Ford Otosan A.Ş.

Ford Otosan First Quarter 2024 Financial Results
Conference Call

Wednesday, 22nd May 2024, at 16:00 (TR Time)

Conductors:

Mrs. Gül Ertuğ, Chief Financial Officer

Mrs. Bahar Efeoğlu Ağar, Head of Investor Relations

Mr. Ünal Arslan, Corporate Finance Leader

Mrs. Duygu Yalınkılınç, Investor Relations Specialist

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

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly, your Chorus Call operator. Welcome and thank you for joining the Ford Otosan A.Ş. Conference Call and Live Webcast to present and discuss the First Quartr 2024 Financial Results.

At this time, I would like to turn the conference over to Ms. Gül Ertuğ, Chief Financial Officer and Ms. Bahar Efeoğlu Ağar, Head of Investor Relations.

Ms. Ertuğ, you may now proceed.

ERTUĞ G: Thank you very much. Greetings to you all and thanks for attending our call. Welcome to our 2024 First Quarter financial earnings presentation. In this call, I will have my team with me, Bahar, Ünal, Duygu. Together, I will first start by giving the key highlights on the First Quarter. We will follow on with Bahar on the details of the performance.

We will touch on certain key achievements since our last meeting with you. We will go through the detailed financial results and at the end, we will provide you with our guidance and open up the space for questions and answers. So, if we proceed to next page, please, Bahar.

Thanks very much. So, after an all-time record year in 2023 in Turkish automatic markets, coming to 2024 First Quarter, we see in the industry that the domestic sales also increased around 24% growth in the First Quarter. Within the industry, this growth is mainly coming from factors such as the base price increase in the special consumption tax exemption which was applied to the disabled individuals, this supported demand.

Also, you know, we had local elections and before the local elections, there was a period for pull forward of the domestic demand in the pre-election period. Of course, we are seeing the tightening of the monetary policy with the new macroeconomic precautions taken, but the pre-election period, we have witnessed some demand increase. And also, we can say that all of the OEMs operating in the market had improved vehicle availability.

So, the combined effect of all these actions has turned the market into a demand-driven market rather than a supply-driven one. In this environment, if we look into Ford Otosan's performance, our domestic sales unfortunately decreased by 8%. And if we compare our market share with respect to the same period results of last year, in fact, it reduced to 7.9% from 10.5%.

The key reason to this action was in fact the launch of our courier vehicles within our Craiova plant. You will remember from the last talks with you, unfortunately, we had suffered some launch-related issues and some launch deferrals at the end of the year. And within this quarter, the distribution of the vehicles from Craiova to export markets was okay. However, the pipeline ceiling within the Turkish domestic market was falling behind our expectations of our projection.

That's why we had a market share drop on the LCV. But what I can say is as now we witness the results of April and the ongoing trade in May, we can very happily see that the vehicle has made its way into the market and it is being perceived in a quite positive way. So, we are expecting to reverse this action.

The bad news of market share that happened on LCV, we do not expect it to continue. So, this was the issue with the extended ramp-up. Also, in Ford trucks, we have witnessed lower year-over-year sales in the same period due to the increased vehicle availability and, I would say, a fiercer pricing environment, competitive, much more competitive environment in the markets.

The MCV segment, this is our most healthy and most successful segment, our sales almost doubled in MCV. And for the MCV segment alone, our market share reached to 35%. Overall, commercial vehicle market share ended up being 22.5%. And we are maintaining the third position in the ranking within the markets. Our renewed products, flagship products of Transit and New Custom are very healthy. They are perceived very well in the markets. And also, the passenger vehicles, our sales on the passenger vehicles went up 60% year-over-year as a result of the better availability in our entire product lineup.

If you look into the export markets, in the export business, our total sales volume increased by 11%. And this is also a sign that the demand for the especially newly launched vehicles of Custom and Courier, the demand is strong over there. If we look into the capacity utilization ratios, as the launches come into the picture, the pace of production has increased to the expected levels, the projected levels.

And this shows its result in the capacity utilization rate increase, which is above 90% in our plans. The only exception is the Eskisehir plant. And over here, in fact, for the truck business, we were also undergoing an important regulatory change, the ADAS, Advanced Driving Assist Technologies related HCV launch.

We had some deferral on that one. That's why you see the capacity utilization a little bit less than the other ones. But now, the launch of our ADAS units and the launch of our F line is in place.

So, over on the HCV segment, the truck segment, we have a very strong and healthy product line ready. As a result of all of these combined actions, if we look into our EBITDA and PBT per vehicle, we see around EUR1,800 and EUR1,700 respectively. I have to state that year 2023 was an exceptional year.

And in fact, in our earlier talks, we had highlighted to you that this exceptional result, we are projecting some level of normalization on this. And we see that impact on the realization of the 1Q final financials. We said that there is a shift of the overall production mix is moving in the direction of exports, where exports are a little bit less profitable than the domestic markets.

Within the domestic market, there is better availability for all of the demands. And this is putting a pressure on the pricing ability. Also, as we see the macroeconomic mitigation factors to combat inflation, we see that the financial expenses are increasing with the interest rate hikes.

And also, even though these actions are moving along, currently, there hasn't been a big drop yet in the inflation. That's why the labor and production processing-related costs are subject to high inflation still. And as you very well know, at the end of the year, we had moved into the inflation accounting.

As we roll the impact of the inventory carrying into our financials, we see that the cost of goods sold related numbers are deteriorating. Then we also include that impact. But overall, I should say that still given these conditions, we have managed quite a healthy quarter.

If we move to the next page, I would like to just very quickly touch on our position, our production position and presence in both Turkey and Romania. In this period, we continue to be the biggest auto producer in Turkey, and we have been the second largest producer in Romania. The three quarters of Turkey commercial vehicle production is conducted by us. And for commercial vehicles sold in Europe, this success is due to our plans.

So having said this, I'd like to leave the floor to Bahar for further details in the results. Please, Bahar.

AĞAR B: Thank you, Gül Hanim. Hello, everyone. Thank you all for joining us today. Let's take a look at how we and the domestic market performed in the First Quarter after a record year. As a general view, a normalization is expected for the market in 2024 after all-time high sales last year, also Gül Hanım mentioned briefly. And we also consider this correction while shaping our guidance, which we shared with our year-end financials.

However, despite strong base-year impact in the First Quarter, the market grew by 24% year-over-year. We believe that three main reasons support this performance. First of all, we have seen a pull-forward demand in the pre-election period due to further tightening in the macroeconomic environment.

Other reasons can be counted as the improved better vehicle availability in the market. And the last one is the disabled citizens and their relatives were benefitting from the increase in the base prices for the special consumption tax exemption. And when we look segment by segment, we see strong growth in both passenger and medium commercial vehicle sales, with 33% and 63% increase, respectively.

But we have seen around 25% and 13% decline in LCV and HCV sales. And we believe that the main reason behind this performance was the lower availability in those segments. On the other hand, in line with the assumptions, it seems that the correction in the market started with the 22% decrease in sales in April. And this trend may continue April onwards. So, we will follow the developments in the upcoming months closely.

And let's see how Ford Otosan performed in this market environment. In this period, our domestic sales slightly decreased year-over-year and we maintained third position with almost 8% market share. On the other hand, our market share in total commercial vehicles declined year-over-year, and we attained around 23%

share, despite our strong sales in MCV segments with our flagship products, best-selling products like Transit and our all-new Custom, new generation Custom.

I should say that this performance was primarily driven by the lower availability in the LCV segment -- in our LCV sales due to the extended ramp-up period of our new Courier. But we expect better LCV sales in the coming months, which was already starting to recover in April. You can see it from the recently announced Automotive Distributors Association data as well.

Additionally, although the competition has increased and the pricing ability has decreased in the market in this period, our profitability focus in passenger cars and profitable growth strategy in commercial vehicles has continued.

Let me also give some updates on our main export markets. So, when we look at the First Quarter figures of ACEA, despite again strong base year in the European markets, 12% and 5% growth was recorded in van and passenger vehicle markets, respectively. And according to the recently announced data, which announced by today, the growth has accelerated in April in passenger vehicle segments.

We can say that widening fleet demand, improved vehicle availability, and aging vehicle parts, this is valid for both van and PC segments. In Europe, they are also effective in this performance. In this environment, Ford was able to sustain its leading position in the commercial vehicles market with the support of our products, our new products.

I'm proud to share that as of Q1, Ford Otosan produced 73% of Ford's European CV sales. And also from passenger vehicles contribution perspective, we continue to contribute Ford's performance with our best-selling Puma model, which is the smallest SUV in PC segment, and we were producing 38% of Ford's PC sales in Europe in this period.

And within this year, by gradually launching our zero emission models, zero emission variants in Custom, Courier and Puma, we expect to support Ford's performance in also electric vehicle market as well.

So before handing over to Gül Hanım, once more I would like to highlight our efficient, flexible, low-cost, high-quality production and engineering capability. And considering the current pace of electrification, with our fully integrated manufacturing centers, we should keep this in mind that we are able to produce ICE, plug-in hybrids, and all electric models on the same platform, and we do not have dedicated investments for electric vehicles. So thank you all for listening. Gül Hanım, the floor is yours. You may continue with the other parts.

ERTUĞ G: Thank you. Thanks very much, Bahar. I think Bahar made a very nice gesture. So, there is on the screen, now you are seeing a result. We are collectively, as the entire Ford Otosan team is very proud of. So, we have successfully completed our inaugural Eurobond issuance in Ford Otosan's history for the first time in April. We issued our $500 million Eurobond, targeting foreign investors with five-year maturity at 7.125% interest rate. This is a five-year maturity, 144A RegS Eurobond.

With this milestone, I'd like to thank the team for their hard work, and I'd like to once more welcome all of our investors in this audio call. We see not only equity investors, but also debt capital market investors. Thanks again to them.

We were rated by pitch ratings as BB+, and by S&P with BB-. Within this journey, we have organized roadshow meetings in London, New York, and Boston, with the participation of over 75 institutional investors. And at the end of this roadshow, we received demand exceeding $1.5 billion and we were able to achieve the lowest interest rate observed in Turkish bond issuance arena since January 2022.

So this success, we believe, is a significant demonstration for the confidence the global investors showed in us. We would like to once again thank to the investment community for the trust and support. Now, we will look into the further details of the financial status through Ünal's presentation and with our guidance, we will keep up the projected view in order to continue this journey in a successful way.

So thanks again, and I think now I pass it over to Ünal.

ARSLAN Ü: Thanks, Gül. Hello everyone. Welcome again. This is Ünal Arslan, Corporate Finance Leader. I'll talk about some financial highlights and some key metrics in our First Quarter financials. Looking at our revenues, Gül and Bahar already discussed about our volume evolution versus our previous year Quarter 1 results, but looking at here, while our domestic sales volume decreased by 8%, our domestic revenues fairly remained flat, and that's compared to First Quarter of 2023.

That's because of mostly ongoing pricing discipline that we have been talking in our previous quarters as well, and favorable product mix. But looking at export revenues, revenues are up by 12% year-over-year, whereas volumes in parallel increased by 11%, mainly that's supported with the renewed models of custom, our brand new product Custom at Courier.

As a result, our total revenues increased by 9% year-over-year to TRY124 billion due to 8% year-over-year increase in volumes, despite of course lower heavy commercial vehicle sales units that we discussed previously. In this period, the share of our export revenues in total revenues increased to 79% compared to previous year's First Quarter. That is in terms of revenue favorable, but in terms of profitability, the margins unfavorable mix for us.

And overall, looking at our profitability, EBITDA operating profit and PBT, as we discussed in our last couple of calls, Quarter 3, Quarter 4 of previous year, our profitability margins normalized in Quarter 1 of this year. That's in line with our expectations as I said, and the main reasons for that normalization is first of all the strong base year impact.

As we all know, 2023 First Quarter and Second Quarter, partially Third Quarter was really, really extraordinary in the Turkish domestic market. Lower pricing ability in the domestic sales due to the intensive competition in the pre-election period. Increased share of export revenues, as I just mentioned, that's the mix issue in total, and extended ramp-up period in our new vehicles, especially in the Courier and the introduction to the Turkish domestic market.

On the other hand, last thing that I can say here is our net income, on the other hand, increased versus prior years. That's mostly because of the inflation adjustment monetary gain figure.

If we move to next page, what we see in our margins that's parallel to what I have told in the previous page, our operating margin EBITDA and EBITDA margins decreased around 1.5%- 2%points and that's mostly we see that as a normalization. Looking at our historical margins, that's not our current First Quarter margins, are still really solid and strong.

Looking at our per unit EBITDAs and PBTs, we have EUR1,815 and EUR1,728 for EBITDA and PBT, which are still, I can say, strong in terms of per vehicle profits. In terms of cost in the next page, what we see is in this period, especially in the First Quarter of this year, labor and production costs continue to increase due to high inflation and exchange rate, let me say, volatility. Raw material costs also increased in that period.

Inflation has increased, but looking at the last six, seven months, it's kind of stabilized because of the monetary tightening policies we expected to go down in the coming months. And in that period, we increased our production volume by 5% versus previous quarter.

In the next page, we see the model breakdown of our sales volume. We already discussed, Gül and Bahar gave detailed information about that, but what we see here is in terms of PC, we are selling, we sold higher volumes compared to previous quarter, but LCV, mostly because of our new model transit Korea introduction to the Turkish domestic market, we are behind our target.

But looking at March and ongoing months, we can say that the production and introduction to the market normalized and we expect it to be higher in the coming quarters. And in terms of balance sheet and cash flow, we have a really solid balance sheet that's in line very parallel to our previous year's balance sheet figures. In terms of cash flow, we have a healthy cash flow position.

We can say net cash from operating activities is higher than our capital spending, which delivers a positive free cash flow to us. And more detail in the next page, debt profile and financial ratios. I already talked about cash and net financial debt, but looking at our financial ratios, all our ratios are healthy compared to previous year, but especially looking at net debt over EBITDA, which is stipulated by some of our long-term investment loans as a cap of 3.56.

It's 1.1 in the First Quarter of 2024, very much aligned with previous year, even below previous year. So as Ford Otosan, I can say that we have a very solid financial profile with low levels of indebtedness and a strong cash generation capability. And as I said, our positive operating cash flow and positive free cash flow shows our financial patterns. So, from here, I think we have the last page of our presentation, which is the guidance, and I leave the floor to Gül.

ERTUĞ G: Thank you very much, Ünal. So, we are approaching the end on the guidance. In fact, we kept our guidance as it is.

We didn't show a change over here, even though in the First Quarter, especially on LCV, we were coming from behind. Now that we see the strong interest in the vehicle and the ramp-up-related issues are resolved, the pipeline fill-up from Craiova to Turkey has been done, we believe with the successful, with the healthy structure of the products, we will attain what we were targeting. So, we kept it as it is, even though we are, yes, we are seeing that there is monetary tightening.

And since the election period, in fact, some level of like softening in the demands in Turkey regarding the Ford trucks issue, we had seen also some fierce competition and some level of slowing in export markets. But over there, since we have the ADAS vehicles ready and the F-line ready, the new markets in the export growth, export expansion plans are on plan. Due to all of these combined effects, we have kept it as it is.

And also, for this year, we have to notify that we are planning to launch gradually the zero emission models in Custom, Courier, Puma within our product lines within the course of the year. And they will also support our international sales and contribute to Ford's success, especially Ford Pro's success in Europe. This is the reason why we didn't change anything.

Of course, we will keep on following very closely. And if we see any need, if we see any change in the dynamics, we are following closely to make necessary adjustments. But currently, we feel confident that these are achievable. And in line with that, our investments, we are keeping them on track. And as things stand currently, we do not see any need to change or delay our shared capex guidance. So I think with that, we are coming to the end of our presentation.

And we can open up the discussion for your questions and comments.

OPERATOR: The first question is from the line of Bystrova Evgeniya from Barclays. Please go ahead.

BYSTROVA E: Yes. Hello. Thank you very much for the presentation. Congrats on the results and congrats on your recent conditions. I have a related question. Do you foresee any financing needs in the future? Do you plan to maybe come back to the market recently in the short term? Or how do you plan to finance your capex? Thank you.

ERTUĞ G.: I believe maybe you were one of the people who listened into our presentation at the time of roadshow. In fact, over there, we made a statement. And I will say that we are still keeping on track with that.

Yes, we are planning to come back. Because if you have seen that presentation, you will remember that within Ford Motor Company and Ford Otosan strategic move, especially with the electrification journey and growth journey of Ford Otosan together with Craiova related actions. In fact, we will be currently we are in a heavy capex period and it will continue for some time.

The operating cash flow, the cash flow from the business is healthy. However, since the Eurobonds area is a very good diversified source of funds and a place where we want to utilize, we will be coming back.

BYSTROVA E: Perfect. Thank you very much.

ERTUĞ G: You're welcome.

OPERATOR: The next question is from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Thank you for the presentation and congratulations for good results and very highly congratulating your success in the Eurobond issue. I guess it's a good rate.

ERTUĞ G: Thank you.

DEMIRTAS C: I think it's a very good success, I guess. My question is about the domestic market side your guidance is around 800,000 to 900,000 levels of total vehicle markets which implies that during the following eight months the average will be less than 70,000 levels. We haven't seen the signals yet, but we see in April we see, but we see that in May it's a little bit stronger.

I would like to hear some color on that from your side. And you have been cautious in the past, but this year it looks more cautious when I look your past performance when do you think we will see the indications if we are not receiving it now that's my question and related to that the profitability now with inflation accounting is around 8.1%, 8.4% EBITDA margin, what might be the currents,the balancing in the domestic and what might be the sustainable EBITDA margin for you? I am asking that too.

And the last one is about the currency. We know that the currency is not a big factor maybe in terms of the margin side, but if the current TL or Euro-TL levels sustain stable at current levels or little TL depreciation you expect further deterioration in the margins in the Second Half of the year, what's your perspective for that? Thank you.

ERTUĞ G.: Okay, thank you. Thanks very much. Thanks for the congratulations. Let me take your questions in an order. First, you started with the Turkish domestic industry. In fact, the first three month view of the industry if you look at it at a run rate like year adjusted run rates perspective in fact it was strong and for the rest of the year thinking of our current vehicle success and the vehicle take up in the market the dealer showroom interest and the success of the vehicles we are really thinking that our vehicles will catch up. Even if we had that LCV related problem over there we think it will catch up. However, you also said you approach this in a little bit conservative way.

The reason for that conservatism was last year in the last quarter we had some launch related issues. And once they were resolved, we very well see in the First Q that even if the launch actions were done the filling of the pipeline took some time. And on the earlier discussions, in fact, I had informed you that we are very very careful. We have big scrutiny on our launch of the vehicles. We call it okay to buy or from our perspective it's okay to sell. We are very careful to make it in a coordinated and very sure manner.

That's why and since this year we will also be going through several launches. We wanted to keep it conservative. This is something internal. From the external environment because of the macroeconomic conditions and the monetary tightening policy, the policy and precautions taken against inflation we still think that there is a possibility for the softening and slowing down of the markets.

However, at least from our perspective with the success of our vehicles we aren't seeing that. In fact, it is giving us some hope that's why, that is the reason why we are not changing anything. We will keep on following up with the markets. Currently, things stand okay. You asked about our sustainable margin. Within these conditions, of course, the availability being high, the competition being high in the market and there is a, let me say, more fierce environment for the pricing actions. Our EBITDA the way we report it we also told you that impacts of the mix of the export is increasing.

As we have Puma vehicles, the mix of the passenger vehicles changing. Those are bringing some normalization into this rate. That's why we could say that the sustainable level margin will be around high single digits. This is the guidance we are providing. I'm not breaking it down into further details giving like passenger this much, electric this much, ICE this much because this is how we are managing our books. That's why you can think that the sustainable margin level will be at high single digits. Sorry, what was your last question about one more thing.

DEMIRTAS C: About the currency side, if the Turkish lira remains strong, should we expect deterioration in the Second Half of the year related to both domestic and international side?

ERTUĞ G: Right, right, in fact, as we look into carefully how the finance management is looking into the environment, we see that there is really serious work towards combating inflation. That's why the highly valued Turkish lira we expect that to continue which in turn in fact this is not a very good signal for exporters because it is meaning that the inflation hasn't come down a lot, so the cost base is still going up, but when you translate it into a Euro value it is going to be more expensive in Euro terms. That is giving us a headwind.

However, please note that especially on the export business, our business model is cost plus methodology. You can interpret it as like a take or pay. We have investment recovery guarantees and for the vehicles we sell of course we try to maintain the cost by utilizing our strong muscles on efficiency and innovation. We force the costs down against this macroeconomic environment. We do our best and that is why, in fact, Ford Motor Company is taking us as a strategic partner. We are hand-in-hand for the strategic growth of both of the countries. So in this environment we are protected, thanks to our business model that is not hurting us in terms of our recoveries. But of course this is not a blank check.

We are very well aware that if the economic environment is not helping our cost status, we have to do additional efficiencies, which is coming through our nimbleness, our investment efficiencies, to bring down the costs. So far, we think we are doing a healthy business. We are not hurting Ford's business, because you think it's also the delivery, the quality, the supplier availability, the effect of Turkey is not just, okay, here is a contract manufacturer site.

There are other things we are including in this business. Also, we need to mention that we have important involvement in the engineering, R&D development of the certain vehicle and platform derivatives, as well as the investment side of it. In fact, this was the reason why Ford also wanted us to utilize our abilities in the Craiova plant. That's how it's managed.

This is a win-win business case for both of the parties. So in short, I can say that thanks to our business model, we are protected against that. But for long-term competitiveness, of course, we are taking some strategic action to make sure that this competitive position is protected.

DEMIRTAS C: Thank you. Thank you, Gülen.

ERTUĞ G: You're welcome.

OPERATOR: The next question is from the line of Kilickiran Hanzade with J.P. Morgan. Please go ahead.

HANZADE K.: Thank you very much for the presentation, Gülen. I have two questions. The first one is about Romania. You previously highlighted that Romania will no longer dilute your export margins when export contracts are renewed to include the investment recovery. When do you expect this to be effective? I mean, could this be also a reason of slightly a passive normalization in the margins in the First Quarter? And second, can you also provide your total EV sales in your mix? Thank you.

ERTUĞ G: Thank you. Thank you, Hanzade Hanim. So, for your first question, the Romania, you know, we did the Courier. Next generation Courier investment was done towards the Craiova plant, Romania plant. And since now we have the Courier production in place, the investment recovery is regarding the Courier production. Now they are in place.

That's why I can say that that notification has now happened. We are seeing the impact of it. In fact, we are seeing the good news of it. However, due to this ramp-up issues we had, the slowness in the ramp-up, like in the Q4, we had a deferral in the launch. And within this year, especially in the domestic markets, filling up of the pipeline took a little bit longer than we originally anticipated and wanted.

However, if you look into the export markets, in fact, it is managed as projected. So over there, I can say that we do not see bad news. However, we have, like in the BEV-related actions, the launch-related and quality-related issues in their resolution, we had some problems regarding the pace. So we are continuing with their resolutions.

For your second question regarding the EVs, in the overall electrification, I can say that we see some level of drop. The electric vehicle take-up is happening a little bit slower than originally anticipated. However, this didn't adversely affect us because in especially our lines in Gölcük Yeniköy, we do not have a special dedicated line, a different plant for an EV vehicle.

We treat the BEVs, PHEVs, MHEVs or ISUs, all of these vehicles as a form of powertrain and since all of these different powertrains are produced on the existing line of the vehicle line and we don't have an issue in the interchangeability of it, we don't have special setuprelated issues. That's why the demand comes for the ICE versions or the PHEV versions, we can convert quickly.

With that impact, we didn't see bad news. However, the overall EV, yes, I can say that the EV take-up is happening a little bit more slowly.

HANZADE K: Thank you very much, Gülen.

ERTUĞ G: You are welcome.

OPERATOR: The next question is from the line of Demirtas Cemal with Ata Invest. Please go ahead.

DEMIRTAS C: Another question about the inflation accounting side. We're now trying to adapt this new accounting related to inflation accounting. Could you give us some maybe like small hints about the following quarters? If the current currency and the inflation level stays what kind of effects should we expect going forward? I know that it's not very clear to say anything, but at least, how do you see the inflation accounting impact going forward?

And the other one is related to statutory accounts. We think this accounting this inflation accounting and in the statutory accounts, will it have any positive impact on your tax payments? Because the basic philosophy behind the inflation accounting was, we are not earning as it's because of the inflation. When you get the inflation out, then the profitability should be lower.

So, the basic argument was to pay lower taxes for the companies, that was the starting point. But we don't know how it's affecting the companies yet. In the banks, they are not applying, so they are going to pay a higher rate. But we see any lower interest or lower tax payments for the year. And one other statement took my attention by the Economy Minister.

They mentioned that many major companies are benefiting from strategic investment incentives because of their significant investment. And the Economy Minister mentioned about the minimum corporate tax levels, like 15% or something. But I don't know what he meant with the details.

So, my question is, you are paying some taxes, but in the past, you have huge investment incentives. Are we going to see the positive impact, or do we expect any change in the taxing environment? Thank you.

ERTUĞ G: Thank you very much. In fact, let me be mindful. I don't think we can provide too much forward looking statements, but I also understand you are trying to understand our business and model the business as accurate as possible. For that one, I will give the word to Ünal for further details. But what I can say is, in fact, this monetary gain has been basically due to our asset base. The asset base is being revalued.

We are in the capex period. We are making investments. This action, the asset revaluation, gave us an overall monetary gain. Let me give the word to Ünal so that further he can maybe, to the extent possible, to the extent we can give information, he will provide some details for inflation accounting and statutory books. Please, Ünal.

ARSLAN Ü: Yes. Thanks, Gül. Thank you, Cemal Bey, for the questions. In terms of your first question, forward looking, the rest of this year, inflation accounting impacts on IFRS financials. Basically, very basically, of course, you know that this is a very complicated accounting methodology, but very basically, that has two impacts on our, two major impacts on not only our, but all companies' financials. The first one is on the income statement.

I can give you some information about that. That's mostly important in terms of, especially for our business, inventory turnover. And our inventory turnover is good. We are turning our inventory in a good pace, I can say. That limits the inflation accounting impact on our cost of goods sold. But of course, I mean, the increase in the inventory aging may have adverse impacts in the cost of goods sold and financials in terms of profits.

On the other hand, the second major impact is coming from balance sheet. That is mostly because of the position that you hold, we hold in our balance sheet. We are, as Ford Otosan, as we all know, in a highly monitored liability position.

And looking at our previous year, 2023 year-end results and First Quarter this year's results. Because of that, revaluing, as Gül Hanım already mentioned, revaluing our assets, non-monetary assets, that brings us a monetary gain in terms of our PBT, Profit Before tTax financials. So in the coming period, to your question, of course, it's hard to give a very solid direction.

But as I said, it will depend on how we manage our inventory and how our balance sheet position will be. Of course, balance sheet position will not change. That's what I can say.

Looking at our monetary asset and liability position, it will not change significantly. So that's as much as I can say in terms of, let me say, IFRS balance sheet and income statement position. So very basically, we are expecting a similar position in the rest of the year.

In terms of statutory accounts and tax payments, you are right. I mean, the reason of the inflation accounting is not because of reducing the tax payments, but to reflect the actual profitability figures and for statutory books, that's correct as well. It is impacting the tax payment figures.

But as Ford Otosan, although we had huge profits, we also have a very big investment incentives in our balance sheet. So that investment incentives gives us a huge deferred tax assets in our balance sheet. And because of that, looking at our historical tax payments, we are in cash paying really low taxes.

So still having a big investment incentive stock, let me say, at hand. This inflation accounting change in the statutory books may impact our taxable profit levels, but will not have a big impact in our tax payments. Very basically, that's what I can say.

And for your third question, regarding your third question, the minister's saying about increasing the tax rates, etc. It's not a certain thing as long as we know right now. And that's related to, I think, I believe, OECD Pillar Two, that's at least 15% taxing the income in the source country.

So as far as I know, we know, it's still under discussion. If it comes, most probably it will come, by the way. But what will be the implications? How will be the methodology? That's not certain yet. So it's early to comment on that. What will be the impact? But we are following it very closely. Hope those answers your questions. Thank you.

DEMIRTAS C: Yes, that's quite well. But this 15% thing is because, in my view, if you put the minimum 15%, it's like, getting the rules to applying new things, which may even against the constitution in normal times. That's why, this headline, I was wondering whether it is including the incentives, because incentives are there.

If you ignore it, or if they limit to 15%, then it means you are still holding your investment incentives. But it will take several more years to maybe accrue those incomes. Maybe that's, the headline was kind of confusing for me. Thank you for your answers.

ARSLAN Ü: Thank you. Thank you Cemal Bey.

OPERATOR: Okay, there are no audio questions. We will now move on to our webcast questions. And the first question is from the line, from Dmitri Ivanov with Jefferies. And I quote, thank you for the presentation. Could you please discuss the contribution percent of the Romanian Craiova plant in the Group's gross profit or EBITDA in First Quarter 2024 and expectation EBITDA or gross profit contribution for the Full Year 2024?

ERTUĞ G: I believe I answered that question to the best I can on the earlier one when we were answering Hanzade Hanim's question. Since we are not breaking down the EBITDAs on either plant level or vehicle line level, the only thing I can highlight is it is in line with our expectations. And it was essentially the support, the profitability support of the Romanian Craiova plant would be coming with the introduction of Courier vehicle and it happened.

So, it is within our mix of the products and you can take that. It is in line with our expectations. Maybe this is a little bit less than what you expect but I think that's the most I will be able to share at this point in time.

OPERATOR: Thank you. Moving on to our next question from Duman Ali with Glass Lewis and I quote, I would like to ask a more generic question around sustainability governance, please. How well is Fort Otosan prepared for the green transformation and CBAM, Carbon Border Adjustment

Mechanism? Is this matter considered / handled on the governing body level in terms of risk opportunities and the potential financial impact? Thank you.

ERTUĞ G: Thank you very much. Ford Otosan is very keen on sustainability related targets. This is in line with the Ford Motor Company's overall journey to carbon neutrality and also, I'm sure you know Koc Holdings has important considerations around that one. For maybe further details, if I defer this to Bahar, can you comment on that one?

AĞAR B: Sure. Thank you, Gül Hanim. From the Carbon Border Adjustment Mechanism perspective, yes, all of our preparations are ongoing and we submitted our first CBAM report for Ford trucks and Craiova operations and right now we are analyzing its potential financial impact on us.

OPERATOR: Okay, thank you. And our last written webcast question is from Rosa Andre from Banco Finantia. Good afternoon. Thank you very much for your presentation and congrats on the results. Can you please provide more detail on your revolving short-term debt?

GÜL ERTUĞ: Can you elaborate a little bit more on the question? Like what, other than the financial reporting, what kind of detail is being asked, if I may ask? Or let me defer to

Bahar and Ünal. If there is further things that you can elaborate on that one, please feel free to do so.

ARSLAN Ü: Maybe, Gül, what I can say here is if I, again, I mean this is not a very open question, very clear question, but to me too, what I can say is, we always have some level of short-term debt in our balance sheet and we are revolving those in needs basis, let me say. And we are, very credible, maybe the most credible company in Turkey, so the local loans, we never face any problem. Of course, the interest rate changes according to the, current policy interest rates, but we don't have any problem here.

But what we can also mention is, we already discussed and gave information about, and you all know that we tapped into the bond market as well. One reason for that going to bond market is adjusting our debt terms, payment terms, and extending them. So that will help us, also reduce our short-term loans, in the coming period. That's what I can say right now, Gül Hanim.

ERTUĞ G: Thank you. Yes, certainly, the Eurobond had the intention of diversifying our portfolio. And at the time when Turkey, of course, now the liquidity markets are open but earlier, like one and a half year ago, when we had issues regarding the finding liquidity due to some maybe unorthodox policies, we had received some short-term debts from the, some being from the local banks. And like in instances, the period was short, the interest rate was high. Now the Eurobond is going to give us the chance to retire that and make that restructuring in a much more favorable pattern. So, yes, thank you.

OPERATOR: Thank you. Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Ms. Ertug for any closing comments. Thank you.

ERTUĞ G: Thank you very much. Thanks for your questions and interest. And this has been a really enjoyable discussion with you. If there are further other things that you feel is maybe unanswered over here, you didn't have the chance to, or the people listening to the recording of this event, we will be here as the investor relations team, as the CFO office. We will be happy to answer your questions. If there are further, more you can just feel free to reach out to us. So. Thanks very much. And until next time, take care of yourself. Thanks.