the way, the price gap between Grande Punto and the Tipo is not that huge in the European market.

ANALYST: Thank you. I have a question again about margins. Take-or-Pay accruals also has a positive contributions on margins, right, on you fourth quarter results. So is it possible to give some colour on the contribution? My first question is this one. And the second one, again, is it possible to give some comment on the recently announced draft scrap incentive on passenger cars, for the renewal of vehicles over sixteen years old? Is it possible to give some initial comments on that? Thank you.

EROLDU C: Yes, on the second part, I can answer. So in the market also you probably read on the newspaper although the total pool is six-engine cars, but the light vehicles are around 5 million. But then we see the…so if the scrappage incentive will be only limited to 10,000 Turkish lira, we are not expecting a huge impact, because in Turkey still the value of those kind of cars is high, and also the period is long, not because what we read on the internet also that it will be ended at the end of 2019 if I am not wrong. So there will be three years of period and if they are going to fix on 10,000 Turkish lira of private consumption tax the benefit… There will be some support sure, but we are not waiting so big impact. So we are not waiting to rush to buy the cars suddenly and so on.

REGANZANI ST: Regarding the first part of your question, as Cengiz was mentioning before, practically the Take-or-Pay we have, the benefit we have is coming from Doblo, because all other vehicles now they are meeting their capacity volumes, Egea, Fiorino they are on that target. And Doblo we have… okay, some Take-or-Pay volumes from Opel, from the Ram ProMaster City sold in the US. You remembered the figures we discussed many times, so we are 20,000 for Ram ProMaster City and we sold a little bit more than 12,000 this year. So it is not a huge amount. Fiat is doing very well with Doblo in Western Europe so the impact of Doblo Take-or-Pay actually in our accounts is not that important, not that relevant.

ANALYST: Thank you for the presentation. My question is related to new projects. Do you have any new projects going forward just, you know, new markets and fleet into new markets? That's my question.

REGANZANI ST: What a company we will be without any new project. Of course, we have new projects in our focus. We are working hard on them.

EROLDU C: As you know, we don't have space in Bursa Plant. Yes, so we are working on 400,000 units of production. So we don't have also possibility to increase the capacity more than this level…

REGANZANI ST: And the saturation of the plan is above 90%, so practically fully saturated.

EROLDU C: So, from this perspective, we have the limitation on the production side. But, of course, we are looking for the… so we have two issues, you know, one the continuity of the existing range, after a certain period, we need to also renew first our commercial range. And after we should think about the new generation of the passenger cars and so on, so this is the direction that we are working. So, in the meantime, we are looking also to abroad, if we can find the possible CKD activities, but we don't have for the moment anything to disclose. But, of course, we are working to find some opportunities.

ANALYST: And another question related to dividend policy? This year, the UV had met with the higher cash amounts in your accounts, maybe it's exaggerated by the euro, but overall, do you expect any… also better net results?

MANAGEMENT: Yes, lower net

ANALYST: Not only… [multiple speakers]

MANAGEMENT: Cash is available. Results are driving…

ANALYST: Do you expect higher payout possibility or just, you know, is there potential maybe, you know, just…?

EROLDU C: The only thing that I can say, we will continue to distribute maximum that we can.

REGANZANI ST: That's the policy we will not change this year for sure in line with the shareholders, definitely. I think you have your old models and you have the ability to calculate more or less what can be our potential for dividend distribution this year.

ANALYST: Is there a big difference between your tax financials and IFRS financials now, do you announce that? Because from year-to-year, it just deviates due to some changes.

REGANZANI ST: Yes, of course, we have to statutory accounts for this… but not a big difference.

ANALYST: Okay, thank you.

REGANZANI ST: May we?

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

KILIÇKIRAN H: Hi, thank you for the presentation. Actually most of my questions were answered. But I still have some… a couple of questions about margins. And it's the value optimization program that I would like to learn more, you mentioned about that, this also add to your margins and this may also continue to have some positive impact in 2018. What type of value optimization program are you doing at the moment; I mean, can you please explain this program to us a little bit more, and how much costs did you save through this program. And the second question is about the utilization rate, you already reached, as you said, 90% through three shifts, and this is getting more important for us from a modeling perspective and there were questions about the potential capacity expansion, or not. You mentioned about something abroad could be an option, but when you say aboard, this is something like in African regions, MENA regions or some of that are completely different, that I am trying to understand. And I think do you also disclose your distributable income according to your tax financials? I think it's already asked, probably.

REGANZANI ST: No, that's a big secret.

KILIÇKIRAN H: Alright. I mean, I think the first two questions are more important for me because I can estimate your dividends probably.

REGANZANI ST: Yes, Hanzade, the value optimization program, that it is not run exclusively in Turkey, but it's actually working for all FCA models, so we are not a unique case in FCA. So it's just re-engineering the product, analyzing all the contents that are not sensible for the customers and can be re-engineered in terms of using different materials or having different solution, technical solution for many, many features of the car that are not let's say sensible for the customer or visible to the customer. So these e are spoiling the quality of the vehicle, but is just optimizing the content and the product cost of the vehicle. As I said, it started in 2016, when we launched the car actually, the new family, we were already reflecting some of these activities, the new Aegea family, continued in 2017 and were gone in 2018, of course. The carryover of these three years is an impressive figure on our product costs. But we will continue for the life cycle of the product. That is all about the market.

KILIÇKIRAN H: I mean, is there any sort of target given to you about this amount of costs are going to be cut through the value optimization. I mean, that's what I am trying to understand, because usually when a program is launched there should be a target probably?

REGANZANI ST: Yes, of course, and it's a very tough target you can believe me, because every year there is a severe improvement. But you can have a quicker reckoning taking into consideration that the industry is usually achieving 2% efficiency year-over-year in product costs. And we managed to double this. This is the extent of the program, year-over-year.

KILIÇKIRAN H: Okay, thank you. And about…?

REGANZANI ST: About, our programs I think Cengiz bey was very clear, we will try to exploit opportunities out of Turkey, because our capacity is now constrained to max 450,000 units in the plant. We can really push but it's a big problem to achieve even this target because achieving 450,000 means practically working at 18 or 19 shifts a week, which implies working even on Sundays, you know, sometimes. So, it's a big challenge also for the people working for us in the plant.

KILIÇKIRAN H: That means, that would mean that there is no growth in Tofaş over the next three years or otherwise you are planning something immediately because I mean it already takes some time to build the capacity.

REGANZANI ST: No, where we are… we are trying to find other ways to grow. And growing for us means basically investing in some operations abroad for the time being, not in Turkey, that's what we said.

KILIÇKIRAN H: Okay. Thank you.

REGANZANI ST: Okay. We have room for a slight growth here too because the production we achieved this year was very close to 400,000, there is still some room.

MANAGEMENT: It is 10%

REGANZANI ST: Well, not more than this. So, if you really want to have a turnaround we have to think about becoming a more international company with a much wider scope.

KILIÇKIRAN H: But, excuse me, I mean, you have a partnership with FIAT. So, you know probably you can't be in Europe, it should be somewhere else outside of Europe, right. Am I thinking the right way, I mean I think that Africa or North Africa or MENA seems to be much more reasonable to continue with FIAT?

REGANZANI S: FIAT is very open to discuss with Tofaş all options. I would not, I would not be surprised of any possible developments, I mean, we showed FIAT…, FCA, sorry I should say the right name.

KILIÇKIRAN H: Yes, sorry, my mistake as well.

REGANZANI S: …No, my mistake, I belong to that organization. So FCA, we show FCA that… we showed FCA with the program that we are able to manage a program from an engineering point of view, from a manufacturing point of view, and even from a commercial point of view. So, we have a chance I think in the future to develop the visibilities and Fiat of course will be very happy to exploit the Turkish way; let me call it in this way because it is really the Turkish way now that is the sort of benchmark for FIAT in some cases.

KILIÇKIRAN H: Yes. Okay. Thank you very much.

REGANZANI ST: Welcome.

OPERATOR: Our next question is…

ANALYST: Can I have just make a follow up question?

MANAGEMENT: You are always welcome.

ANALYST: Just you have some spare capacity here in Turkey. Why wouldn't you just increase exports, if you see opportunities on other markets instead of building initially, let's say initially? Just shipping more volumes from here, and you have been talking about this CBUs project for a year or maybe even more. So could you give us an update where you stand now compared to where you were a year ago? Are you any closer to launch and if we go to penetrate maybe some markets with some export duty or something's like this, where you cannot see say that you ship volumes from here, from Turkey?

EROLDU C: I will start off… of Western Europe, all the markets are the protected markets. So you cannot import directly CBUs. So that's the business, that's the needs of C business, not our need or someone else needs. So you cannot export the cars, the complete cars to Russian market for example. It's a protected one or…

ANALYST: You can but you have to tell.

EROLDU C: …you pay a lot [Multiple speakers]

REGANZANI ST: ….no incentives.

EROLDU C: And also same also for all other Northern African market. If you go to Egypt or Tunisia… Or the others, all others…all those markets are protected ones. So for this reason you are obliged to establish a CK operation. So that's the need of the business, not the issue of using the existing 10,000 or 15,000 capacity in Bursa Plant.

REGANZANI ST: No, we can do maybe for several markets. We discussed maybe in the past about some markets in Latin America, they are not so protected and so we can try to have exports there, where the Fiat Grand is pretty strong. But for some markets there is no other way but operation under several other forms, which imply of course investment in the country.

ANALYST: Okay. And in terms of timing, are you moving any closer to…?

REGANZANI ST: In Turkish they say zaman geçiyor, time flies… don't worry.

OPERATOR: Shall I proceed with rest of the audio participant questions?

REGANZANI ST: Yes, please.

OPERATOR: Thank you. 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 opportunity. I just want to ask one thing on the margins, maybe if you can, since profit before tax is the key measure, what would coincide with that 11% EBITDA margin level, something around 7%, would that be reasonable? That's my first question. And then, the second one is on CAPEX, you did mention it… the line broke off a bit. I'm wondering if the majority of the CAPEX for 2018 is emissions related, did I get that right, if you could give some color on CAPEX? I would appreciate it. Thank you.

REGANZANI ST: Thank you, Osman for your questions. Yes, we… I think it's reasonable to assume that the profit before tax margin will correspond to 7 – 7.5.

MEMISOGLU O: Okay.

REGANZANI ST: Okay with that and then for the second part of your question, I lost it on the way.

MEMISOGLU O: CAPEX.

REGANZANI ST: Yes, sorry the CAPEX, the CAPEX as Erman was explaining before, most of this €150 million or €70 million that we are targeting for next year will be related to ecology level at equation in Europe. And, of course, as every year we will have a base investment for structural investment in the plant of Bursa. It's a huge plant as you know, and every year we try to have some renewals, some refurbishment, not big things next year. So nothing, no big investments on this such, but just the maintenance itself is important to keep this plant very efficient and in a good shape.

MEMISOGLU O: Okay. And maybe if I could add one thing, I just thought about tax rate, you turned to tax expense for the first time in a month on a quarterly basis. Any guidance you can give us on the IFRS tax rate for 2018?

EROLDU C: Targeting… but Osman, now also in Turkey the regulation, the existing… the regulation is also under discussion. So I think you should understand what is going on in the Turkish tax regulation. And thanks for asking me this question. So hopefully in a couple of months we can see or now this month they are bringing in a new law, probably it will include also some news on the corporate tax application and related incentives. So I think we can judge better.

MEMISOGLU O: Okay, thank you Cengiz bey.

EROLDU C: Thank you.

OPERATOR: Our next question comes from Kayani Muneeba from Morgan Stanley. Please go ahead.

KAYANI M: Hi, thanks for the call. Most of my questions have been answered. I just want to understand a bit on Fiat inventory management in Europe. Is FCA happy with inventory levels right now and is that largely behind us or do you expect a bit more of that to continue this year?

EROLDU C: No, they are much more than happy.

REGANZANI ST: At the point, Muneeba, the point here is that maybe they were even too tough versus year-end in terms of stock reduction. So the results were very good, but at the end the brand, the brands were complaining a little bit, because they had some lack of products. So I think, especially now at the beginning of the year, we see some orders coming and flowing that they want to restock a little bit the network. We see quite good impact on our orders for LCV for example right now. So we are working full speed on… especially on the Arcelik side. They were really very tough in reducing this, but in the first months, we will see an improvement, I'm confident.

KAYANI M: Thank you.

REGANZANI ST: You're welcome.

ANALYST: Just when… you mentioned that you will see an improvement in the first month. Do you have the number for exports for the first month and you are bit… quite lucky it was pretty good at the beginning of the year, so is it the trend better than last year so far?

MANAGEMENT: We have the unit disclosure figures.

REGANZANI ST: And we have in our ordering system of course in this month we will have already firmly… confirmed orders for the next two months. So what we see now is encouraging.

OPERATOR: Mr. Reganzani, there are no more questions registered at this time from our audio participants. If you would like, you may now proceed with your closing statements.

REGANZANI ST: We will leave the stage to Mr. Cengiz Eroldu, the CEO.

EROLDU C: No, no. (Laughs and multiple speakers in venue)

REGANZANI ST: No? All right, so I will take the stage just for a minute. First of all, to thank all the participants to this 2017 Full Year Results. Those that are in this room and they will all be invited to a cocktail downstairs and those that unfortunately are not with us, I hope to see you very soon in our premises here in Istanbul. And thanks again, I think we… I don't want to sound too optimistic, but definitely 2018 will be for Tofaş again a record year, I'm sure. And we will see at the year-end if we keep our promises to all of you. Okay, thank you very much.