

TOFAŞ TÜRK OTOMOBİL FABRİKASI A.Ş.

TOFAŞ Türk Otomobil Fabrikası A.Ş. First Half 2016 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 Mr. Bespalov Vladimir of VTB Capital. Mr. Bespalov, please go ahead.

BESPALOV V: Hello, thank you for this presentation and thank you for taking my question. I would like to ask you about your receivables, in particular I noticed in your financial statements that receivables from Fiat have increased quite significantly. Could you elaborate a little bit what was the reason for this, and how should we see this going forward, is it going to be at this higher level or it's going to change in subsequent quarters?

REGANZANI S.: Thank you for the question. I think, Emre was already suggesting the question that it's very...it is quite easy to see that the impressive increase in volumes of our exports of course are driving trade receivable increase of about 600 million Turkish lira. As you can imagine the fact that we increased of our volumes by 53% it is driving to this conclusion. We didn't change, in any case, any term of payment with any customer.

So if we go to working capital, this has reflected 300 million. And, of course, yes the other thing that was suggested by Emre, compared to previous quarters, due to market conditions that were unfavorable, we decided not to go for factoring of our receivables. So you see the full amount there, whereas in the previous quarters we were able to find on the market advantageous conditions, and so we had a

decrease of our factoring of about 130 million compared to the previous quarter.

BESPALOV V: Okay. Thank you. And one more question if I may. It is usual, like in the automotive industry, when you launch new models, when you switch from like two shifts to three shifts, there are some initial additional expenses and then margins go up again. So could you give an indication whether this was the case with Tofaş in the second quarter of this year, and maybe we should expect that margin will go up again, or the margins that you showed this quarter is something like again normal for your new high capacity utilization production in auto?

REGANZANI S: Well, we don't enter into details, but of course, you are right. Launching a new product means startup costs and production losses because of the ramp up of the new model in the plant. We had this cost forecasted in our budget and in our initiative, so we are in line with our budget. But of course, when you see compared to actuals of the previous year, for example, where we didn't have such launches, the gross margin and all the ratios are affected by the fact that we are having a ramp up period. Of course, as Emre was mentioning before, we are coming to the right speed now, and we want to achieve this 1,500 vehicles per day, and this means a great achievement and a record in plan, and by doing that, of course, our production losses will be reducing, and you are right.

BESPALOV V: Okay, thank you. And maybe the last question, if I may. Like would your capacity utilization above of 100%, could

you a bit elaborate on your strategy going forward, what are you going to do next, like expand your capacity, new investments, maybe some new models and things like this, or you will be just keep producing at this level for the time being?

REGANZANI S:

So regarding the utilization of the capacity in the plans, actually as you can imagine now we are...as we said in a transition year, we are not still reaching a good level at three... shifts, but what we are thinking, of course is, if the demand remains as strong as we can see now for this new products, so we really need to decide something and take actions soon, because now the European markets are very demanding and we are just as we expressed in the previous calls, trying to optimize our product allocation between the market. And a lot will depend, of course, on the trend on the Turkish market which for the time being is under, let's say, investigation and control. We need to understand, what is up, what will be happening after the events of July 15. So there are lot of factors in this case, definitely we are following carefully the situation and try to monitor day by day what's going on in order to keep on optimizing the allocation of our products between the local market and the export market, and see what happens for the future, it is not an easy forecast. There are some other factors in Europe too that are suggesting us to be very prudent before going for additional investments.

EROLDU C.

Thank you, Mr. Bespalov.

BESPALOV V:

Thank you very much.

COMPANY REP: You're welcome.

OPERATOR: The next question is from Kayani Muneeba of Morgan Stanley. Please go ahead.

KAYANI M: Can you talk a little bit about why the CAPEX was lowered...the CAPEX guidance of this year was lowered, and how should we be thinking about CAPEX for next year?

REGANZANI S.: Okay, so let me tell you first of all that just as you see in the first six months, we maybe were expecting a little bit higher figure. Now, with this €161 million that we managed to liquidate in the first six months, we really think that the max we can achieve would be very similar to what we had last year actually. As you can see from Page 31, we were 337 at the end. So we put just this range at 350 to 400, that seems to have been , more in line with what we are actually seeing in the first half, because the speed of liquidation of investment actually is related to the process we are putting in place in the plant, and just to feel...to make you feel a little bit more comfortable with this figure, maybe we will not. You remember last year we also had to correct our estimate a few times. We were thinking about liquidating higher investment. So, I do think that we will be in that range at the end of the year and for the coming year 2017, of course, we expect much lower investment as we always said. We are achieving some saving. I don't think now we are going to change our focus for the coming year. We always said that...it is going to be reduced and after this

latest stage of completion of the Egea-Tipo program, we will not have for some time new investment in the plant.

KAYANI M: Thank you, a question on exports. I'm a bit surprised to see actually that your export guidance is unchanged following the Brexit vote. How do you think...how are you thinking about the impact of the UK's import on your export demand and outlook?

REGANZANI S: Well frankly, we were just checking with FCA that of course that is our main off-take, the impact of Brexit and we don't...we didn't see any major impacts for our export, frankly speaking. As you can see from our chart 15, where we have a breakdown by country, actually what is really driving now our export is the terrific growth in the Italian market, in the Spanish market, other European markets, Germany for example doing very well. So, these are the main drivers for us.

UK has never been so important let me say and especially now with the new passenger car, right now, I think we will not have any major effect. In any case, I tell you we are developing now the right-hand drive solution for UK market on Egea Tipo, and we think that even in the UK we might have the same success that we are achieving in other countries. So for the time being, UK is not even open for our newest products.

KAYANI M: Thank you very much. And my last question is on dividend, given the first half results, any comments on dividend outlook for this year?

REGANZANI S.: Well, about the dividends, okay last year, we distributed 365 million Turkish liras and this was driven mainly by the statutory results. I think the statutory results again will depend on the FX, as you know we had some swings recently in the Turkish lira FX. Actually, it is very hard now to predict what will be our ability to distribute same level of dividends of the last year or maybe higher or slightly lower, but everything will depend really on the FX trends in the last few months of the year.

KAYANI M: Thank you.

REGANZANI S: Yes, in any case, the policy is unchanged. So whatever,.... we would try to maximize the dividend distribution that's for sure, I mean, we are not going to change the policy due to the situation in Turkey. It is going to be the same.

ERTURK E.: So, Mr. Kayani...so on the screen now, you are able to see Slide 29 again. So I like to emphasize once more that from the financial position side, we do not have any pressure to...not to distribute the dividends in the maximum level, because as I mentioned before the bulk of the investments are completed and since that's the case we still hold more than €0.5 billion level of cash in our hands, and on the working capital front, we are not observing any pressure as well. So the policy of distributing the maximum level of dividends of this company is not changed also from the strength of the balance sheet as well. So therefore as Mr. Reganzani also elaborated the year-end FX rate especially Euro Turkish lira rate, will be important. However, we will

continue to distribute to maximum legal dividend that we can reach.

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

MEMISOGLU O: Hello, thank you very much for the presentation. I have somewhat of a follow-up question on your capacity comments. You mentioned 1,500 vehicles is the target. Is that for this year, and do you expect any increase in that capacity for 2017, if you could comment on that, I would appreciate it? Thank you.

REGANZANI S.: Osman bey, as we said before, we are very close to this 1,500 and we really hopefully can achieve this target in few months. Of course, it was a target for this year. And about the second question, I can just repeat what I said before. Of course, if the demand in Europe remains at the current level so strong for this model, definitely we need to take actions.

MEMISOGLU O: As a related question, and I know you pretty much want to wait on the domestic market, but the incentive packages that were talked about before July 15 and also other potential LCV site leasing stuff like that, is that all now put behind because there are other important things or are you hearing anything...are you thinking any...even if the markets was to become weak for example, could you see the government supporting the domestic market, particularly for the LCVs?

EROLDU C :

But, actually on this issue, the expectation is on mainly on the taxis side. LCV for us, this is two question mark, so we don't have a clear vision if the incentive package will include also light commercial vehicles. The other issue is the timetable of the incentive scheme. So there is two options, first was until year end and second for one year. Of course, in two scenarios, the impact can be completely different if the incentive scheme will be valid until end of this year. Then in November and December we can face a huge demand coming from the local market, taxi and the commercial vehicles if the case. But if the timetable will be valid until end of the.. twelve months, then we can see impact heavily in 2017. So this is still not a clear issue. We are also talking with the government because also these kinds of rumours are impacting also markets. But of course, now some customers are waiting...and see what and how will be this new incentive scheme. But from other ends as you are also following in the country the Turkish government is trying to push the economy. From this perspective, I think now it will be able to opportunity also for the government because they can see easily the reaction and the impact on the economy if this incentive will be valid. But I'm sure, not 100%, but I am pretty sure that next month or maximum in the beginning of September, also this issue will be cleared, so we will re-visit our plans accordingly together all the export and local market issues. For this issue, nowadays, we are not able to give any guidance for the year-end production exports and local sales volume, so we need to also see the result of this incentive scheme, so how will be impacting 2016 or 2017.

MEMISOGLU O: Okay. Thank you, Cengiz

EROLDU C.: Thank you.

OPERATOR: We have a question from our live webcast participant, Singh Sidak of Concord International and I quote: "What is the expected impact of Brexit on your volumes? How do you expect the Italian auto market to grow going forward?"

REGANZANI S: Well, as I answered before, for the time being we don't see any significant impact of Brexit on our volumes, because again, our main markets are growing in Europe and very fast at a higher rate than UK. About Italy, well just want to remind you that Italy is recovering after a huge loss of 2008...that started in 2008 actually. And the Italian market was well above 2 million vehicles, and this year I think it is just 1.6, maybe heading to 1.7. So there is still a long way to recover the position before the crisis of 2008. So we expect Italy to keep on doing well and recovering from their losses of the past years. This sounds good for us and it's a good opportunity for everybody.

OPERATOR: We have a question from Ms. Kurbay Berna of BGC Partners. Ms. Kurbay, please go ahead.

KURBAY B: Good afternoon, gentlemen. Thank you for taking questions. I have got two questions which are also follow-up to the statements you made earlier. The first one is about the capital expenditures in the remainder of the year, which I understand is going to be roughly around €200

million. Since you seem to have left behind the major product investments, the Tipo and Egea investments, should we think of the investments to be made in the remainder of the year as process improvement efforts mainly or is there still a part of the for instance Station Wagon investment continuing? That's my first question. And my second question is about domestic market trends you observed in the month of July prior to July 15 and afterwards. I was wondering if you could share some more colour on whether you experienced different consumer behaviour with respect to passenger cars versus LCVs? Thank you very much.

REGANZANI S:

Berna, I think I will answer the first part of your question and then let Cengiz answer the second. So what happened actually before July 15 and after July 16, well, otherwise I can do the both. But for the first part, let me tell you, this is just a technical liquidation delay we have, and so, of course, the 200 million investment that we are going to liquidate will belong, for the majority, to this Egea - Tipo program, I can tell you. There are no other investment...structural investment of course in the plan, but mainly related to this program. It's just a technical issue as you can imagine we just started the production of Station Wagon at the beginning of July, so it takes some time before...from a technical standpoint, we can consider all the capital work in progress to be investment. But it is just technical reasons.

For the second...Cengiz. Okay so, the month of course was starting with, and our prediction for the market was kind of robust, but then of course what happened on July 15, created a lot of uncertainty in the market and a lot of

pressure on public officers and private consumers too. So, what we are actually forecasting now and what we see now in the market is definitely a kind of wait-and-see strategy being applied by most of the operators in state agencies, fleet dealers, and private customers. So actually the expectation, I don't know if we can deliver a feeling, but at the month end and maybe that would continue, in August too we will see a sharp decline of our forecasted market. And for the full year maybe we are still working on our prediction, but definitely it would be difficult to achieve the million vehicle target that was forecasted at the beginning of the year. So it's reasonable to see that the local market was declined whereas exports, of course, and in our case this is what we always said, we can definitely exploit the fact that the demand is so robust in Europe that we can swap local volumes with export volumes quite easily.

KURBAY B: Okay. Thank you very much.

OPERATOR: We have a follow-up question from Memisoglu Osman, Bank of America, Merrill Lynch. Mr. Memisoglu, please go ahead.

MEMISOGLU O: Hi, you kind of answered it, but I would like to get colour on it, if you could. Regarding this potential swap from domestic to exports, I would assume there is a limit to that. And if you could comment on, I remember there were some countries that you couldn't serve currently because of the lack of capacity in Europe or not so, but you couldn't supply enough vehicles. But can you provide us some colour, how flexible the swap could be. It's kind of a vague question but if you could help us that would be helpful? Thank you.

REGANZANI S: Of course, in September, everything will be much clearer in that situation. The local market will allow us to have a better view. But let me tell you, especially if we think about the new programs because these programs are actually delivering all the additional volumes. Actually, the flexibility is very high. If we think that Fiat, and it is not a secret, I was just able to launch the vehicle in some major markets, and some potential markets have not been for the time being activated by FCA. I mean, practically old markets in Africa and Middle-East still haven't seen a single Tipo.

We just limit ourselves to the main European markets for the time being. So I believe that this flexibility on the Egea-Tipo program is quite high. Of course, it has to match with our production constraints for this vehicle. Whereas, for other vehicles for example, as you see the blow away is not reaching the volumes that we have always forecasted so there is potential I mean, still has to be achieved on this specific vehicle, especially because in the domestic market we see that there is a reduction of volumes, partially compensated by Fiorino in the local market. But let me tell you, we have still a lot of capacity on that kind of vehicle. So, September will definitely deliver a better picture, and we say, for the time being, I don't think we can deliver more information to you because ourselves really we don't have a clear view of what's going to happen.

MEMISOGLU O: Can I...and one thing that I'm noticing in the first half particularly and continued in the first quarter and continued in the second quarter. You had, I think, mentioned this to

us in the first quarter analyst meeting, because the exports are so strong, you are not going after the fleet market in Turkey as capacity developments occur, maybe market changes, maybe there is a bit more demand relatively for your products which are priced more at the entry level in all the markets. Will you keep this discipline in the Turkish market? If you could comment, you know, on your market share goals, maybe it's also related to the market, but that's something I'm curious about?

ERTURK E.:

Okay, Osman bey, although we don't have the net numbers regarding how the Turkish market penetration is divided between fleet and retail, but the assumption that we are making is around 50-50. So under these circumstances, all the players in the market they should be also in the fleet market. So as TOFAŞ we never said that we will be out of the fleet market. Of course, we will be in the fleet market, and we are also in the fleet market, but our priority is to serve to the retail customers first, because first of all this is much more profitable. And second, you are also in one sense investing to the future business, not because there will be product support from the customers or you can sell spare parts, services and so on.

So, also for us, now the important driver is the profitability of the fleet sales. So as a company, we are strictly following the policy that we are not selling any fleet with acceptable profitability levels. So this kind of policy, we will keep also in the second part of the year. So instead of selling in the local market with low profitability, we can chose to export them. So, also, this was the policy of the last six months

and also next six months we will follow. So also, you are following some new changes in the local market, also players and the products are changing. Now, as you know, the Renault Fluence model is at the phase-out phase now. So, this also will...what we believe, we also create a room for Egea, not only on the retail side but also on the fleet side but with our conditions, not with the conditions of the fleet owners.

MEMISOGLU O: Got it. Thank you very much.

ERTURK E.: You're welcome.

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

ERTURK E: We would like to thank all of our investors and our analysts to join the webcast. And we are very happy to share the developments of the second quarter in 2016. I also like to remind to you that we will continue to webcast application in the following quarters, the third quarter and also the year end. And we will be very glad to share the guidance also for the local market and hopefully for the exports in the following quarter with you as well. In the mean time, again, thank you all for joining the webcast and have a beautiful summer.