



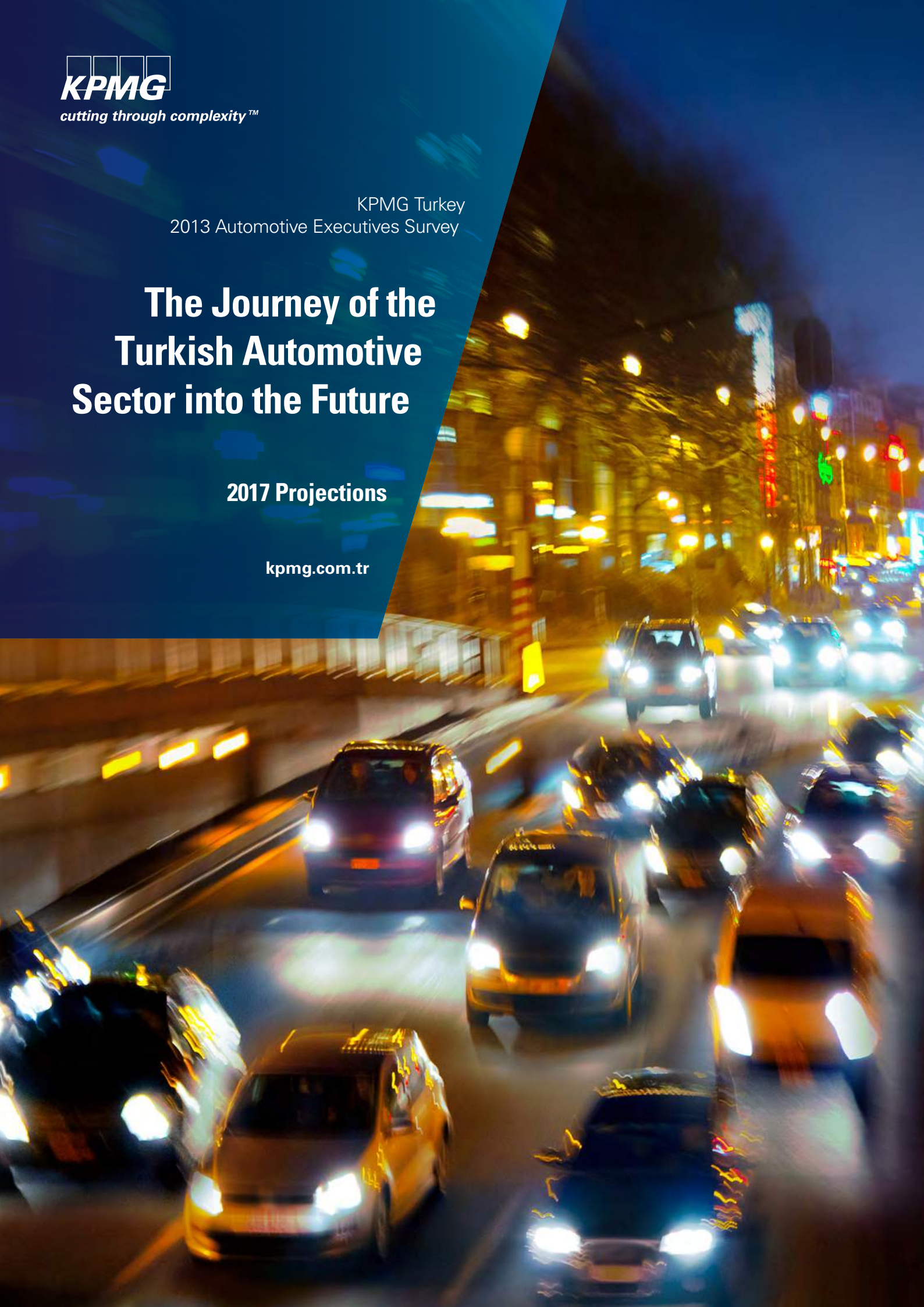
cutting through complexity™

KPMG Turkey  
2013 Automotive Executives Survey

# The Journey of the Turkish Automotive Sector into the Future

2017 Projections

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# About the Survey

The survey aims to determine 2017 sector projections of Turkey automotive sector executives. The survey has been conducted by ERA Research & Consultancy in cooperation with the Association of Automotive Distributors (ODD), Automotive Manufacturers Association (OSD) and Association of Automotive Parts and Components Manufacturers (TAYSAD), Association of Authorized Dealers (OYDER) and members of these associations under the management of KPMG Turkey.

In addition to the general questions asked to the members of the four associations, special questions were addressed to the members of each association under the scope of the work. The questionnaire where the online survey method was used was prepared in liaison with KPMG Turkey, all associations and ERA Research and Consultancy. Nearly 200 senior executives of leader companies in the Turkish automotive sector who are also members of these four associations participated in the survey conducted between 7 November - 10 December 2012. Results were reported in total for all association members and samples of each association were weighted on par in the study.

The facts & figures in this report have the status as of end of February 2013.

# Preface

It is a pleasure for us to present you the “KPMG Turkey 2013 Automotive Executives Survey” which is the first comprehensive survey about the Turkish automotive sector. With this survey being a long journey’s product from the very beginning of the idea until today, we aim to paint the picture of the sector’s future by reflecting the expectations and opinions of the Turkish automotive sector executives.

The automotive sector is one of the most important sectors in Turkey. It is the number one export sector for the last 7 consecutive years and provides total employment with 400 thousand people. The sector is also expected to be one of the pioneers in 2023 strategic plan foreseen for the hundredth anniversary of the Turkish Republic. The journey of the sector is followed closely in Turkey and is one of the most popular issues on the agenda.

Globally, the automotive sector is going through a big change: On the one hand, critical technical changes are made such as electric vehicle, minimization of carbon dioxide emission, lesser fuel consumption and self-driving cars, on the other hand, there is a noteworthy change in the global competition. While original equipment manufacturers in Western Europe, North America and Japan are more and more challenged by original equipment manufacturers of the emerging markets, global capacity surplus emerges as another difficulty. Turkey’s automotive industry has to find a way to position itself within these dynamics.

We realized KPMG Turkey 2013 Automotive Executives Survey prepared in Turkey for the first time with the support of four important associations of the sector, namely ODD, OSD, OYDER and TAYSAD and collected the ideas of nearly 200 senior executives from leader firms in the Turkish automotive sector. The participants made valuable contributions to the future of the automotive sector with their answers to the questions concerning issues on the sector’s agenda. We would like to thank particularly all associations and their representatives.

We hope you will enjoy reading the Journey of the Turkish Automotive Sector into the Future.



**Ferruh Tunç**  
**KPMG Turkey Chairman**  
Senior Partner



**Ergün Kış**  
**KPMG Turkey**  
**Head of Automotive**  
Partner, Audit



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# Executive Summary

## GENERAL INFORMATION

- Issues to take priority in the following five years: Rearrangement of taxes on automotive sales, impacts of European crisis and excessive price competition.
- The majority of the Turkish automotive sector foresees a growth of 50% at most in the following 5 years.
- Tax burdens are considered to be the most significant issue in the growth of the automotive sector by passing the national income increase rate.
- Automotive manufacturers of BRIC\* countries are expected to penetrate in the European market in the following 6 years.
- BRIC countries manufacturers are expected to prefer Eastern Europe countries as manufacturing hub while penetrating into European market. 1 out of 4 people expects them to prefer Turkey.
- Turkish automotive sector expects a new manufacturer to make an investment in the following 5 years period.

\* BRIC: Brazil, Russia, India, China.

## MARKET

### ODD

- Issue of priority particularly for Distributors is arrangement and reduction of tax burdens.
- It is expected that key factor in maintaining high competition and being successful in Turkey will be pricing and sales incentives.
- Fuel efficiency will be the most important product feature in making purchase decisions in the following years.
- Quality and competitive spare part prices stand out among the after-sales.
- Auto leasing sector is expected to grow at least 10% above the automotive sector.

### OYDER

- Authorized Dealers and Distributors are of the same opinion: For market growth, tax burdens must be reduced at first.
- Market players think that the most significant factor in purchase decisions is fuel efficiency. OYDER and ODD members place this issue in first place and by a high percentage.
- Quality, competitive spare part prices and guarantee options take precedence among the after-sales services for Authorized Dealers.
- Second-hand vehicle sales are projected to increase. The majority of those with this expectation believe that the increase will be above 25%.
- Leading issues given importance by Authorized Dealers are the promotion of coordination between insurance companies and Distributors and sharing stock financing with sector stakeholders.

## INDUSTRY

### OSD

- OSD members note that manufacturing figures in Turkey will continue to escalate.
- The capacity in Turkey is considered to increase moderately.
- Incentives, infrastructure/supplier base and manufacturing capacity rank in priority among the determinant issues for a new investment to come to Turkey.
- It is noted that incentive and investment environment must be improved and supplier industry must participate more in global projects for new foreign investments.
- Turkey will be adversely affected by the overcapacity in Western Europe in the following 5 years.
- New products and technologies must be preliminarily developed for the growth of automotive industry.

### TAYSAD

- Engine and gearbox is considered as the most important strategic investment for the automotive supplier industry.
- OEMs and suppliers are of the same opinion concerning new investments: Incentive and investment environment must be improved and supplier industry must be more involved in global projects.
- Research and development stands out as the most important issue in the medium term for supplier industry.
- In relations with the OEMs, efficiency as well as Research and Development and global projects carry importance.
- For supplier industry, Russia is projected to be the most important region for cooperations.

## General Information

### Issues of priority

#### Which issues/developments will draw attention in the following five years in the Turkish automotive market?

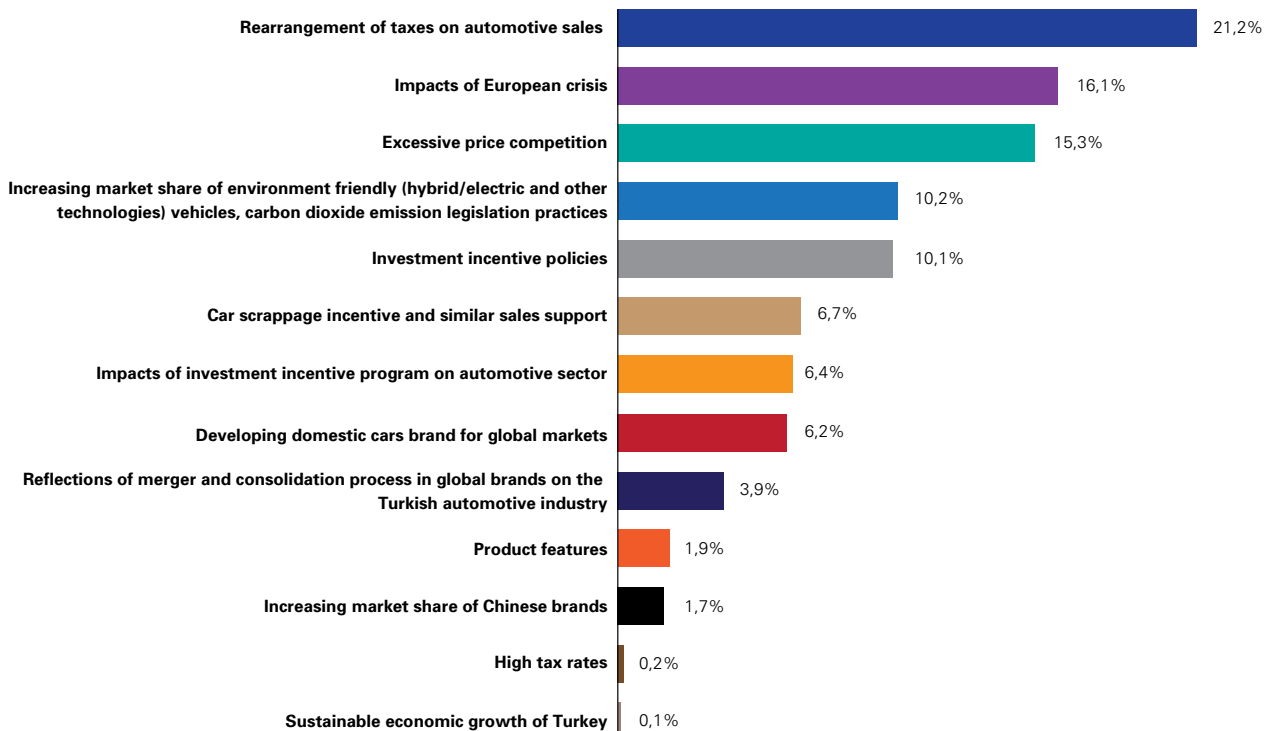
The automotive sector is facing significant ambiguities both in Turkey and on global scale. Currently production volumes and sales expectations shrink in many regions while important technical innovations are made. We look into issues of priority in terms of the automotive sector in Turkey under these conditions.

Automotive sector executives note that "rearrangement of taxes on automotive sales", "impacts of European crisis" and "excessive price competition" rank first among issues of top priority in the following five years.

Increasing market share of environment-friendly vehicles, carbon dioxide emission legislation practices and incentive policies for investments are enlisted as issues of secondary importance.

**Issues to take priority in the following five years: Rearrangement of taxes on automotive sales, impacts of European crisis and excessive price competition.**

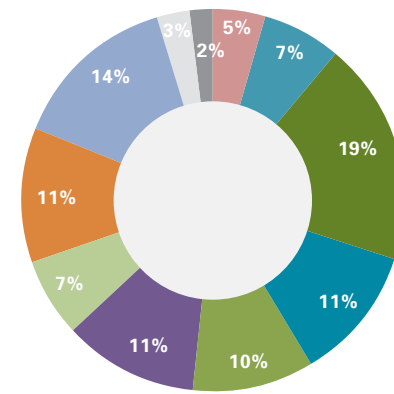
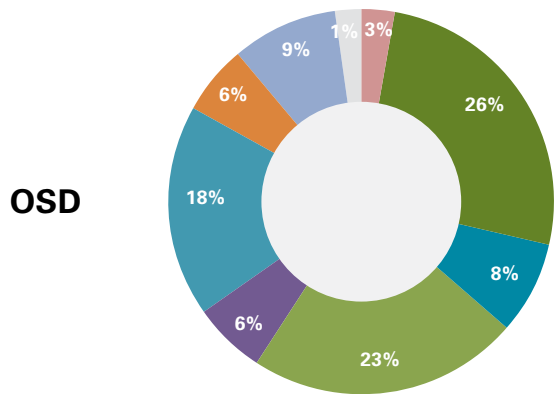
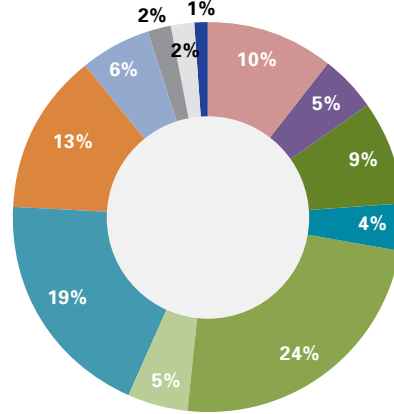
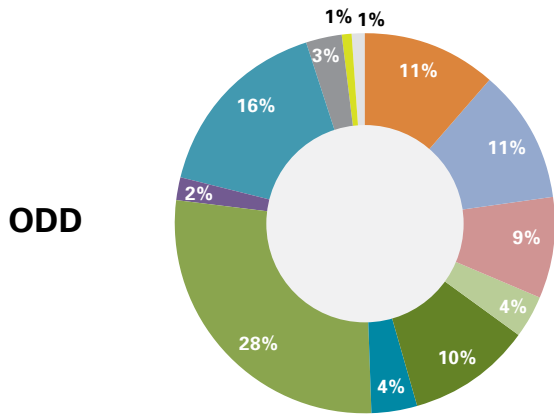
#### Issues to take priority in automotive sector in the following five years





### Distribution according to the association members

A significant difference emerges when the results are considered as per associations: While “Rearrangement of taxes on automotive sales” (ODD 28% and OYDER 24%) comes first with respect to the market, it is observed that “impacts of European crisis” (OSD 26% and TAYSAD 19%) takes priority for the Industry.



- Impacts of European crisis
- Impacts of investment incentive program on automotive sector
- Rearrangement of taxes on automotive sales
- Developing domestic cars brand for global markets
- Excessive price competition
- Environment-friendly vehicles' increasing market share, carbon dioxide emission legislation practices

- Incentive policies for foreign investments
- Car scrappage incentive and similar sales support
- Reflections of merger and consolidation process in global brands on the Turkish automotive industry
- Increasing market share of Chinese brands
- Product features
- High tax rates
- Sustainable economic growth of Turkey

### Insight

Our sectors put in a lot of effort to make the Turkish automotive sector contemporary, environment-conscious, continuously developing and have international competitive power and a stronger structure. One of the most important barriers before the automotive sector to reach its current potential is the levy of high tax rates on the sales prices. Tax rates must be rendered fair and reasonable by removing excessive differences.

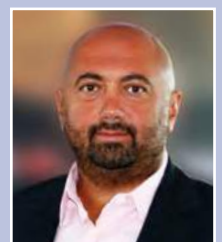
Motor vehicles tax must be rearranged so as to decrease environmental pollution and encourage the use of new vehicles. Incentive programs announced in Turkey are also very

important. In the following period, when the world will go through a low growth, domestic market and consumption dynamics must be activated in order to realize sustainable growth and increase investments, production and employment.

Policies to serve for rejuvenating and renewing motor pool must be swiftly developed and applied. I would like to share some significant statistics with you: Vehicle ownership rate in Western Europe is 613 in one thousand people, 328 in Eastern Europe and 151 in Turkey.

This level indicates that the market is far behind its real potential. The system related to

end of life vehicles has been outlined and legal arrangements have been made in Turkey, yet it is unfortunately not possible for the system to operate with its current tax structure. A continued End of Life Vehicle incentive which is similar to the incentives provided in the European countries and an application like the scrap incentive applied in the past must be introduced. Vehicles which threaten the security of life and property in traffic and create an increase in the carbon emission must be withdrawn from the market. It can be said that KPMG Turkey 2013 Automotive Executives Survey also reflects sectoral indicators well.



**Mustafa Bayraktar**  
ODD, Chairman

## General Information

# Estimated automotive market size

**What are your expectations for the next five years regarding the Turkish automotive market, which realized 910,867 vehicle sales in total and consists of 593,519 passenger cars, 270,920 light commercial vehicle and 46,428 heavy commercial vehicle sales in 2011?**

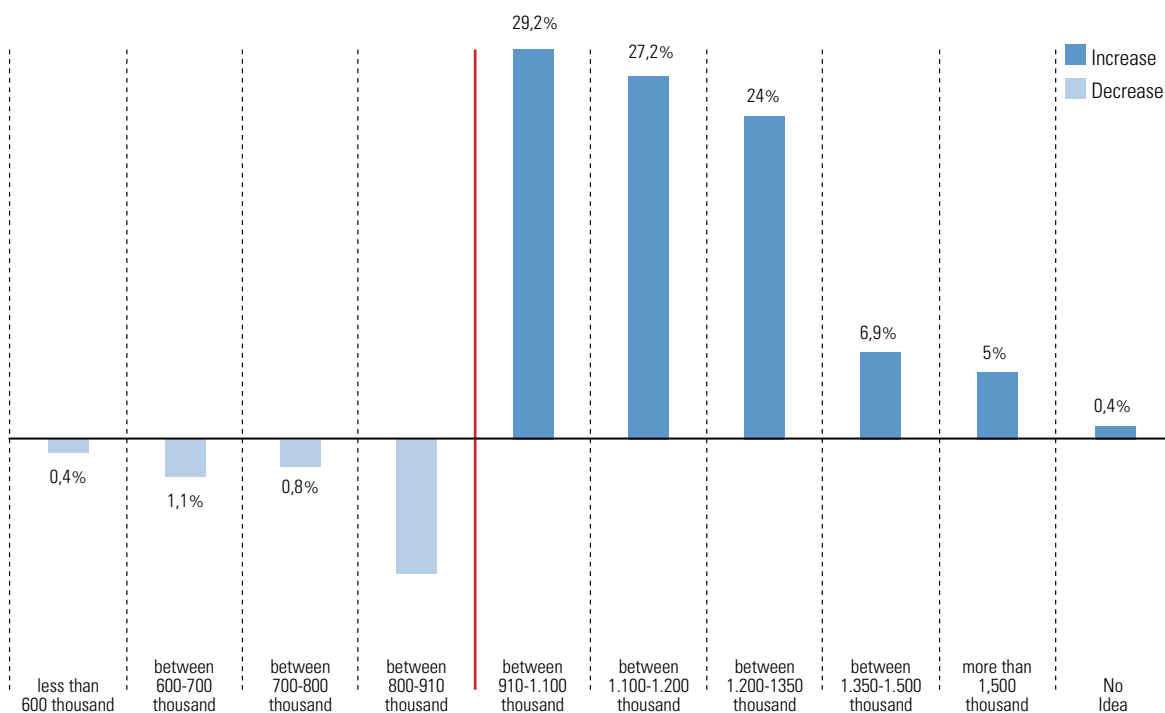
It is interesting that the number of vehicles per capita in the market is low as compared to the world average despite Turkish young population and population increase. The number of passenger cars was 95 per 1000 people in 2003, whereas the number increased in the last 10 years up to 151 passenger cars per 1000 people according to 2011 data in Turkey.

We inquired whether the executives in the sector foresee a growth in this market, and if yes, how much growth they expect.

According to the results of the survey, Turkish automotive sector executives foresee growth in the Turkish automotive market, but expect it to occur below 50%.

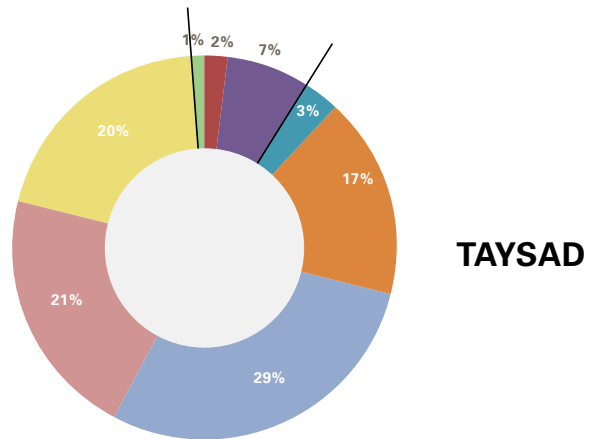
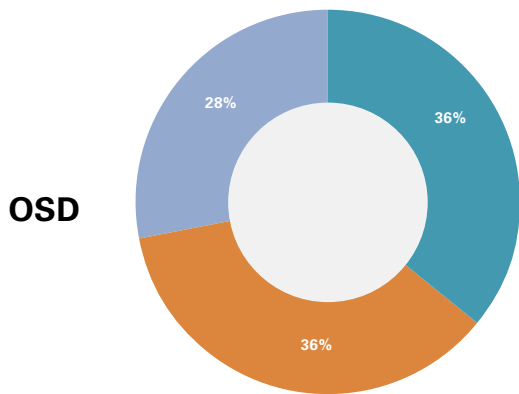
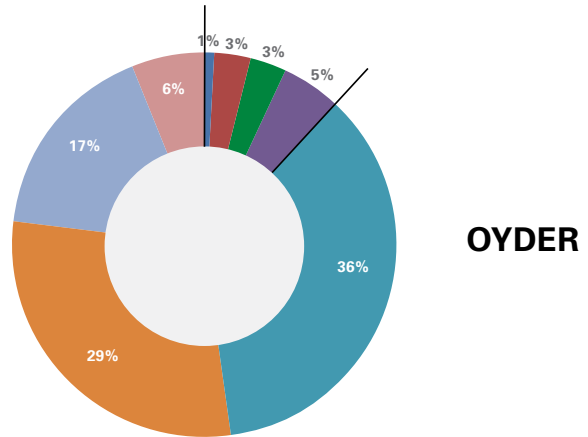
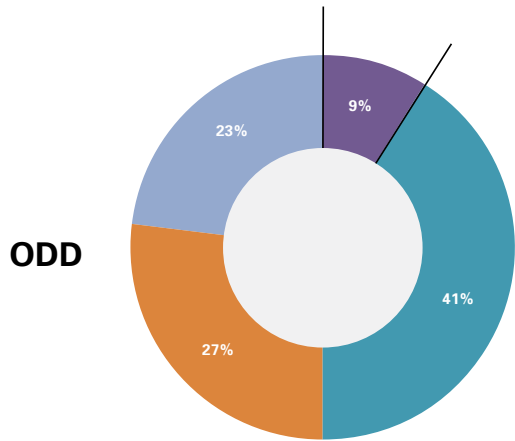
**The majority of the Turkish automotive sector foresees a maximum growth of 50% in the following 5 years.**

### Growth projections in five years' period



### Distribution according to the association members

When the results are evaluated based on associations, it is noted that evaluations of ODD, OYDER and OSD members are predominantly between 910 and 1,350. However, TAYSAD members have a brighter view of the market. 41% of TAYSAD members expect the market to surpass 1,350 thousand.



- Expected to decrease: less than 600 thousand
- Expected to decrease: between 600-700 thousand
- Expected to decrease: between 700-800 thousand
- Expected to decrease: between 800-910 thousand
- No Idea
- Expected to increase: Between 910-1,100 thousand
- Expected to increase: between 1,100-1,200 thousand
- Expected to increase: between 1,200-1,350 thousand
- Expected to increase: between 1,350-1,500 thousand
- Expected to increase: more than 1,500 thousand

## General Information

# Factors affecting the growth of the automotive market

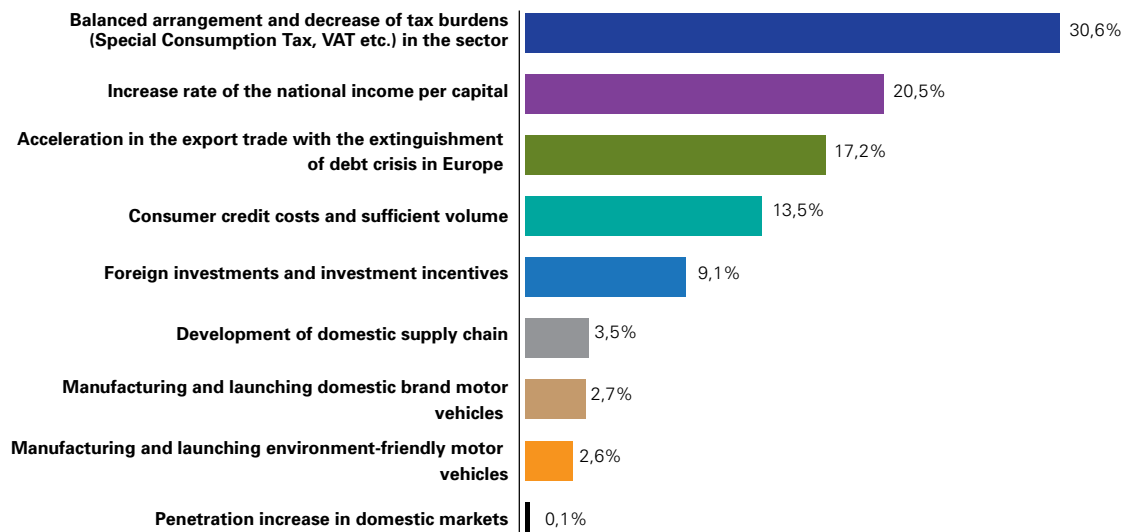
### Which factors will affect the growth of the Turkish automotive market in five years' time?

The automotive sector positioned itself among the leader sectors of growth by gaining importance in Turkey. The society has big expectations of the sector. Sustainable growth of the sector is of critical importance for the economy, development and employment of the country. For this reason, what factors will influence sustainability of the growth for the sector players are important.

From the results, we see that tax burdens come first again. The fact that this issue is considered more important than the national income increase rate per capita signifies that the tax burdens obstruct the growth of automotive sector. Another striking point is that the value attached to environment-friendly cars is very low with a rate of 2.6%.

**Tax burdens are considered to be the most significant issue in the growth of the automotive market by passing by national income increase rate.**

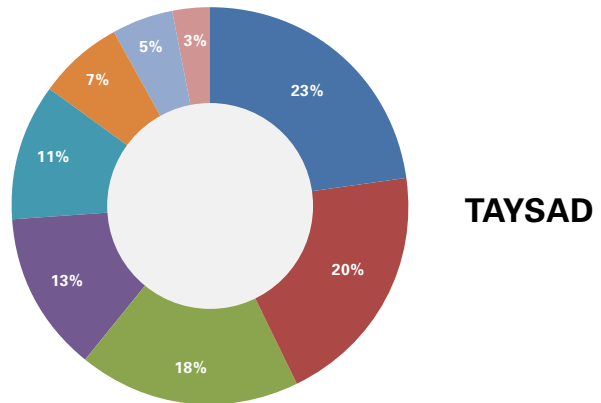
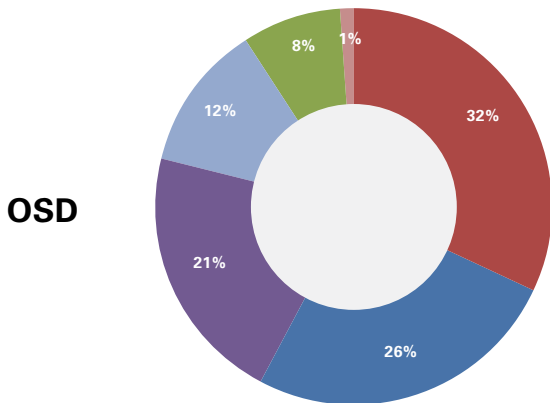
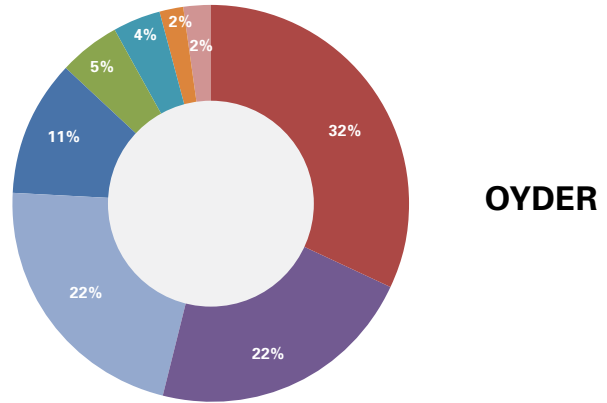
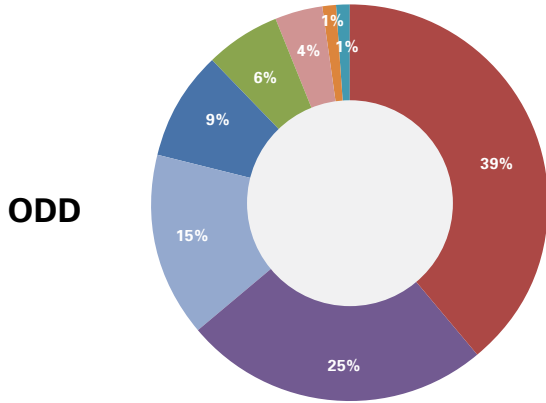
### Factors to affect sector growth in five years' period



## Distribution according to the association members

When the results are evaluated on the basis of associations, it is noted that tax burdens are indicated among the issues of priority in all answers.

While “European debt crisis” is of priority in the industry side, “increase rate of national income per capita” stands out on the market side. “Consumer credit costs and sufficient volume” is among the other main issues for OYDER members with a ratio of 22%. TAYSAD members, on the other hand, indicate “Foreign investments and investment incentives” with 18%.



- Acceleration in the export trade with the extinguishment of debt crisis in Europe
- Balanced arrangement and decrease of tax burdens (Special Consumption Tax, VAT etc.,) on the sector
- Foreign investments and investment incentives
- Increase rate of the national income per capita
- Development of domestic supply chain
- Manufacturing and launching domestic brand motor vehicles
- Consumer credit costs and sufficient volume
- Manufacturing and launching environment-friendly motor vehicles

## Insight

It is not a surprise that demand is affected mostly by the purchase taxes in the Turkish automotive sector. A meagre flexibility to be made in the taxes in our country, imposing the highest tax rates in Europe and even around the world, will lead to a serious fluctuation in demand. It is of utmost importance that the works we perform related to our taxation system to be taken into account for permanent growth of the sector.

General welfare boost and cheap credit provision in addition to the taxes are also significant in terms of the sustainability of the demand for us, the retailers.

Permanent growth of the sector, minimisation of oscillations in the market and maintaining a sustainable sector is very important to us; we make big efforts each day for this purpose. We try to interpret the outcomes of all works performed on the consumer dynamics

and sector expectations to the favour of the market and do our best to carry out our responsibilities in due manner. Automotive sector is the most crucial driver of this country and we know that primarily domestic market feeds this sector.

Therefore we support any type of measures, changes and new practices to protect sustainability and continuity of the domestic market demand.



**H. Şükrü İlisal**  
OYDER, Chairman

## General Information

# Penetration of BRIC countries to the European market

### Do you expect automotive manufacturers of BRIC countries (particularly China) to penetrate into European market?

It has been discussed for years in Turkey that Chinese Car Makers in particular will make investments in the Turkish automotive sector. It is known that there are different opinions about the issue in the general public.

While it is considered that these investments will provide a big opportunity for Turkey, it is also thought that this condition imposes a risk for current enterprises in Turkey. We obtained opinions of key players in the sector in order to assess the investments of BRIC countries which have not been realized yet, despite having been discussed for years.

According to the results of the survey, 61% of the Turkish automotive sector executives expect BRIC countries automotive manufacturers to penetrate into European market in general terms. 92% of the executives with this expectation foresee that this penetration will take place in the following six years.

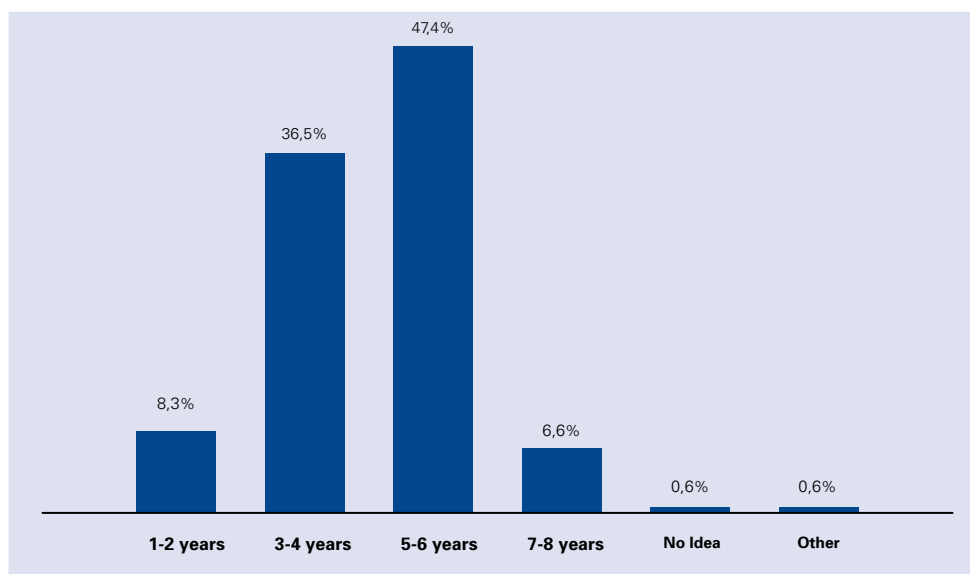
**Automotive manufacturers of BRIC countries are expected to penetrate the European market in the following 6 years.**

### Expectations as to the penetration of BRIC countries automotive manufacturers into the European market

■ Yes, I expect it. ■ No, I do not expect it. ■ No Idea

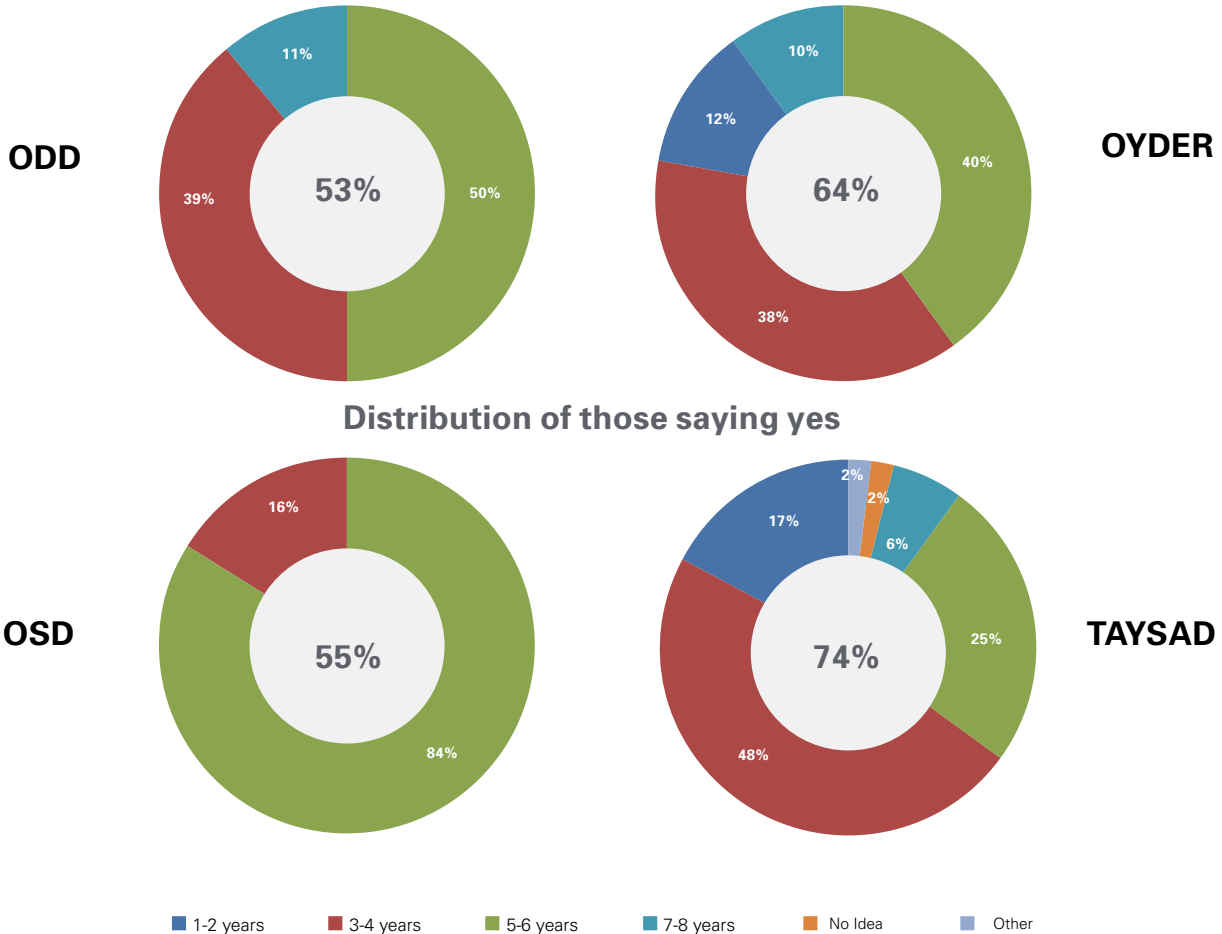


### In how many years?



### Distribution according to the association members

While OSD and ODD members do not seem very clear about this issue (OSD 55%, ODD 53%) OYDER members look more certain with a ratio of 64%. On the other hand, TAYSAD members take the penetration of BRIC manufacturers into European market for granted. Three out of four people foresee this and 65% of those who foresee this believe that this penetration will be rather fast (in the next four years). Members of other associations expect such penetration to occur probably after five years.



### Insight

The main strategy of our automotive industry is to carry out new projects in addition to current manufacturing projects in order to increase manufacturing volume of innovative products with high added value as well as efficiency. On the other hand, the development of the design operations is a priority of our industry in cooperation with the firms in the supply chain in order to become "Global Automotive Excellence Center".

Particularly global impacts of the developments in BRIC countries are closely monitored.

Within this framework, Research and Development activities are of strategic importance to develop automotive industry and new technologies, to increase efficiency and competitive capacity as well as to sustain new export projects.

Sustainable growth continues without being interrupted despite unfavorable conditions in the global economy. New

investment incentives granted to the automotive industry in addition to the business environment will make a great deal of contribution to the emerging of our country as a global center of attraction.

Our industry pursues its objective to rank among the first ten in total motor vehicle manufacturing in the world, the first three in the total motor vehicle manufacturing and the first five countries in R&D by ascending the steps of EU and world rankings.



**Kudret Önen**  
OSD, Chairman

## General Information

### Countries/Regions to be preferred by BRIC countries as hub while penetrating into the European Market

**Which countries do you think automotive manufacturers of BRIC countries (particularly China) will primarily prefer in the event that they penetrate into global market (as manufacturing center for European market)?**

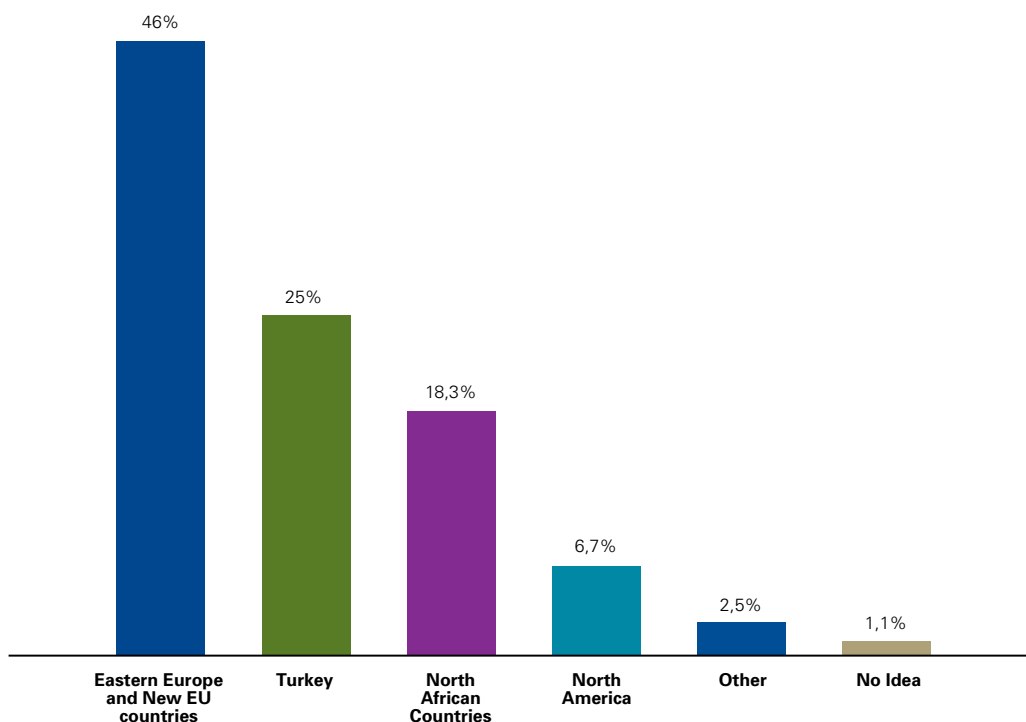
It has been under discussion for a long time that Turkey should be a manufacturing hub. In KPMG's Global Automotive Executive Survey 2012, it was revealed that Turkey was expected to be the gateway for BRIC countries. We asked the automotive executives in Turkey, in order to discover their viewpoint about the issue, which countries could be preferred as a manufacturing hub.

Interestingly, we noted from the results that the participants placed Turkey in the second rank in their evaluations.

Respondent executives point out that they expect (particularly China) automotive manufacturers of BRIC countries to prefer Eastern Europe and new EU countries while penetrating into Europe market (46%). It is observed that Turkey ranks the second just ahead of North African countries. One out of four people foresees that Turkey will be used as manufacturing hub by BRIC countries.

**BRIC country manufacturers are expected to prefer Eastern Europe countries as manufacturing hub while penetrating into the European market. One out of four people expects them to prefer Turkey.**

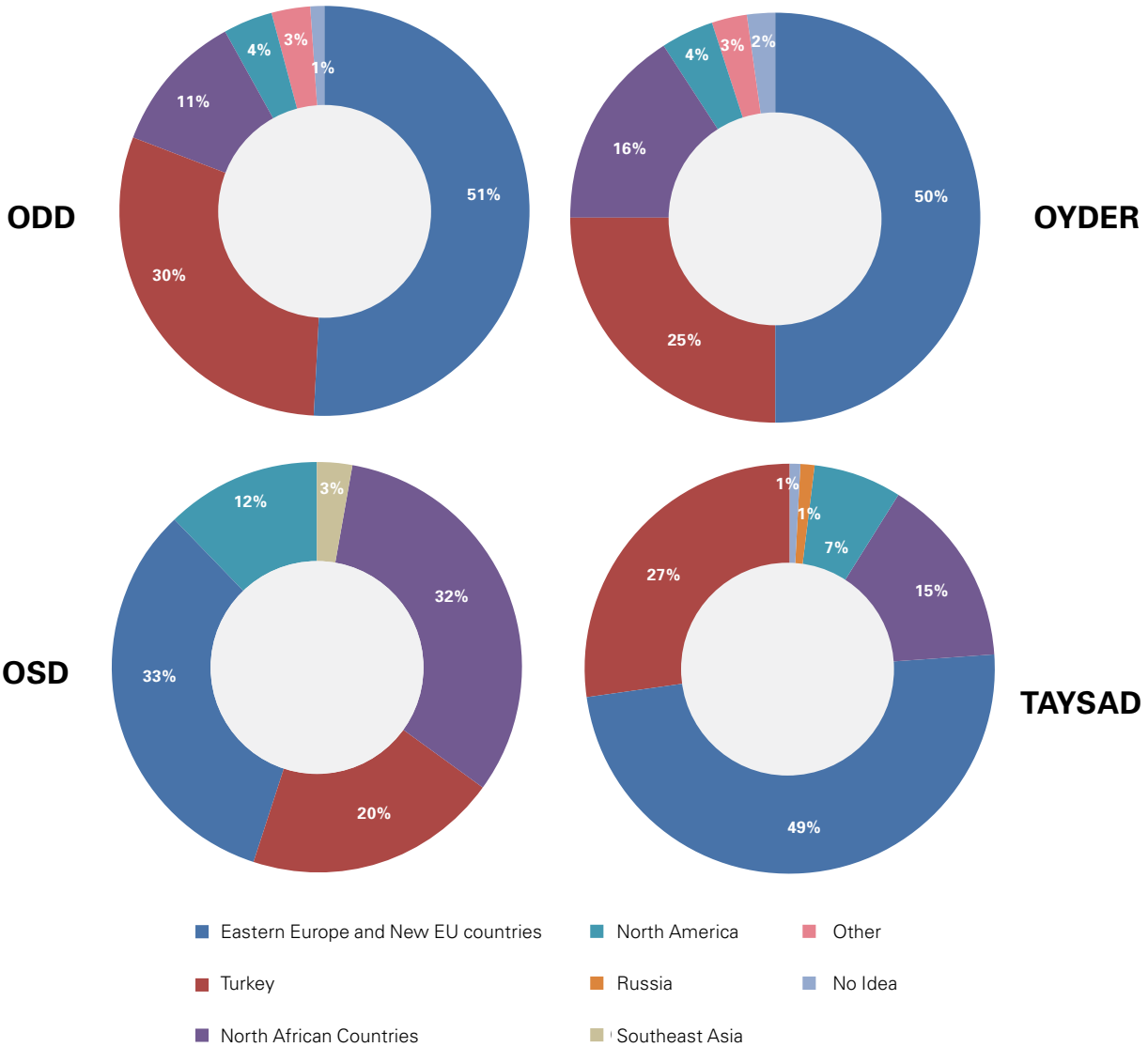
#### Countries/Regions that BRIC countries will prefer as manufacturing hub while penetrating into the European market





### Distribution according to the association members

According to the answers to this question, TAYSAD, OYDER and ODD members think that such penetration will be via Eastern Europe and new EU countries. Their expectations are nearly at the same rate (49%-51%). Results are also very close to each other for Turkey (between 25%-30%). However, the situation is different from the viewpoint of OSD: Eastern Europe/new EU countries and North African countries rank first at nearly equal rates (33% and 32%). Turkey is at the third rank with 20%.



### Insight

Turkey has been positioned as an automotive manufacturing hub in the global platform for many years. Turkey's annual motor vehicle products have been exported between 60% and 80% since 2001.

We witnessed during this period that manufacturing increased from 286 thousand up to 1,189 thousand in 2011 which reached record level. In 2012, 745 thousand motor vehicles out of 1,115 thousand manufactured in Turkey, in other words 67%, were exported.

In the eyes of BRIC automotive manufacturers, Turkey's advantages are customs union with European Union, being connected to Middle East in terms of transportation and customs benefits provided by the new incentive program as well as its strong automotive infrastructure and sector experience.

However, the respondents' considering East Europe on the advantageous side indicates that these countries may have more significant benefits.

A similar conclusion can be drawn from the evaluations of global executives according to the results of KPMG's Global Automotive Executive Survey 2013. It is understood that great significance will be attached to East Europe countries due to serious growth opportunities provided particularly for BRIC manufacturers. In this regard, Turkey's utilization of its growth potential of the domestic market will be important for Turkey's competitive position.



**Ergün Kış**  
KPMG Turkey  
Head of Automotive  
Partner, Audit

## General Information

### Prospects for new investments in Turkey

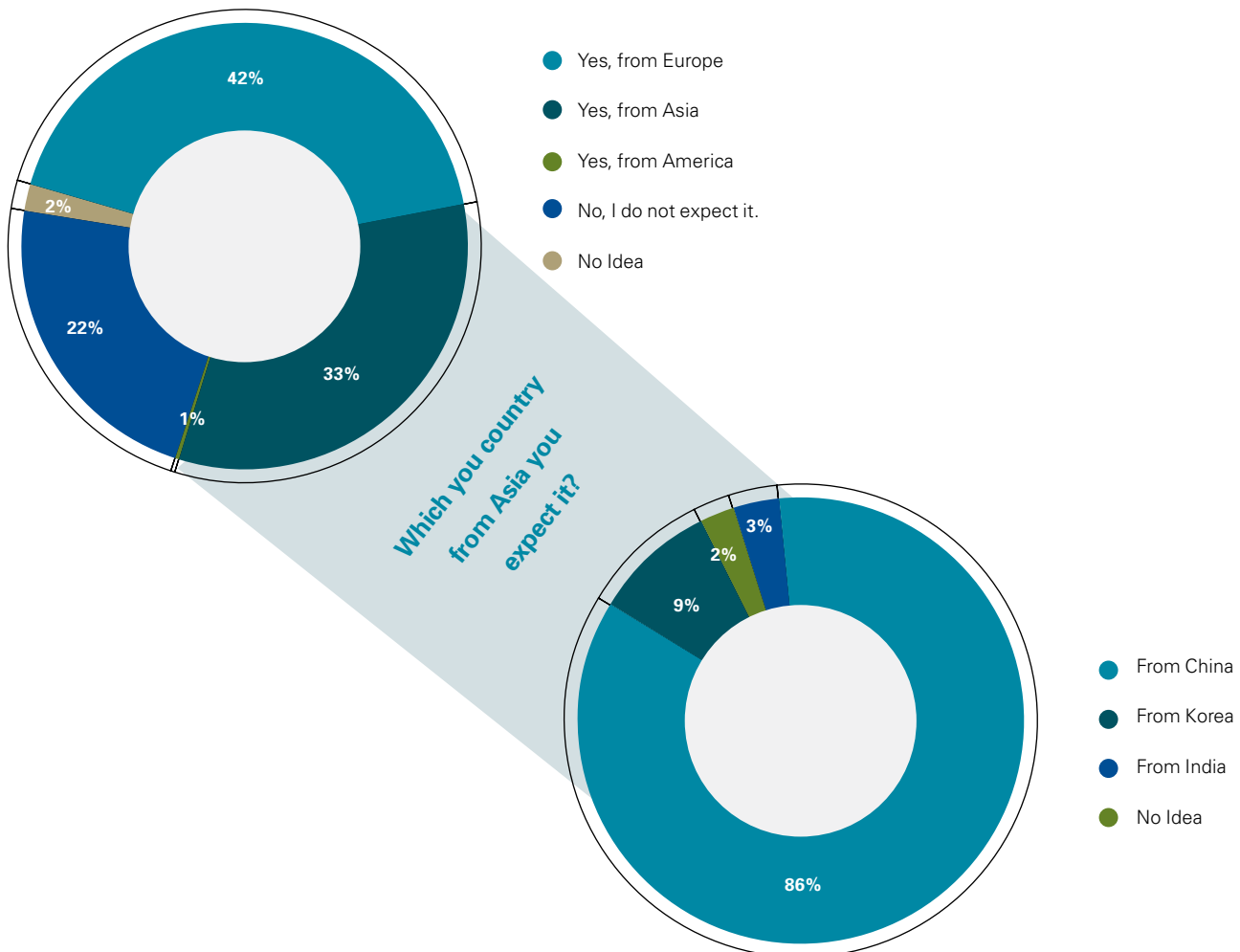
#### Do you think that new investments will be made in Turkey in the following 5 years' period (investment of a car/light commercial vehicle manufacturer which is not engaged in manufacturing in Turkey)?

In order to provide a more general viewpoint of the expectations related to the issue, we inquired whether investments are expected to Turkey from BRIC and non-BRIC countries particularly in terms of automotive manufacturing. The opinions of the manufacturers in European countries about investment to Turkey which is currently under discussion are interesting. Three out of four executives in Turkey project investments from Asia and Europe. According to the findings, it emerges as an interesting point that European manufacturers are expected to make investments in Turkey.

A total of 76% of the Turkish automotive sector executives expect a new investment in Turkey within five years. The majority (42%) think that this investment will be made by Europe. The majority of those who expect this investment come from Asia project that the country will be China.

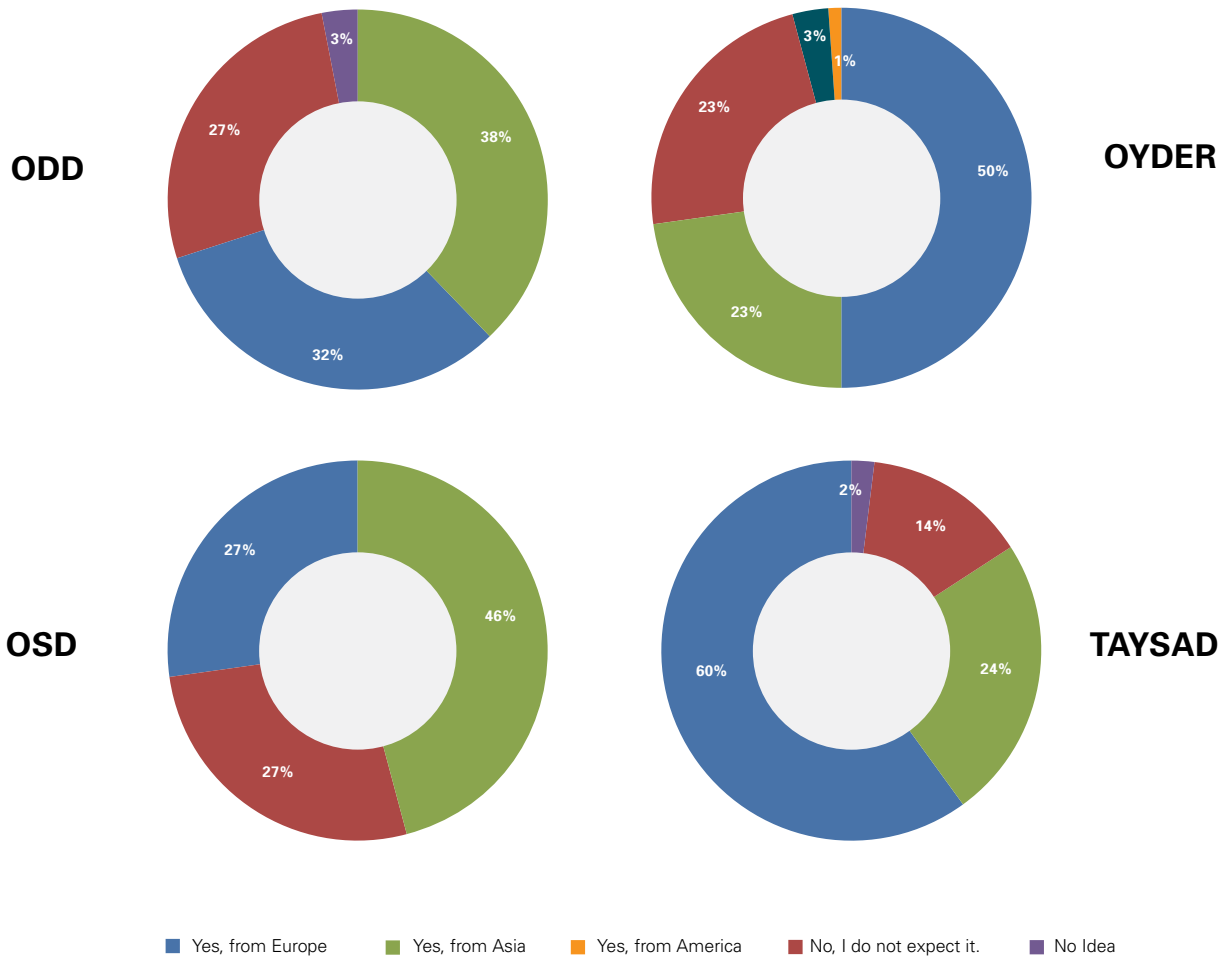
Turkish automotive sector expects a new manufacturer to make investment in the following 5 years' period.

#### Projections of new investment in Turkey in five years' time



### Distribution according to the association members

A total of 71%-73% of OSD, OYDER and ODD members expect that new investments will be made in Turkey in the following five years. TAYSAD members seem more clearly on this issue at a rate of 84%. However, we see a different picture when we look at where this investment comes from: While TAYSAD and OYDER members think that such investments are likely to come from Europe, ODD and OSD expect that these investments will mostly come from Asia.



### Insight

With this survey prepared to determine expectations of the automotive sector executives relating to 2017, we aim to present a reference to our firms in setting out their strategies related to the future. The most important issue taking precedence for our industry has been the New Incentive System. Supply manufacturers interpret the engine and driveline investments as the most strategic investment.

With the realization of these investments in Turkey, the domestic manufacturing rate which is nearly 56% may increase up to the levels of 80%. All investments naturally will be possible with a strong R&D work. Improved R&D competencies will strengthen our brand value as well. Supply manufacturers must strengthen and maintain their R&D works conducted in cooperation with OEM

firms. Thus the competitive power of both our automotive sector and country will be developed.

We strive to gradually realize our 2023 objectives while focusing on the year 2017 with this survey. We believe that we will provide the biggest benefit with the New Incentive System created while making progress.



**Dr. Mehmet Dudaroğlu**  
TAYSAD, Chairman

## KPMG Insight

### Advances in technology are impacting the future route to success

Trends like self-driving cars, e-mobility, social media and potentials in finance & lease business will have huge impact on the automotive industry in the next five to ten years. These developments will implicate different challenges for the automotive environment. But on the other hand the megatrends will create new promising opportunities for all value chain players. The traditional, "old model" is expected to die in the middle or long run. The OEMs will have to rethink their business models and to redefine their core competencies. We expect to see a completely new automotive economy – comparable to the Telecommunication and IT industry in the last 20 years- which will also shape the Turkish automotive environment.



**Mathieu Meyer**  
KPMG Global Head of Automotive





**Market**

Market: ODD

## Factors affecting the growth of automotive market

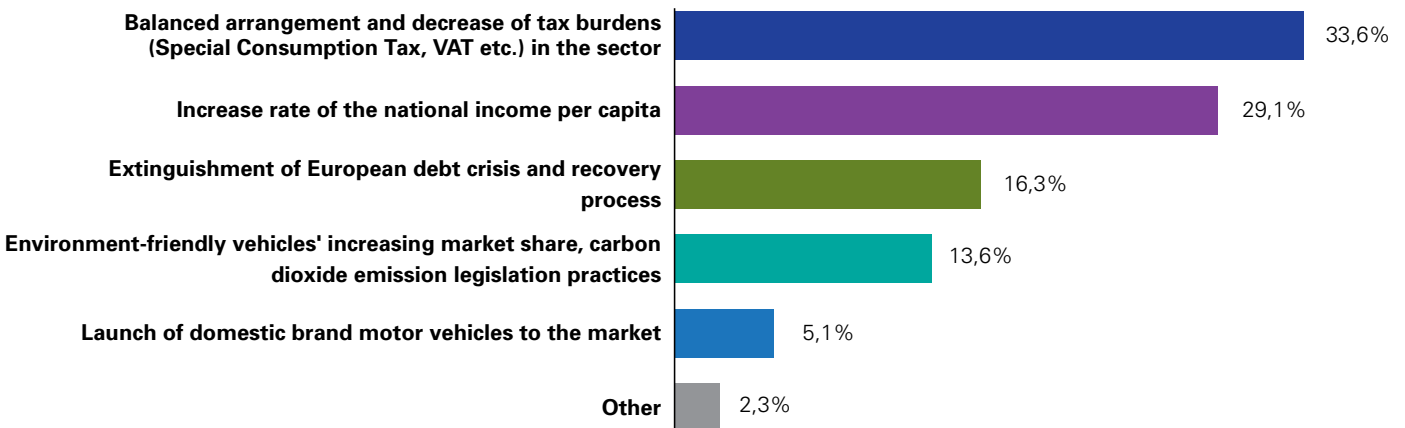
**Can you please order the following factors according to their level of importance in terms of their contributions to the growth of the Turkish automotive market in the following five years' period?**

The automotive market with has been growing at an important scale in the past few years, shrank by 10% in sales volumes in 2012 as compared to the previous year in Turkey. The automotive market in 2012 has grown only by 8% when compared to the sales level of 2005. This can be considered a small growth for a 7 years' period. Accordingly, it has been an interesting field to search for growth opportunities of the market in 5 years' time.

As the key factors for the growth of the automotive market, "balanced arrangement and decrease of tax burdens on the sector" and "increase of national income per capita" are counted.

**An issue of priority particularly for Distributors is arrangement and reduction of tax burdens.**

### Factors to affect sector growth in five years' period



### Insight

The automotive sector can be described as the driver of the economy which directly or indirectly affects many sectors.

Sustainability that the Turkish economy achieved positively affects the sector and is a driving force in its development. Automotive sector which is among the critical export items of our company promotes many supply industries together with the growing market. Given that motor vehicle ownership stays at lower figures than Europe,

it would not be wrong to claim that the automotive market will be on rise in the following years as well.

On the other hand, while demographic structure changes in our country, the number of people between the ages of 25-60 and actively involved in the economic life in the last 10 years has increased 6 million. If birth rates continue at this level, we can say that the number of people at the same age range will increase in the following period and we may be the country with

the highest consumption potential in Europe. This will provide a big advantage for the development of automotive sector in our country.

Finally, I would like to note that balancing and even decreasing tax burdens such as Special Consumption Tax and VAT on the sector is critical for the development of the sector. In my opinion, improvements to be made in this subject will revive the sector significantly and even create leverage effect on the economy.



**Ali Bilaloğlu**  
ODD, Vice Chairman

## Market: ODD

# Success in automotive market

### Which issues will gain importance to be successful in the Turkish automotive market in the following five years?

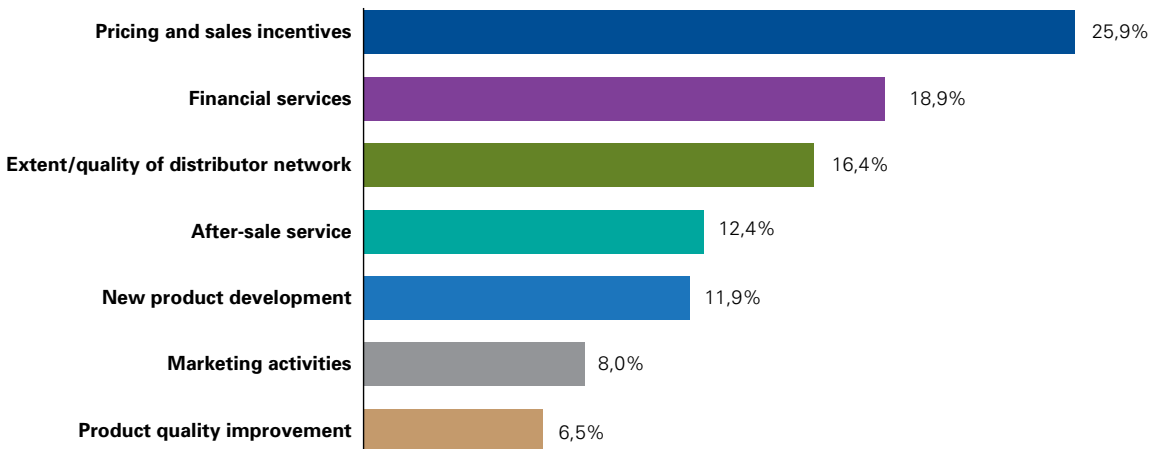
Keeping the intensive competition in Turkey in mind, we inquired into the issues which may bring us success by differentiating brands within this competition.

One out of four respondents in the survey thinks that the most important factors of being successful in the automotive market are pricing and sales incentives. Finally, intensive competition is expected to continue.

It is interesting that financial services rank the second. Another noteworthy point is that improvement of product quality is not regarded as very significant by distributors among the factors which will bring success. This indicates that product quality is considered to be on top levels.

It is expected that the key factor in maintaining high competition and being successful in Turkey will be pricing and sales incentives.

### Success factors in competition



### Insight

We, as ODD, always participate in works guiding the sector and handling the automotive sector in various perspectives. We published our work called "Roadmap for Automotive Trade The Next Decade" four years ago with the contributions of valuable academicians. Our work carried out in 2009 discussed the development of the Turkish and global automotive sector and covered tax system, creation of scrap market, calculation of carbon emission and demand estimation through an econometric model related to future years.

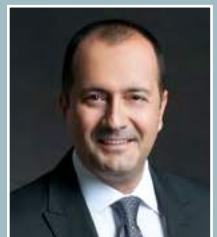
We completed the report "Roadmap for Automotive Trade Demand Estimates

2012-2016" which is the continuation of the previous report last year. According to 2012 sales data, we rank the 5th in Europe and 19th in the world. We ranked first again among the sectors making export from Turkey with nearly 19.3 billion dollars on an annual basis. The sector create employment for 400 thousand people.

These indicators are important, but more is possible in the global competition environment. The report presents recommendations and determinations which will illuminate the future of the sector.

Independent variables having emerged in the work showed that automotive

demand is positively related with income and credit volume while it is negatively related with price. Price increases made for various reasons adversely affect demand. As explicitly delineated in the report, high tax rates are the leading issue to be handled preliminarily. Particularly Private Consumption Tax rates prevent demand increase to a significant extent. Another issue to be added is the necessity to rejuvenate old motor vehicle in our country. Findings of KPMG Turkey 2013 Automotive Executives Survey related to the market indicate that these issues will continue to exist in the future.



**Hayri Erce, Ph.D.**  
ODD, Executive Coordinator

Market: ODD

## Important product features in automotive purchase decisions

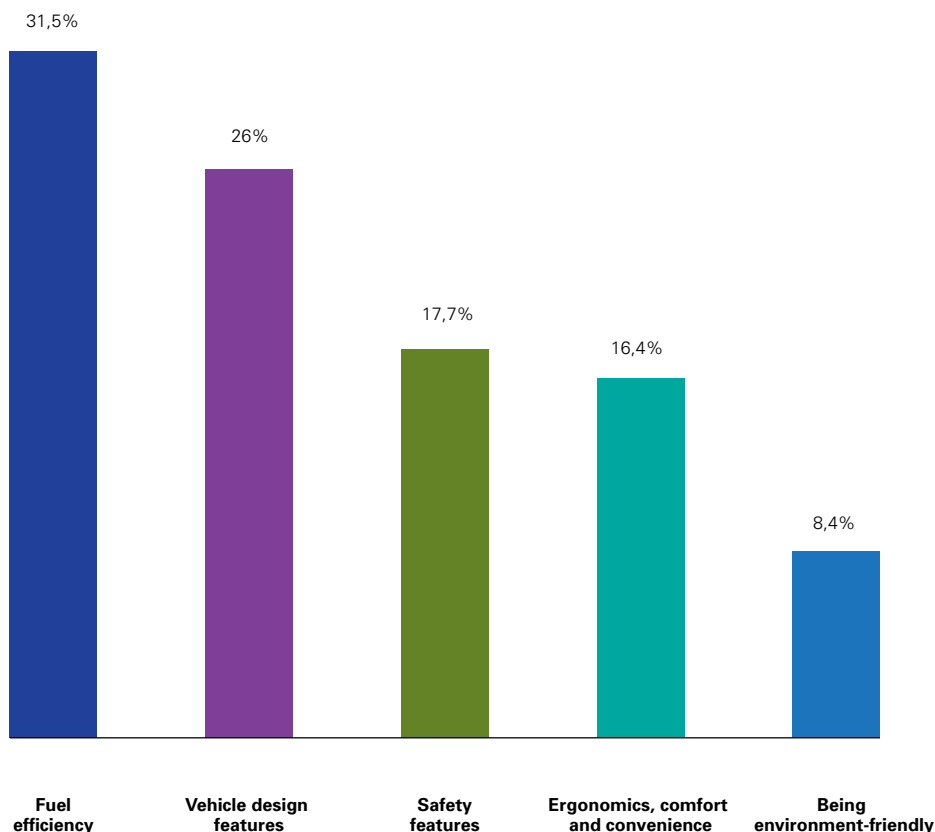
### How significant do you think the following product features will be in the consumers' decision making process in the next five years' period in the Turkish automotive market?

We wanted to find out important issues in the market during a period when product features in the international market and the Turkish market are discussed very much (particularly being environment-friendly, reducing carbon emission and electric vehicle production etc.).

The fact that fuel efficiency comes first in the decision-making processes of consumers is a natural consequence given that fuel prices in Turkey are rather above the fuel prices in other countries. Taking the feature of being environment-friendly for granted indicates that this is targeted with internal combustion engines advanced with very high technology rather than with electric vehicles.

**Fuel efficiency will be the most important product feature for purchase decisions in the following years.**

### Product features specified in automotive purchase decisions





Market: ODD

## After-sale services to gain importance

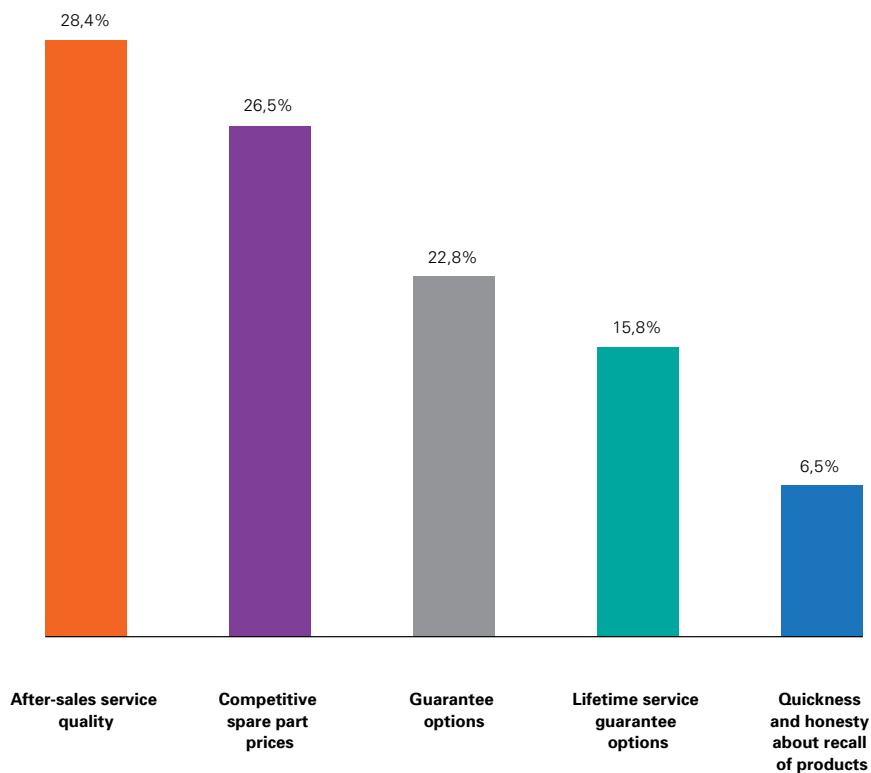
### Which after-sale services will gain importance in Turkish automotive market in the following five years?

Automotive sales are performed under market conditions which are more challenging as compared to the past and where competition escalated. After-sales services gained importance in order to be successful in such an environment. We inquired which issues take precedence among these services.

According to the results, quality, spare part prices and guarantee options are considered important in after-sales services.

**Quality and competitive spare part prices stand out among the after-sale services.**

#### After-sales services to gain importance



## Market: ODD

# Evaluations related to auto rental sector

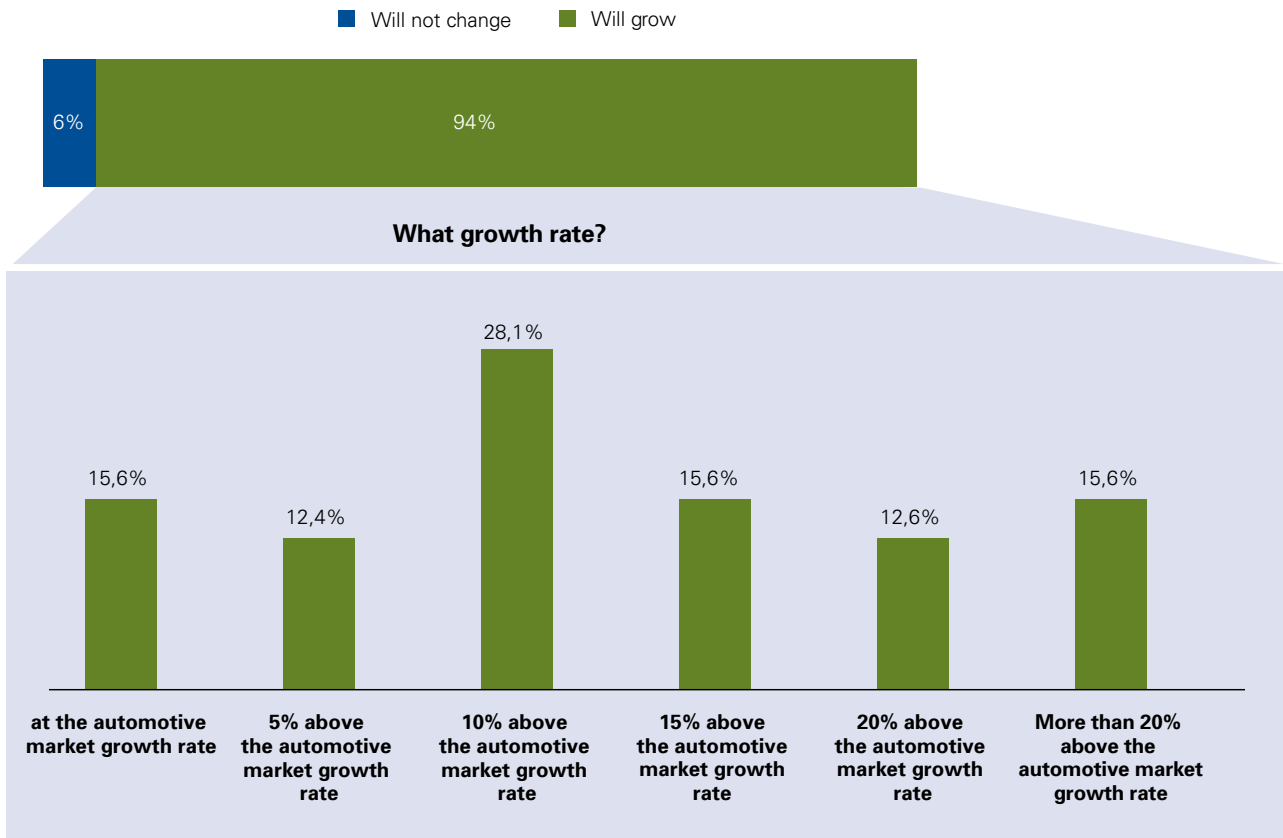
### Which changes will the automotive rental sector go through in Turkey in the following 5 years?

In the automotive sector globally, people tend to be users rather than owners of the motor vehicles. In this regard, we explored the expectations of the executives in order to enlighten the next five years of the auto leasing sector in Turkey.

It is observed from the results that 94% of the respondents foresee growth in the sector in the following five years. A total of 72% of these people expect the automotive market growth to be exceeded by 10% at least.

**Automotive rental sector is expected to reach a growth rate above 10% of the automotive market.**

### Changes to occur in the Turkish automotive rental sector in the next 5 years



## KPMG Insight

## Automotive Sector and Indirect Taxes

One of the leading basic demands related to the growth of the automotive sector in Turkey is balanced arrangement and reduction of taxes levied on passenger cars sales. The automotive sector is really one of the most affected sectors by this in Turkey where indirect taxes are much heavier than the direct taxes.

It is also explicitly indicated in the "Consumption Tax Trends 2012"<sup>1</sup> report issued by OECD that the proportion of consumption taxes to all taxes is higher than OECD average in our country and this rate tends to decrease in OECD average between 2000-2009 while it tends to increase in our country. The same report delineates that the group consisting Norway, Finland and Denmark together with Turkey has higher taxes levied on sales and registry of passenger cars than other countries and the taxes paid as such in these countries may cost more than the manufacturing prices of the motor vehicles.

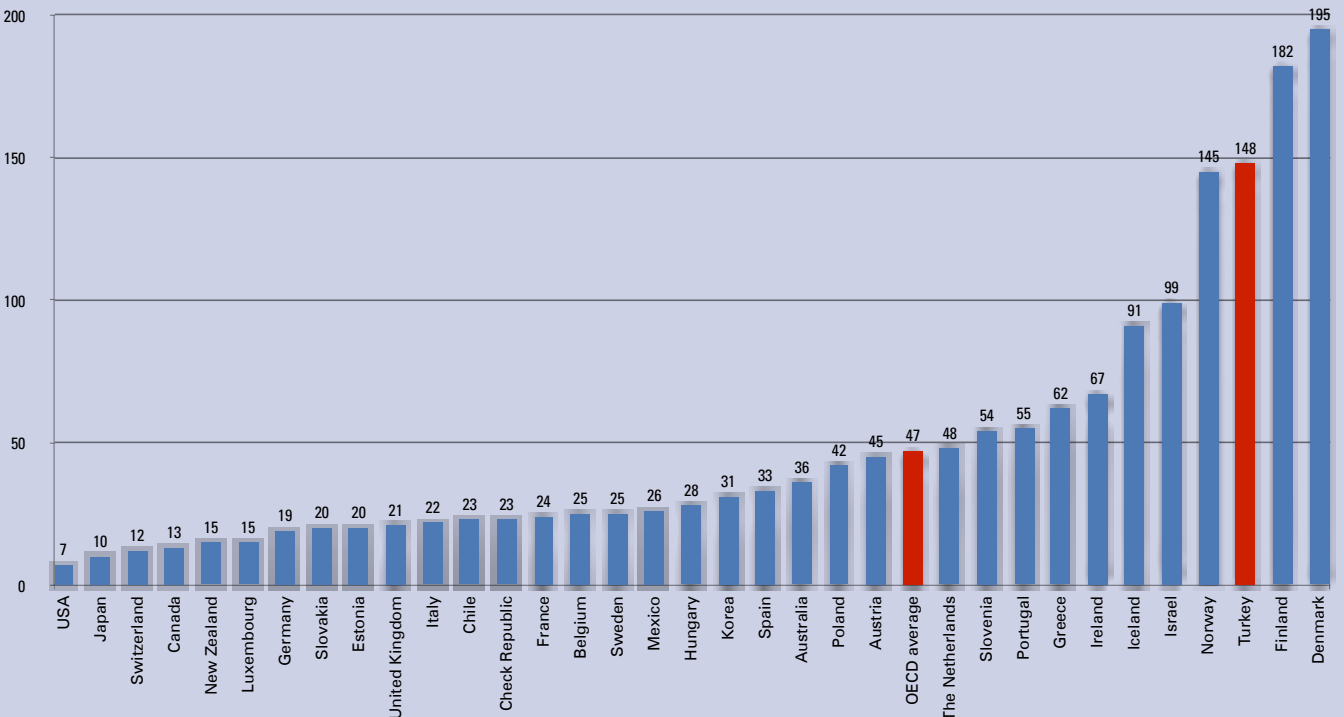
Let alone other taxes, duties and fees paid in Turkey, high Special Consumption Tax, on its own, narrows demand for new cars on the market and sales side, while seriously impacting consumer preferences.

Nevertheless there is a big domestic market in Turkey which has not reached saturation levels yet and high Special Consumption Taxes levied on passenger cars sales restrict preferences of consumers.

Although budget realities we are all informed of present that such taxes cannot be abandoned in the short term, common desire of the sector is the reduction of these taxes to more reasonable limits in time. Intermittent arrangements and changes in taxes are criticized not only for high rates, but also for ambiguities created in the sound future planning of the automotive sector.



**Fikret Çetinkaya**  
KPMG Turkey  
Tax, Partner

Maximum overall tax rate applied upon sale and registration of passenger cars<sup>1</sup>

<sup>1</sup> Consumption Tax Trends 2012, OECD

## Market: OYDER

# Factors affecting growth of automotive market

**Can you please order the following factors according to their level of importance in terms of their contributions to the growth of Turkish automotive market in the next five years' period?**

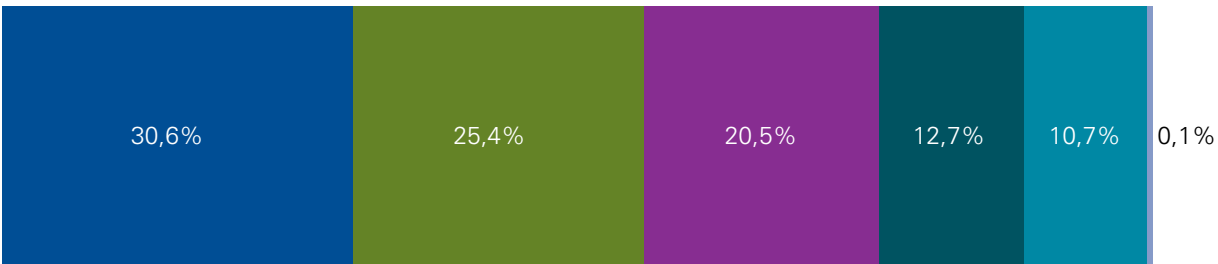
We looked into the determinant factors for the growth of the distribution network of Authorized Dealers in the next five years' period.

Authorized Dealers also emphasize "arrangement and reduction of tax burdens on the sector" and "national income increase per capita" as the most important factors for the growth of the automotive market which is parallel to the results derived from Distributors.

It is observed that executives on the Authorized Dealers side put more emphasis on entering the process of "the extinguishment of European debt crisis and recovery" as compared to the managers on the Distributor side.

**Authorized Dealers and Distributors are of the same opinion: For market growth, tax burdens must be reduced at first.**

### Factors to affect sector growth in five years' period



- Balanced arrangement and decrease of tax burdens (Special Consumption Tax, VAT etc.) on the sector
- Increase rate of the national income per capita
- Extinguishment of European debt crisis and recovery process
- Environment-friendly vehicles' increasing market share, carbon dioxide emission legislation practices
- Launch of domestic brand motor vehicles to the market
- Motor vehicle credit facilities

## Market: OYDER

# Important product features in automotive purchase decisions

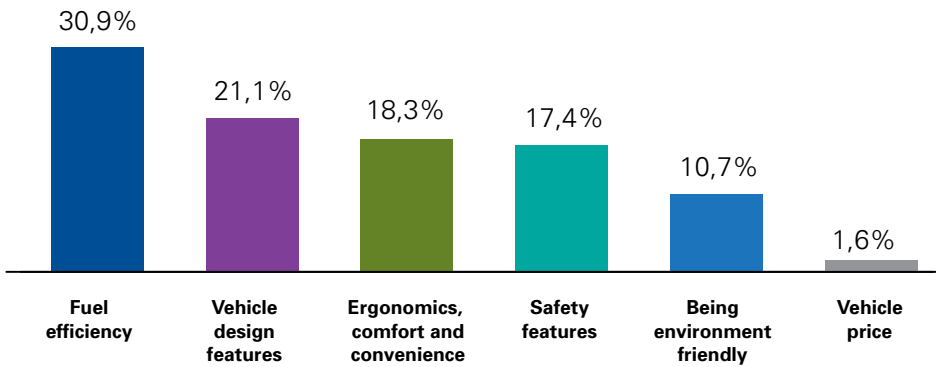
### Which product features do you think will be important in the consumers' decision making process in the next five years' period in Turkish automotive market?

The customer has the final say, of course. It is necessary to present appropriate products to the consumer in order to be successful in the market. Therefore we focused on the product features considered by consumers in making purchase decisions.

When asked the product features to be influential in customers' purchase decisions, Authorized Dealers put fuel efficiency in the first place. While "vehicle design features" are in second place in parallel to the answers of distributors, it is noted that Authorized Dealers put "ergonomics, comfort and convenience" before safety features with a slight difference.

Market players think that the most significant factor in purchase decisions is fuel efficiency. OYDER and ODD members place this issue in first place and by a high percentage.

#### Product features specified in automotive purchase decisions



## Insight

Being the single association representing retail pillar of the automotive sector, we have direct contact with consumers and try to shape the trade according to their opinions, expectations and requests. Therefore, we continuously evaluate consumer requests, follow changes and make effort to address their requests to the relevant authorities. As we also found out in our own workplaces, the most determinant competition advantage of recent years is derived from fuel consumption.

The first question asked without exception by each consumer who wants to purchase car is fuel consumption rates. The most significant reason for this is probably the excessive taxation on fuel and constant increase in pumping station prices. I see no reason for this trend to change as long as there is not any important change in fuel price policies. Insufficient levels of market penetration on electric and hybrid car side is the key indicator of the fact that no changes will occur about this issue in the following days.

In my opinion, the most interesting outcome of the survey is that vehicle price is in the end of the list with a very low percentage. Being a close witness of particularly how challenging the bargains are in showrooms, I can say that purchase price is as valuable as other indicators at least. Consumer pushes limits forward in order to purchase the vehicle at the price in his own mind.



**Vedat İnciroğlu**  
OYDER, Vice Chairman

## Market: OYDER

### After-sales services to gain importance

#### Which after-sale services will gain importance in Turkish automotive market in the following five years?

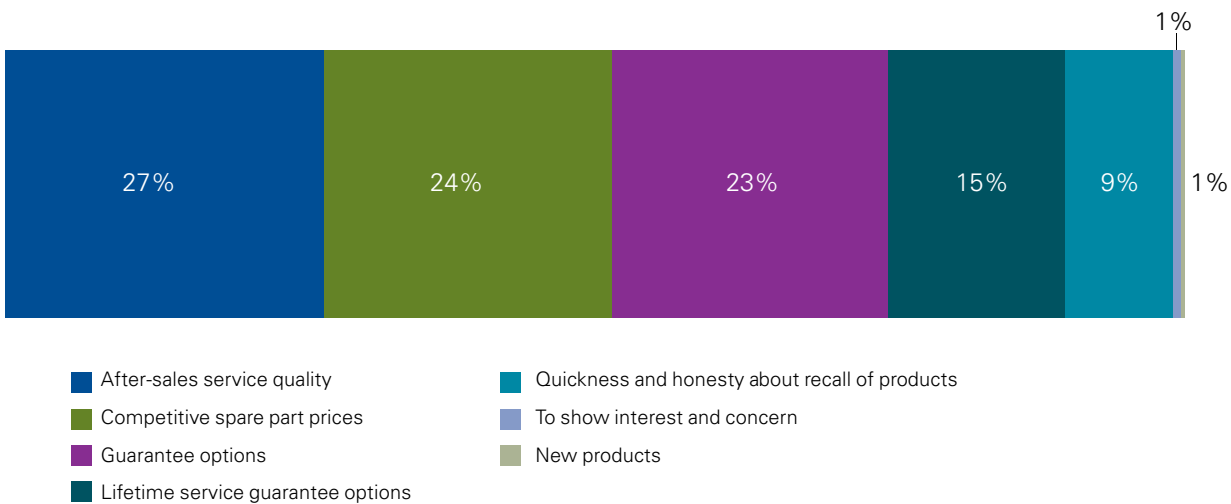
After-sale services are gradually becoming more important for Authorized Dealers.

Requests of consumers also take precedence at this point.

Just like Automotive Distributors, Automotive Authorized Dealers also focus on "service quality", "competitive spare part prices" and "guarantee options" among the after-sale services which will be more important in the future.

**Quality, competitive spare part prices and guarantee options take precedence among the after-sales services for Authorized Dealers.**

#### After-sales services to gain importance



## Insight

After-sale services in Turkey have not been completely understood by consumers yet; they consider these services as an obligation to prevent the vehicle being excluded from the scope of guarantee while the vehicle is under guarantee. On the contrary, after-sale services refer to the presentation of any engineering services requiring an extremely important infrastructure to the security of life and property of consumers. As it is obvious from the survey results that presentation quality of after-sale services is in the first place.

Within the framework of European Union adjustment laws, spare parts of original, equivalent and subsidiary industry quality have been defined in the communique No.2005/4

on group exemption related to vertical agreements and concerted actions in motor vehicles sector in Turkey.

Unfortunately, products of firms certified by an institution, but not accredited by any international institution are also considered equivalent spare part due to loopholes in this communique and many consumers are mistreated due to certified parts of low quality. Consumers who allow the use of low quality spare parts in their vehicles and are not adequately conscious about the issue try to attribute this mistreatment to the brands.

Brands which design the motor vehicle, create technology and manufacture the vehicle are naturally entitled to request the use of original

spare parts for the vehicle to show its real performance.

The practice of selling the vehicle with lifetime service guarantee, which is applied in the USA, seems to be a distant possibility in our country due to the structure of the sector.

However, long-term guarantee practices are methods which many brands begin to prefer.

While some brands include long-term guarantee options in their vehicle prices, some brands present this service under the name of extended guarantee subsequent to the sale of the vehicle.

Even though other issues are also mentioned, the foregoing issues take precedence for the executives within the survey options.



**Özgür Tezer**  
OYDER, General Secretary

## Market: OYDER

### Second-hand vehicle sales

#### What are your expectations related to second-hand vehicle sales for the next five years?

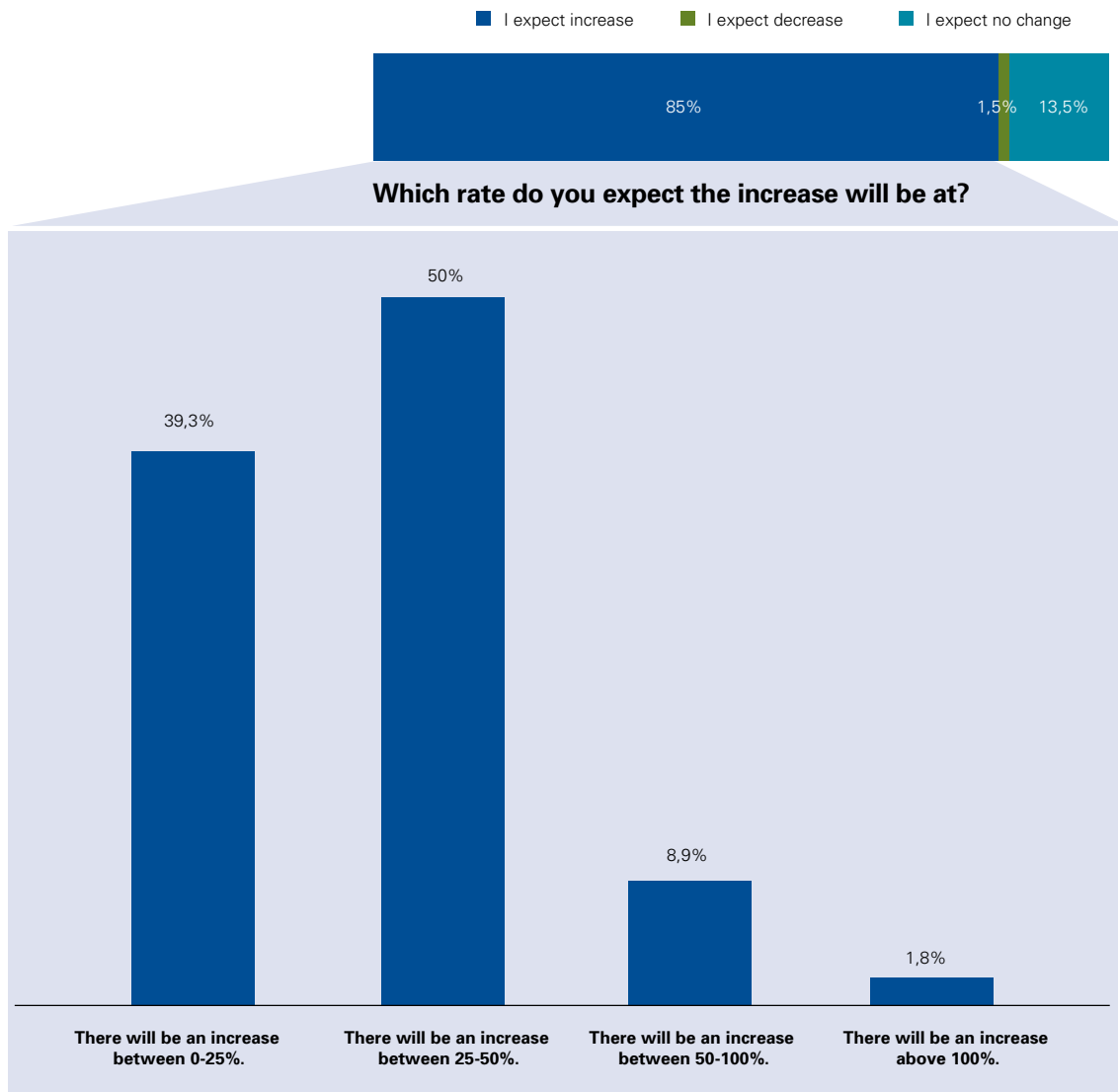
Nearly two million second-hand vehicles were sold in Turkey while nearly 800,000 new vehicles were sold in 2012.

It is also expected that this level of rate will continue in the next five years.

While 85% of the respondents foresee an increase in the second-hand sales in five years' time, 61% of these people think that the increase will occur above 25%.

**Second-hand vehicle sales are projected to increase. The majority of those with this expectation believe that the increase will be above 25%.**

#### Expectations as to second-hand vehicle sales in five years



## Market: OYDER

### Expectations of authorized dealers

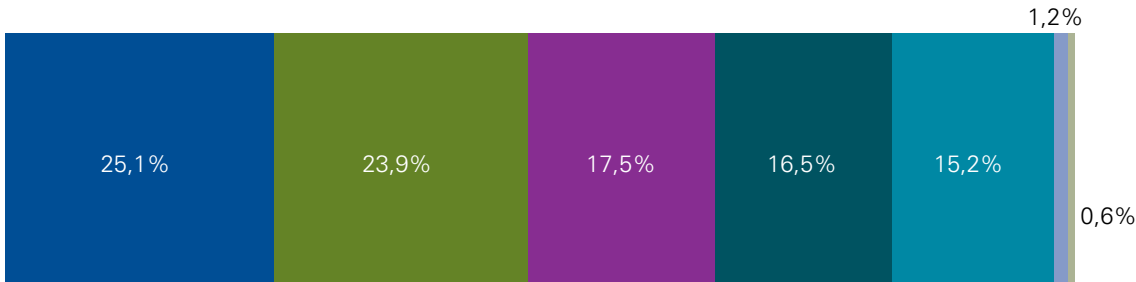
#### What are the issues of priority that Authorized Dealers are in need and expect support for in order to meet market increase in future?

We inquired the issues which will ensure Authorized Dealers creating direct employment for 70,000 people in Turkey attain success and growth.

According to the results, the coordination particularly between Distributors and insurance companies must be improved in order to satisfy market increase. Additionally, stock financing is particularly emphasized.

Leading issues given importance by Authorized Dealers are the promotion of coordination between insurance companies and Distributors and sharing stock financing with sector stakeholders.

#### Issues of priority that Authorized Dealers are in need and expect support for in order to meet market increase



- Promotion of coordination among insurance companies and manufacturer and distributor under the scope of after-sale services
- Sharing stock financing with sector shareholders for presenting product in market quantities and joint sales success in future
- Preparing public incentive projects to create qualified personnel employment
- Inclusion of authorized dealers under SME by the state
- Paving the way for organizations in public institutions in order to take over more active roles in second-hand vehicle sales
- Other



## KPMG Insight

## Merger and Acquisition Trends in the Turkish Automotive Sector

We have seen an increase in M&A activity in the Turkish automotive sector, with 2012 accounting for eight out of more than 15 acquisitions realized in the last five years in the sector. We have seen three main trends in the historical transactions:

The first is the acquisition by manufacturers coming from developed markets such as Mahle, Titan Italia and Bridgestone looking to purchase manufacturing capacity, benefit from cost advantages or increase their product range. As long as price pressures from end-users in Europe persist, and Turkish manufacturers are at par with their European competitors on quality, we believe that such acquisitions will continue.

The second is that global automotive companies have looked to increase their share in the value chain in the growing Turkish market by acquiring distribution channels. Johnson Controls' acquisition of its distributor, Karat Güç Sistemleri and ALJ's increasing its shareholding in Toyota Marketing are examples of such transactions. As the number of motor vehicles per capita in Turkey continues to increase to the levels experienced in developed countries, we expect further interest in the distributors of motor vehicles and spare parts in the domestic market.

The third is the financial investment in automotive component companies which are growing rapidly and are in need of capital. The developing domestic market and increasing capabilities of the Turkish automotive parts manufacturers present a high growth potential for domestic parts manufacturers. Our survey also indicates that the parts manufacturing industry presents opportunities for external investment. Therefore, parts manufacturers in need of capital represent an opportunity for international private equity funds. Bancroft's acquisition of Standard Profile and UniCredit Merchant Bank's investment in Martur are examples of such opportunities realized by financial investors. Private Equity Funds not only provide capital for the domestic automotive parts industry, but also help to find senior managers from international markets and access consumers via new sales channels. Additionally, we believe that Turkish automotive parts manufacturers have the capability to make acquisitions in Eastern Europe and neighbouring countries, mainly Russia, in the next two to four years. We see this as the next logical step for Turkish parts manufacturers looking to capture the business of their international clients in other markets, having already proven their ability to deliver on quality in the domestic market.



**Keith Durward**  
KPMG Turkey  
Head of Advisory, Partner



**Ekrem Özer**  
KPMG Turkey  
Advisory, Director

## KPMG Insight

### Incentives granted to automotive sector in the New Incentive System

Since automotive and automotive subsidiary industry is one of the leading manufacturing sectors in Turkey, one of the arrangements which will make the largest contribution to the realization of future manufacturing, sales, export and employment objectives of the country is undoubtedly the incentives granted to this sector.

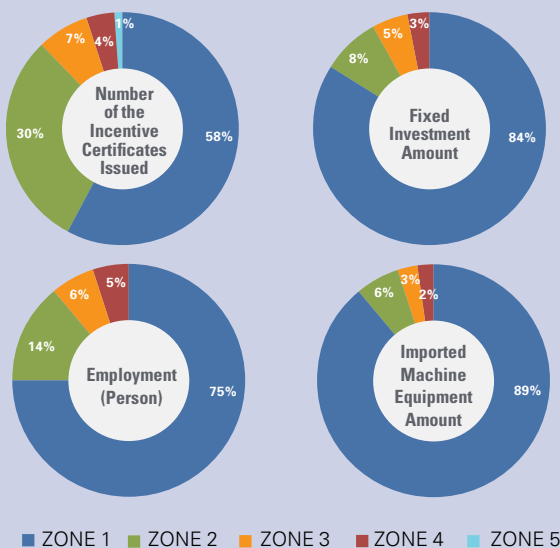
#### Special incentives granted to automotive sector:

With the "New Incentive<sup>1</sup>" regulations put into force by being published in the Official Gazette of 19 June 2012, "special incentive" granted to automotive sector is "customs exemption" which is an important monetary incentive. With the relevant regulation, investors were allowed to import p. cars from A, B and C-segments without paying customs duty provided that it is limited with the investment period. This regulation is very reasonable for imports to be realized from countries which are not included in EU Customs Union.

#### Assessment of investment incentive certificates issued to the automotive industry in 2012:

Given the investment incentive certificates issued to the automotive sector by the Treasury Under secretariat over the 2012 calendar year, although incentives to the sector were the lowest in the first zone and relatively higher in other zones, 95% of the investments to be realized with investment incentive certificates granted under the scope of the "new incentive system" concentrate in zones 1, 2 and 3 which are manufacturing centers of the "automotive sector" manufacturers. Similarly, 97% of the fixed investment amount is located in zones 1, 2 and 3. While the share of fixed investment amount of the automotive sector in all sectors is 4.4% in the January-December 2012 period, the share of automotive sector in all sectors appears as 5.6% in the period subsequent to the announcement of the new incentive system (June - December 2012).

**Graphics:** Information about investment incentive certificates granted to the automotive sector



### Last changes favorable to the automotive sector in the incentive package:

With the Council of Ministers' Decision No.2013/4288 published in the Official Gazette of February 15, important amendments have been made in the new incentive system to the favor of the automotive sector. Automotive investments to be made in "motor land vehicles main industry" have been included among the "investment issues of priority" with the relevant Decision. Relevant amendment confirms the assessments in the graphics. Although investments will be mostly directed to zones 1, 2 and 3, now there is also an opportunity to benefit from the incentives of zone 5.

#### Investments fulfilling the following conditions are considered "investments of priority" subsequent to the changes:

- Investments in main industry amounting minimum TRY 300 million
- Motor investments amounting minimum TRY 75 million
- Investments in motor components, driveline components and automotive electronics amounting minimum TRY 20 million

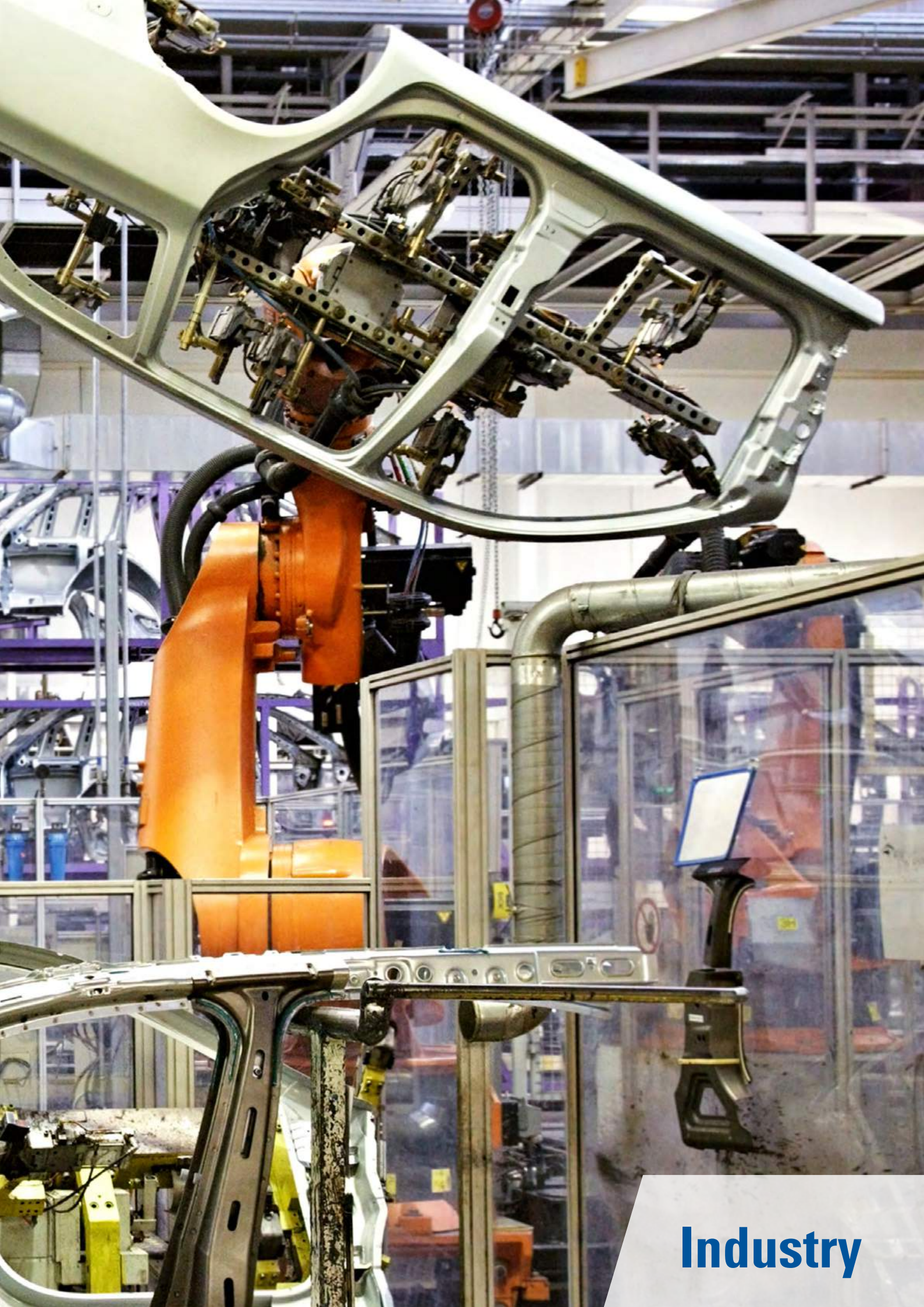
With this amendment, it was ensured that automotive investments benefitted from incentives applied in zone 5 regardless of in which part of Turkey they are realized. For example, corporate tax reduction at 40%, insurance premium employer's share for seven years and investment place allocation are the main ones. Incentive certificates obtained further to the applications submitted 2012 can also benefit from these incentives.

Consequently, these changes are aimed to increase employment, "rate of domestic products" percentages and the export volume of the sector by rendering automotive sector investments more attractive.



**Abdulkadir Kahraman**  
KPMG Turkey  
Head of Tax, Partner

<sup>1</sup>For more information, please see our article "New Investment Incentive System with Questions and Answers" on the website <http://www.kpmgvergi.com> under the section of "Publications".



**Industry**

## Industry: OSD

# Projections related to Manufacturing figures

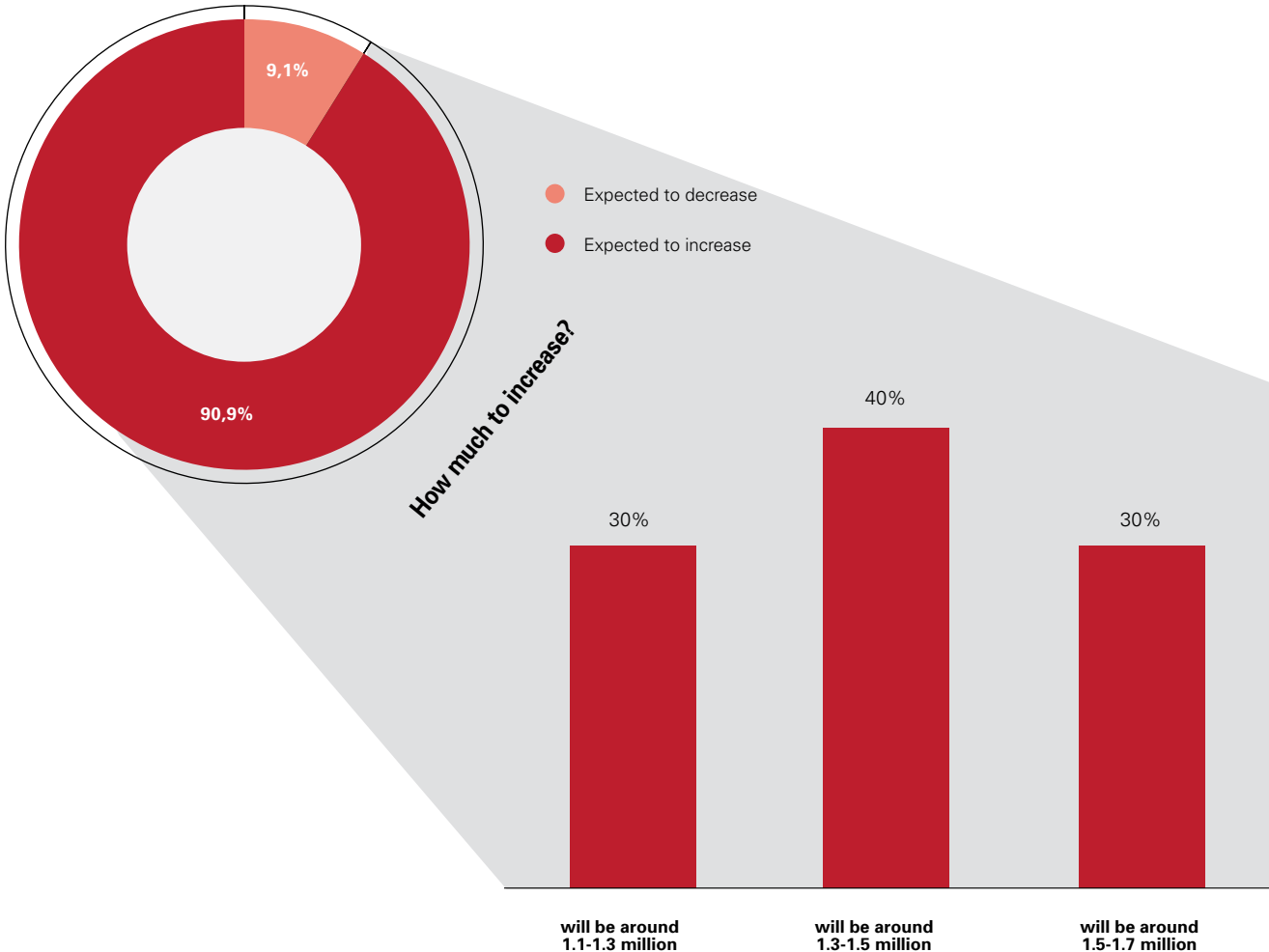
**What are your next five years' projections related to the manufacturing figures of Turkish automotive industry, where total manufacturing quantity realized as 1.1 million and total manufacturing capacity emerged as 1.5 million in 2011?**

We looked into the expectations of Turkey in this period when economic and financial crises are widespread in the world and in Europe, particularly affecting the automotive sector.

OSD members are sure that manufacturing in Turkey will advance. However, their ideas differ in the extent of the increase. On the other hand, 70% of the respondents expect the increase to exceed 200 thousand in quantity, 18% in other words, in the next five years.

**OSD members note that manufacturing figures in Turkey will continue to escalate.**

### Manufacturing expectations of automotive industry for the next 5 years



Industry: OSD

## Projections related to Capacity figures

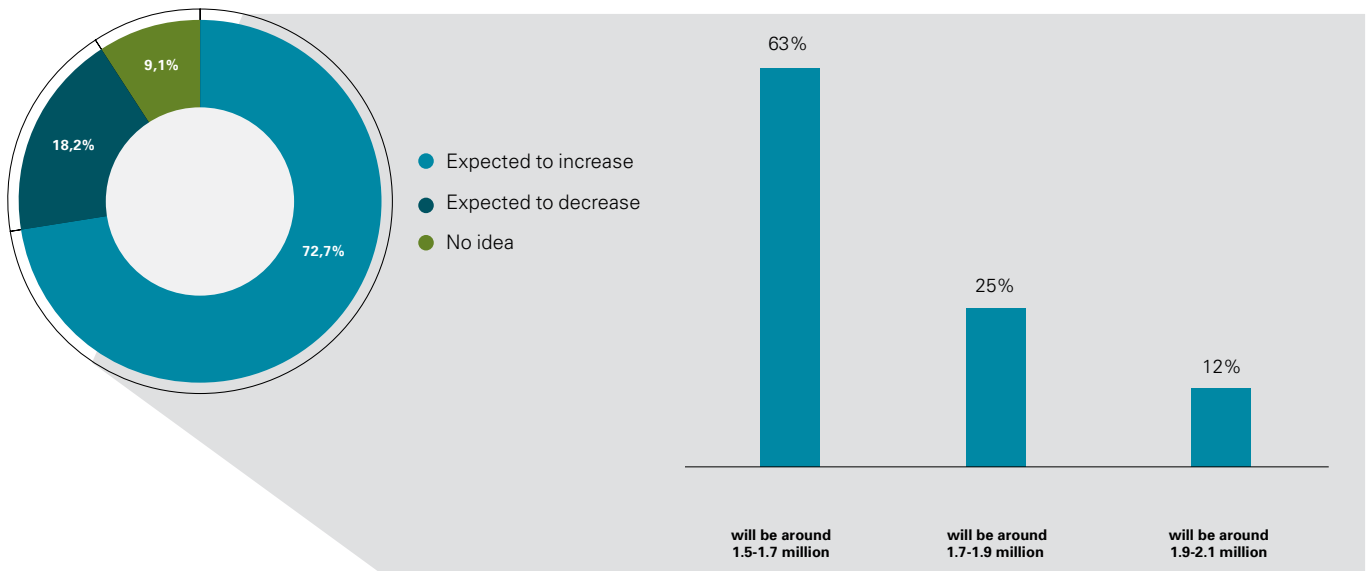
**What are your next five years' projections related to the capacity figures of Turkish automotive industry, where total manufacturing quantity realized as 1.1 million and total manufacturing capacity emerged as 1.5 million in 2011?**

We looked into how the capacity in Turkey will develop assuming that there is overcapacity in the world and Europe.

Capacity rates are expected to increase; but when we compare them to manufacturing expectations, the rate of people expecting this rate to increase is lower with 73%. On the other hand, it seems that there is no serious upward trend in those indicating an expectation for the increase. The majority with a rate of 63% believe that the increase will be 200 thousand at most, 13% in other words.

**The capacity in Turkey is predicted to increase moderately.**

### Capacity expectations of automotive industry for the next 5 years



## Industry: OSD

# Determining issues for new investments

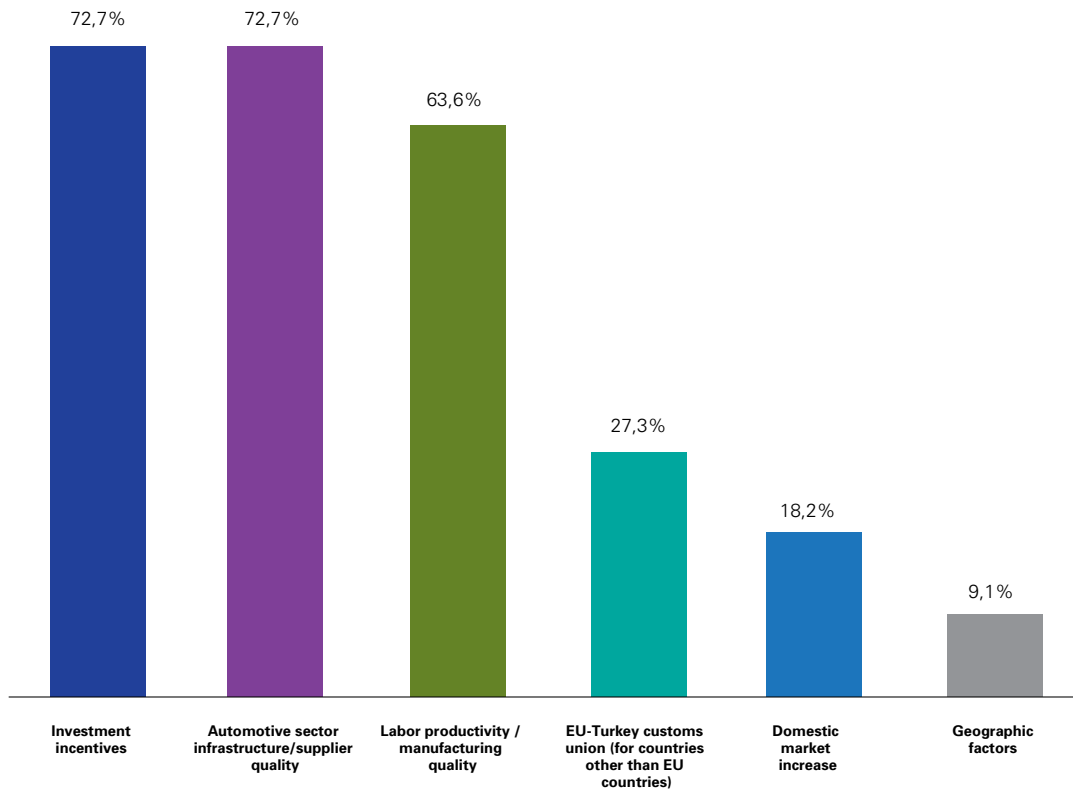
### What are the determining factors for attracting new investments to Turkey?

New investments to Turkey are frequently discussed. We asked OSD members which issues foreign investors must take into account in an environment where new investors are targeted to be drawn into Turkey.

According to the results of the survey, there are three main determining issues for attracting foreign investments to Turkey: investment incentives, sector infrastructure/supplier quality and labor productivity/manufacturing quality.

**Incentives, infrastructure/supplier and manufacturing capacity rank in priority among the determinant issues for a new investment to come to Turkey**

### Determining issues to attract new investments in Turkey\*



(\*) Participants could choose more than one option.

## Industry: OSD

# Requirements for new investments

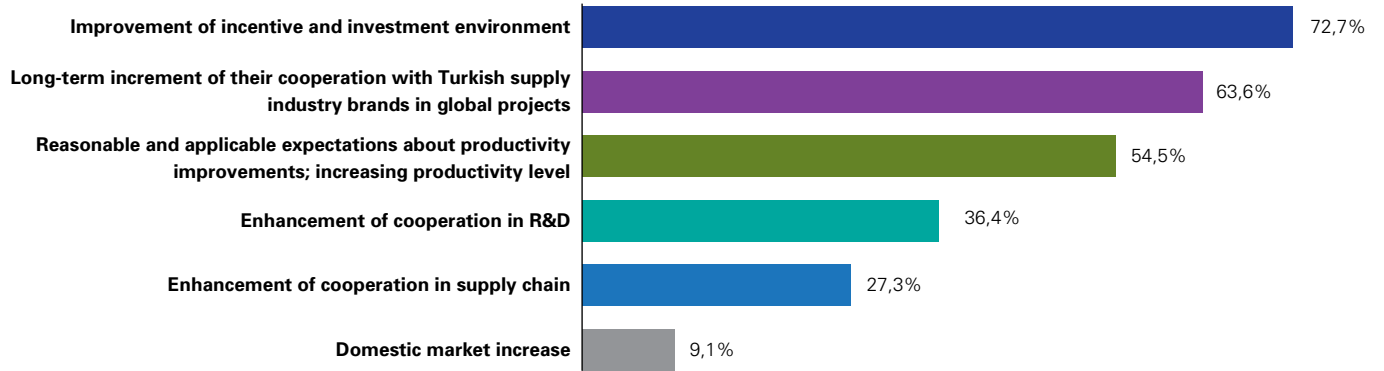
### What actions must be taken to attract new foreign investments in Turkey?

Turkey has acquired a serious position in the automotive sector on global scale. It ranks the seventeenth in the world automotive industry. Automotive supplier industry has a stubborn infrastructure. We searched for what actions must be taken to attract more investments to Turkey intending to advance and strengthen its position.

Respondents think that incentive and investment environment should be improved in order to attract new foreign investment. It is interesting that participation of supplier industry in global projects is enlisted on the second rank. Domestic market growth is not paid much attention as per this issue.

**It is noted that the incentive and investment environment must be improved and supplier industry must participate more in global projects for new foreign investments.**

### What actions must be taken to attract new foreign investments in Turkey?\*



(\* ) Participants could choose more than one option.

## Insight

Domestic market potential is an important factor in attracting new investments to automotive industry. P cars market has an average of 427 thousand and total market is around 699 thousand in the last 12 years. Domestic manufacturing share is around 40% in the market.

Evaluation of the last 12 years' development covering 2002-2012 is significant in terms of developments related to future.

While total manufacturing capacity increased by 1.66 folds, manufacturing increased by 3.09 folds in this period.

This increase is noted to emerge from excessive use of the current capacity instead of new investments. The Capacity Utilization Rate which decreased to 30% due to 2001 crisis increased up to 89% in 2007 and 75% in 2012.

On the other hand, motor vehicle export has been the most important facilitator of manufacturing boom with an increase by 2.80 folds in this period. It is observed that export makes up 50% of the capacity in p. cars and 77% in light commercial vehicles in 2012.

While exports made 23% of the manufacturing in 2000, its share rose up to 79% in 2008 and decreased again to 67% in 2012.

A balanced tax policy indexed to demand must be created in order to maintain a steady increase in the market for the future. I believe that strong demand structure in the domestic market will positively affect the global competitive power.



**Prof. Dr. Ercan Tezer**  
OSD, General Secretary

## Industry: OSD

# Evaluations related to overcapacity in Europe

### How will Turkey be affected by the overcapacity in Western Europe in your opinion?

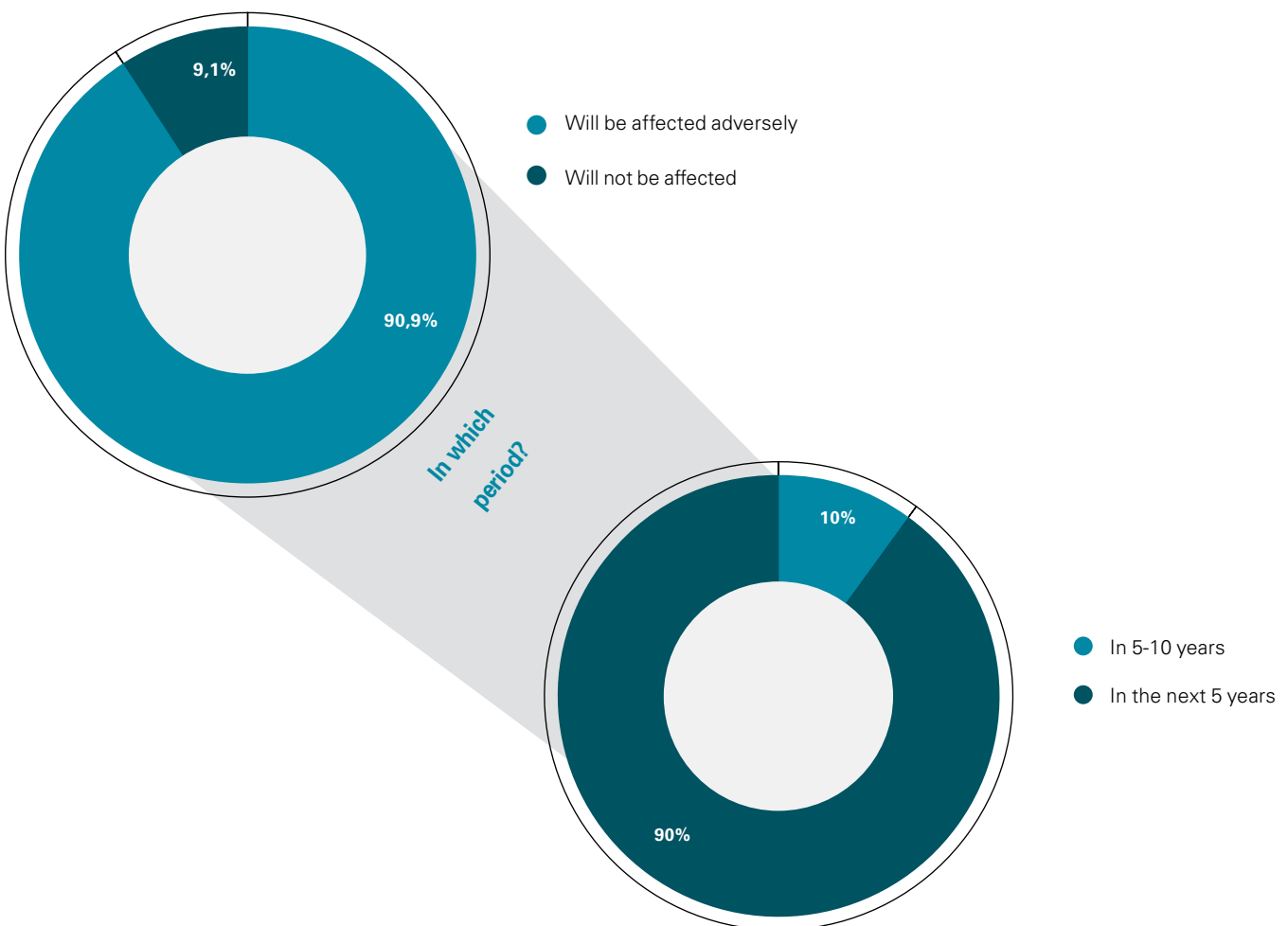
Considering that Turkey is a manufacturing center for Europe and targets this position under the current conditions where it is discussed that there is overcapacity in Europe, we inquired how Turkey will be affected.

Respondents are sure that Turkey will be adversely affected by the overcapacity in Europe and expect these adverse effects to emerge in five years.

However, this reply seems to be contradictory when compared to the projections of manufacturing and capacity increase in Turkey. When we evaluate these responses all together, we conclude that if there had not been overcapacity in Europe, manufacturing and capacity in Turkey would increase even more.

**Turkey will be adversely affected by the overcapacity in Western Europe in the following 5 years.**

## Impact of overcapacity in the Western Europe on Turkey





## Industry: OSD

# Strategies for growth in the automotive industry

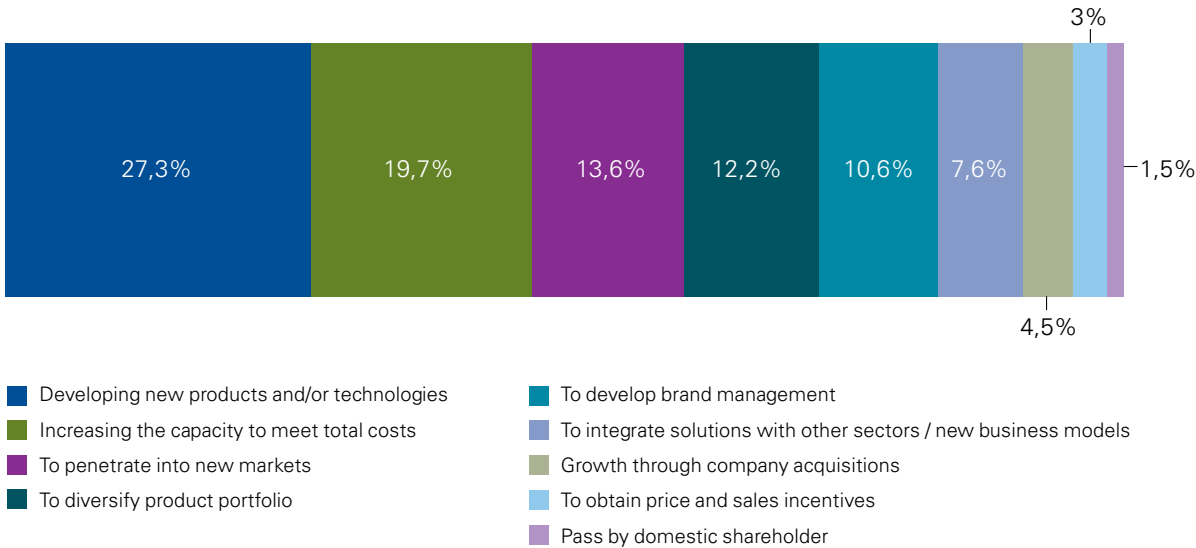
### What should be the main strategies of companies to ensure growth in the Turkish automotive industry?

We looked into what kind of strategy manufacturers in Turkey should follow in order to be successful under the conditions gradually becoming more difficult on the global scale and in Europe.

Participants indicate that the most beneficial strategies for growth in the automotive sector are developments of new products and/or technologies and enhancement of the capacity to meet total costs. It is noteworthy that penetration into new markets is enlisted only on the third rank.

**New products and technologies must be preliminarily developed for the growth of the automotive industry.**

### Main strategies necessary for ensuring growth in the automotive industry



Industry: TAYSAD

## New Investment Incentives System

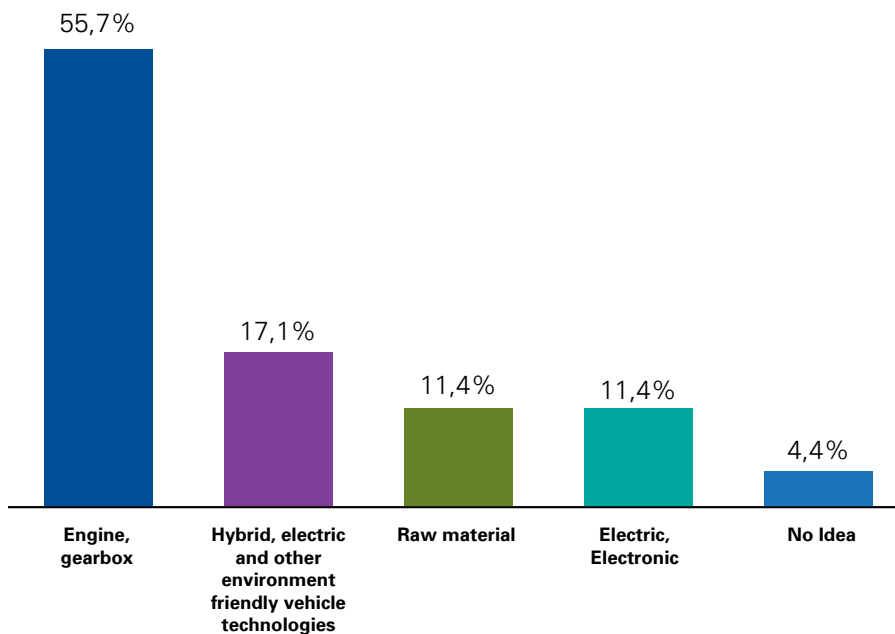
**If one of the following strategic investments came to Turkey with the new incentives system, which strategy would create the most positive impact on the automotive industry in your opinion?**

We looked into the most important issues for the automotive supplier industry with respect to the new investment incentives system of Turkey and its target to attract strategic investments.

Results focus on engine and gearbox as strategic investment to create the most positive impact for the Turkish automotive industry. The fact that hybrid, electric and other environment friendly vehicle technologies rank the second with a big difference points out that these technologies are not trusted much recently.

**Engine and gearbox is considered as the most important strategic investment for the automotive supplier industry.**

### Strategic investments which appear to be promising for the automotive industry



## Industry: TAYSAD

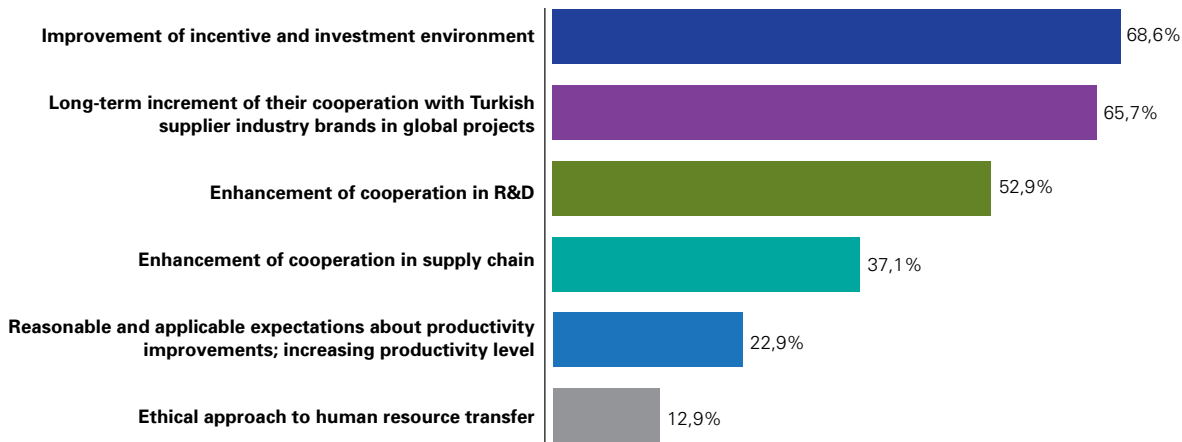
# Attracting foreign investments to Turkey

### Which actions must be taken to attract new foreign investments to Turkey?

If asked which issues Turkey, with a strong supplier industry, paid attention to for purposes of attracting more foreign investments, respondents stated that incentive and investment conditions must be improved at first. Industrialists seem to agree on this issue; TAYSAD and OSD members note that the most important issue is the improvement of incentive and investment environment.

**OEMs and suppliers are of the same opinion concerning new investments: Incentive and investment environment must be improved and supplier industry must be more involved in global projects.**

### What actions must be taken to attract new foreign investments to Turkey?\*



(\* ) Participants could choose more than one option.

## Insight

Automotive suppliers generally agree on the fact that “Improvement of Incentive and Investment Conditions” is the most influential factor in attracting new foreign investors into our country. Seven out of 10 people note that incentives are important for drawing attention particularly of Original Equipment Manufacturers’ investments to Turkey. In foreign supplier industry investments, improvement of investment conditions take precedence as much as the incentives. By improving conditions affecting investment environment such as particularly

reducing bureaucracy, increasing training opportunities for educated and qualified employees and developing transportation infrastructure, it is considered that more supply firms will be active in our country.

Automotive supply industrialists think that their participation in global projects of OEMs resident in our country will attract foreign investors with a slight difference subsequent to the investment provision. Suppliers claim that further participation in global projects will require investments in those countries as well as growth in central manufacturing

facilities of the companies and thus they expect that foreign investors will show favor to the growing business volume.

Another point is the enhancement of cooperation in the supply chain. In this context, automotive suppliers have developed models like clusters until today and raised their cooperation levels through different Non-Governmental Organizations. At this point, it is clear that such cooperation models should be increased; more investors will pay attention to our country in this means.



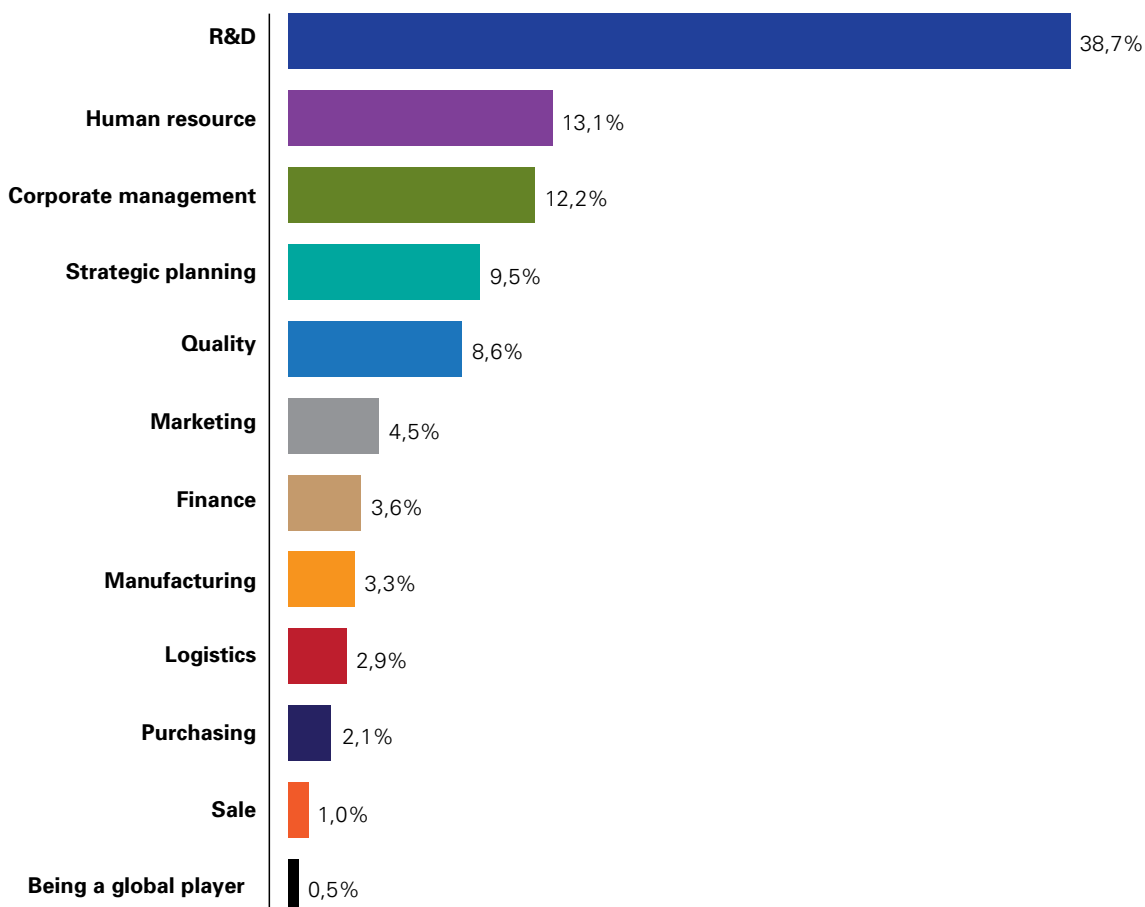
**Alper Kanca**  
TAYSAD, Deputy Chairman

## Industry: TAYSAD

**Focus of interest for supplier industry****Which areas should the supplier industry focus on the most in medium term?**

The Turkish automotive supplier industry is very strong, but when we inquire about what the industry should do to continue this success under ever-changing global competition conditions, the supplier industry seems to be clear that the area of focus must be R&D in the following years. It is intriguing that being a global player is in the end of the list.

**Research and development stands out as the most important issue in the medium term for the supplier industry.**

**Areas of focus for the supplier industry in medium term**

Industry: TAYSAD

## Issues to affect relations between OEMs and supplier

### What are the issues that affect the relations of OEM supplier relations at most in the medium term?

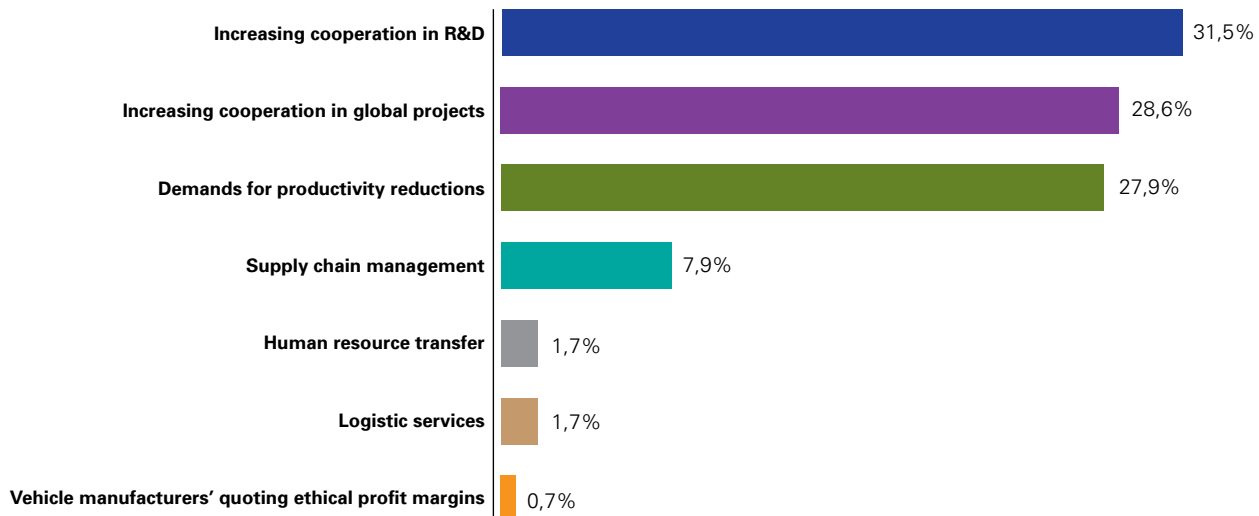
Success in the Turkish automotive industry will be attained not only through the efforts of supply or OEMs, but joint efforts of both parties. We looked into the key issues to bring success in this cooperation.

The results of the survey point out that participants are sure about three issues to affect OEM supplier relations:

- Increasing cooperation in R&D
- Increasing cooperation in global projects
- Demands for productivity improvements

In relations with the OEMs, efficiency as well as Research and Development and global projects carry importance.

### Issues that will affect the relations of OEM supplier relations at most in the medium term?



### Insight

Establishing a strong domestic market is the most important issue to advance the current status of the automotive sector today. Failure of the domestic market put under pressure with high tax rates in making use of its dynamics stands as the biggest barrier before the growth. This condition also adversely

affects our competitiveness in global markets. Unplanned and snap increases in tax rates carry a high risk in terms of stability for global and domestic investors. As Turkish automotive industry, our focusing on niche segments appropriate to our successes in the list of light commercial vehicle and bus manufacturing

in global markets will be useful for our competitiveness. Another significant issue emphasized by the association is increasing domestic contribution rate. We think that the arrangements about the New Investment Incentives will be useful in this issue.



**Mustafa Zaim**  
TAYSAD, Deputy Chairman

Industry: TAYSAD

## Regions where cooperation of suppliers is expected to increase

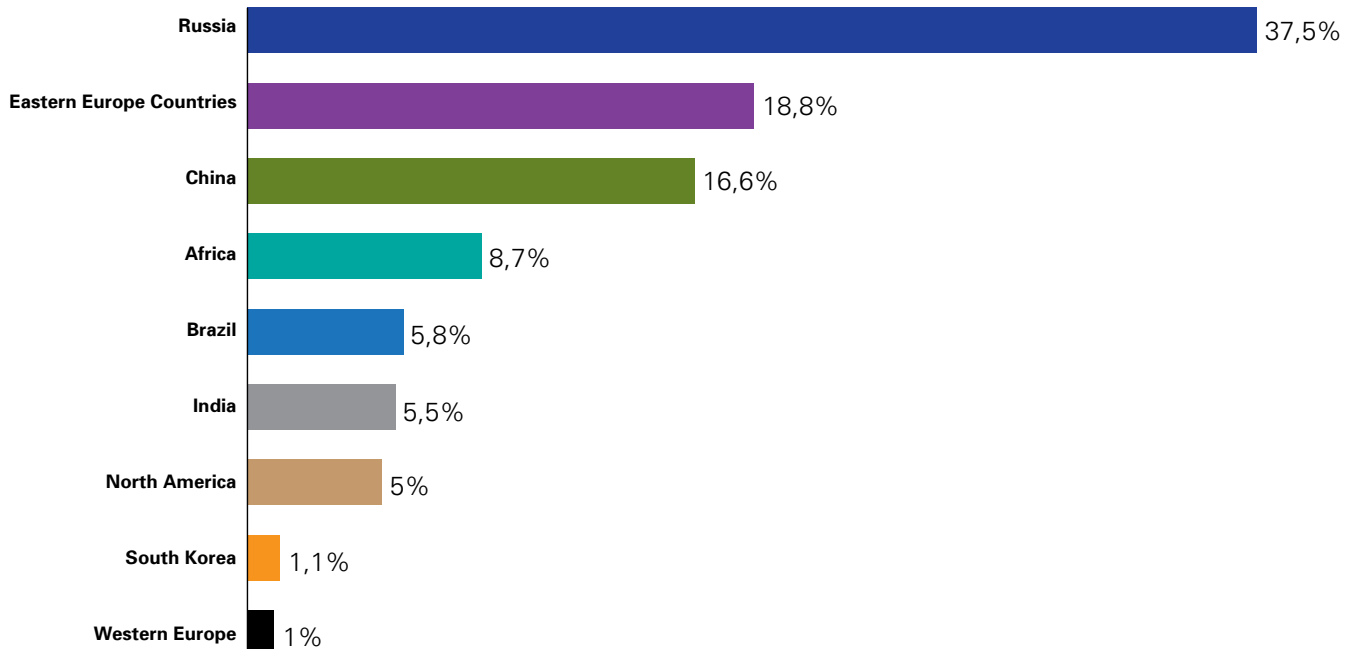
### In which areas do you think our subsidiary industry will increase cooperation in medium term?

In the gradually globalizing environment of the automotive industry and automotive supplier industry, we looked into the target countries in consideration of the ever increasing importance of Turkey and Turkish automotive companies in the region and globally.

Russia's ranking the first as the reply to this question under the current conditions where automotive world talks about China are an indicator of the potential between these two countries. Eastern Europe countries' listed on the second rank emerges as the indicator of Turkey's role in the region and target to increase its significance.

**For the supplier industry, Russia is projected to be the most important region for cooperations.**

### Regions where suppliers will increase its contributions the most in the medium term



## KPMG Insight

**Russian Automotive Sector is on the Rise**

The automotive industry in Russia is one of the fastest growing industries in the country. In terms of sales of vehicles, Russia is expected to become the largest automotive market in Europe, surpassing Germany, over the next few years. What is fueling consumer spending are a relatively old car park, low car density, a growing middle class, large population with low unemployment and relatively high disposable incomes as well as increasing opportunities for obtaining car financing.

On the production side, Russia remains a significant net importer of vehicles with no export of significance. However, production capacity has significantly increased over the past few years as a result of not just the underlying market demand but also government interventions offering tax and import duty relief provided significant production and localization of components in Russia takes place.

The Russian automotive suppliers have been lacking behind on latest technology and reliability. Furthermore, the market presence in Russia of the largest (foreign) global suppliers has been relatively minor. Therefore, with the manufacturers increasing and upgrading their production in Russia, many suppliers have entered the Russian market recently. Within the last couple of years, the market presence in Russia of the global top 50 suppliers has increased from approximately 40% to 60% (in comparison almost 100% has operations

in China). This development is expected to continue hand in hand with the growing production capacity.

The Russian automotive market provides a wealth of opportunities for Turkish automotive suppliers. The localization is still very much ongoing and the need for reliable suppliers providing quality products is still in high demand. Significant activities relating to development of production sites are still observed in automotive clusters such as in the Moscow regions, St. Pete regions, Tatarstan, Kaliningrad, etc. where we undoubtedly will see significant investments and increased production capacity over the coming years as well.



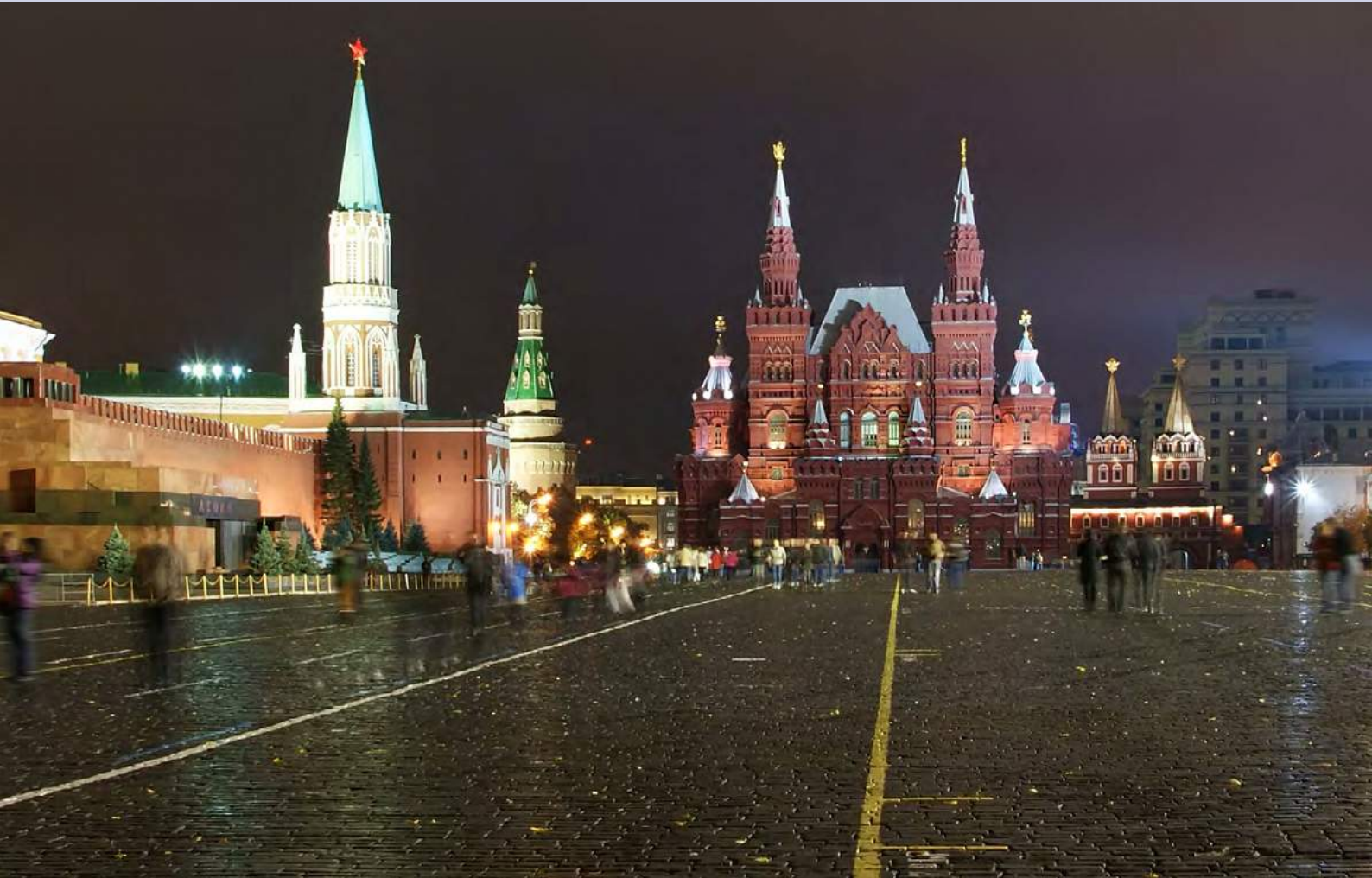
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**KPMG Russia Head of Automotive,  
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**Murat Karakaş**

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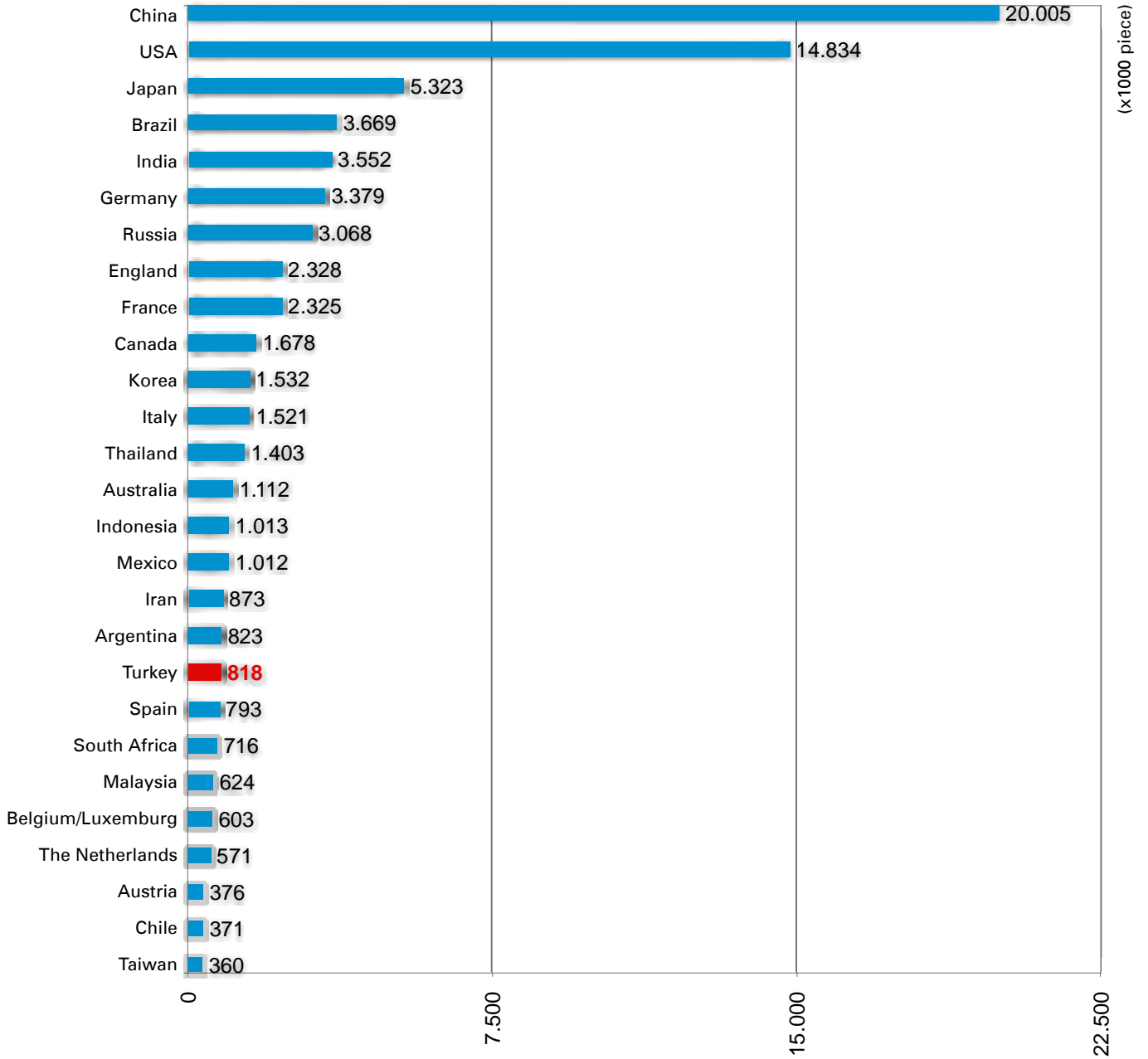


APPENDIX:  
**Facts and  
Figures**



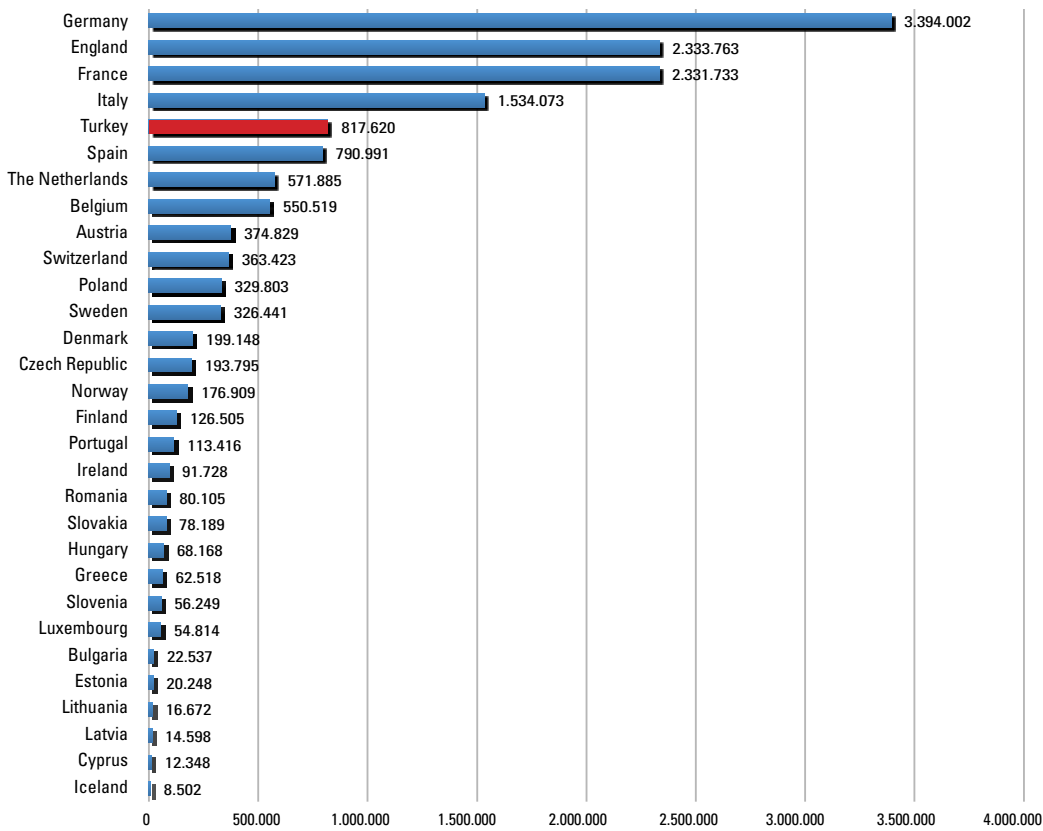
**Market**

## Global Motor Vehicles Sales 2012



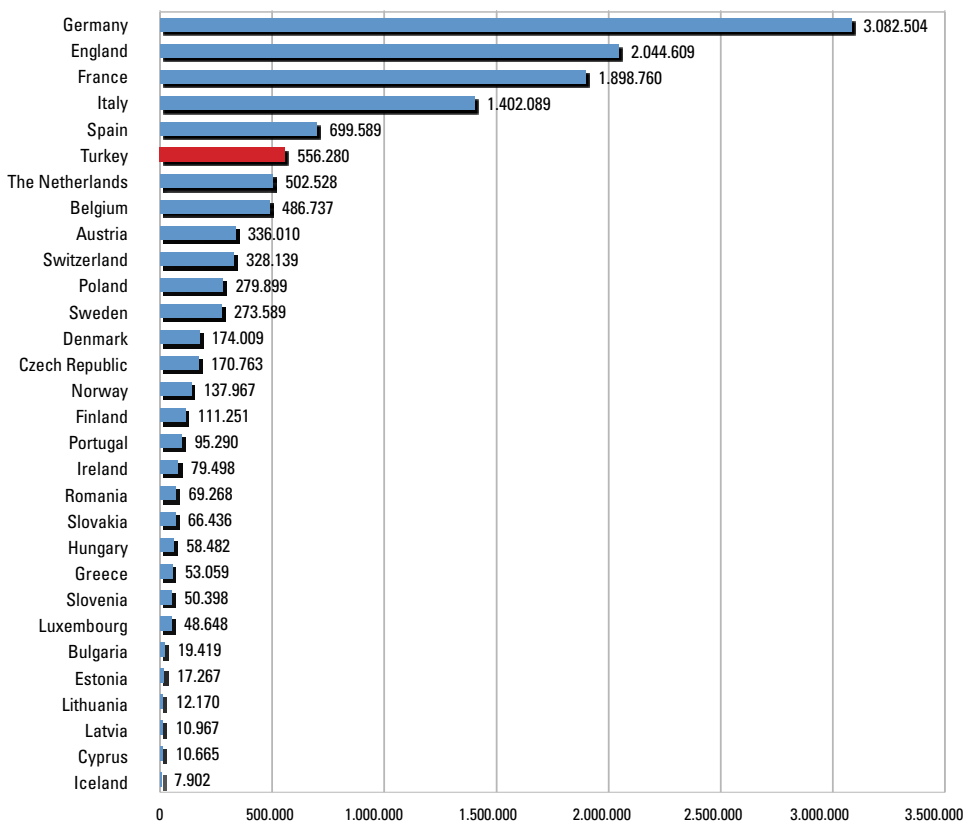
Source: ODD

### Europe Automobile Market - 2012 Vehicle Sales (Passenger Cars and Light Commercial Vehicles)



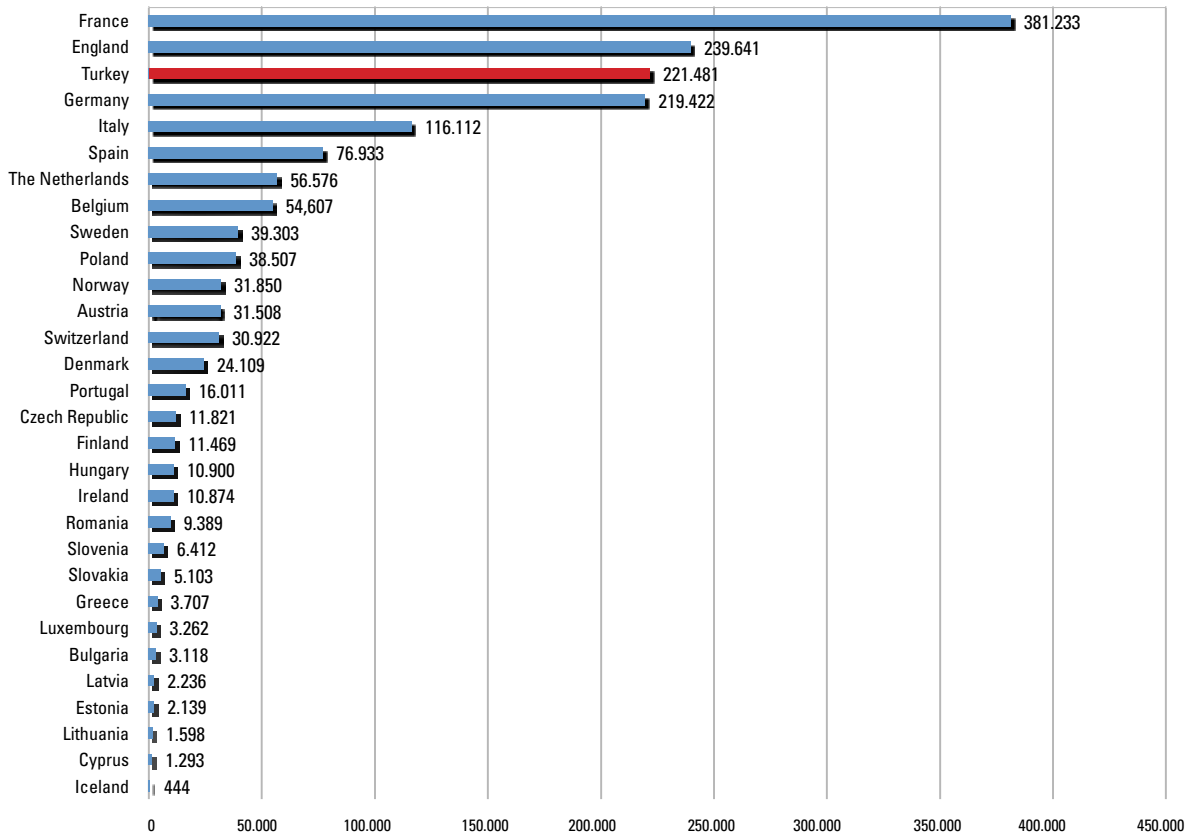
Source: ODD

### Europe Passenger Cars Market 2012 Sales



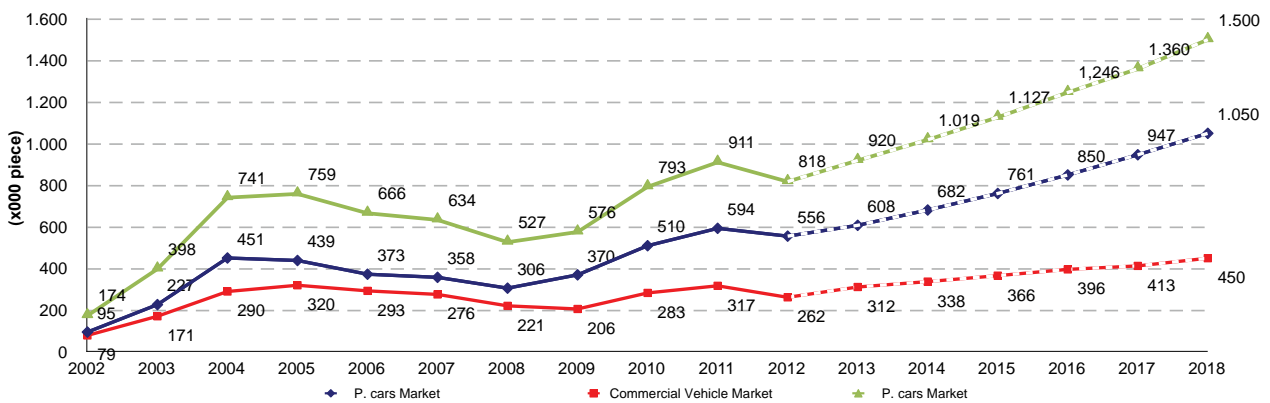
Source: ODD

### Europe Light Commercial Vehicles Market 2012 January-December Sales



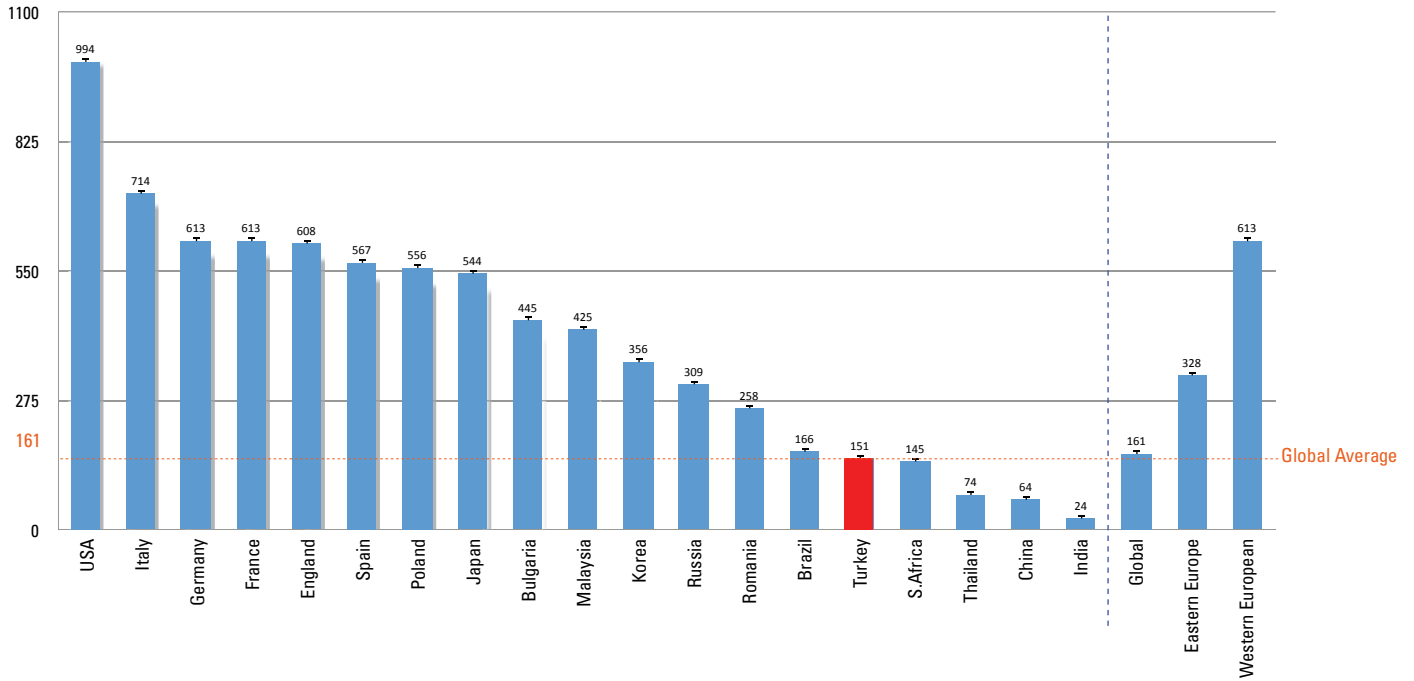
Source: ODD

### Total Automobile Sales in Turkey (2002-2012) and 2018 Projections



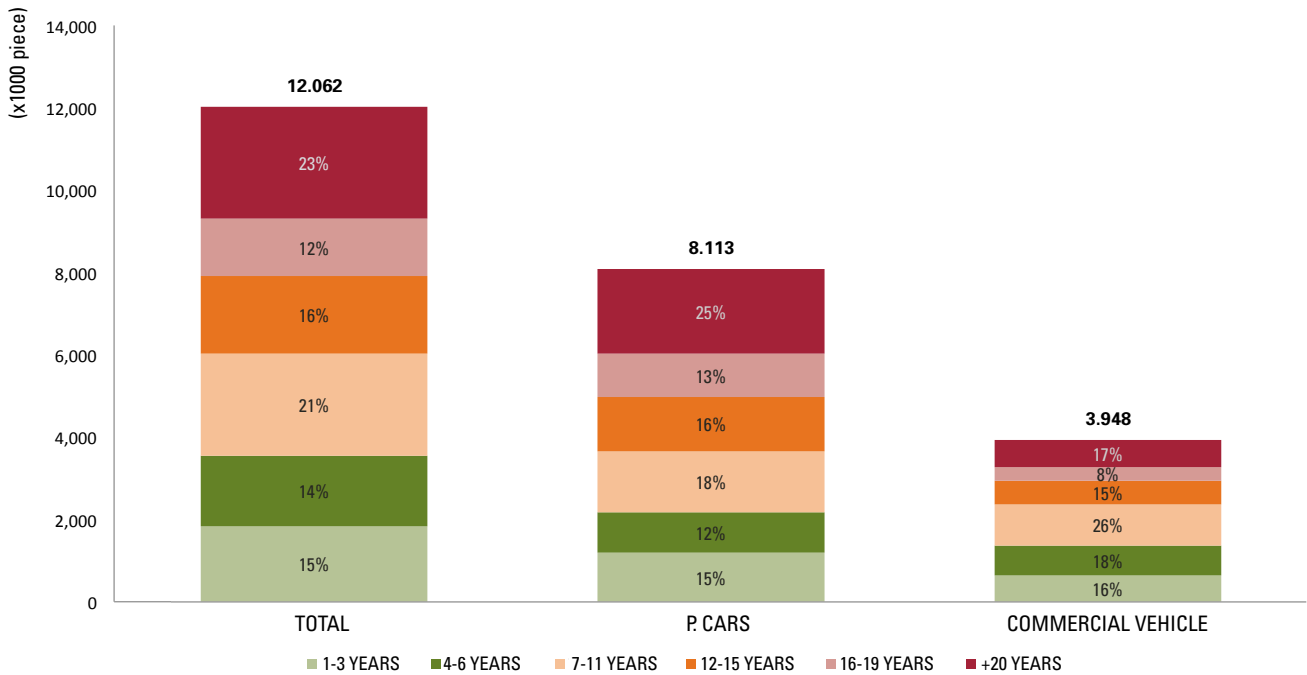
Source: ODD - "Roadmap Demand Projections for Automotive Trade 2012-2018" (2013-2018 projections: Income Increase by 5.5%; price and credit volume increase is fixed).

### Number of Motor Vehicles per 1000 people



Source: ODD

### Turkey Motor Vehicle Age Distribution (2011 Year-End)

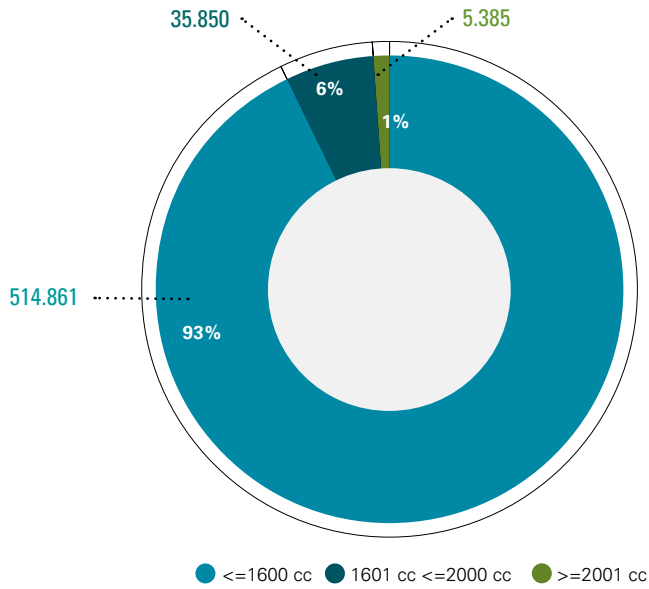


Source: ODD

## Passengers Cars and Light Commercial Vehicle Sales in Turkey (Brand Share Development)

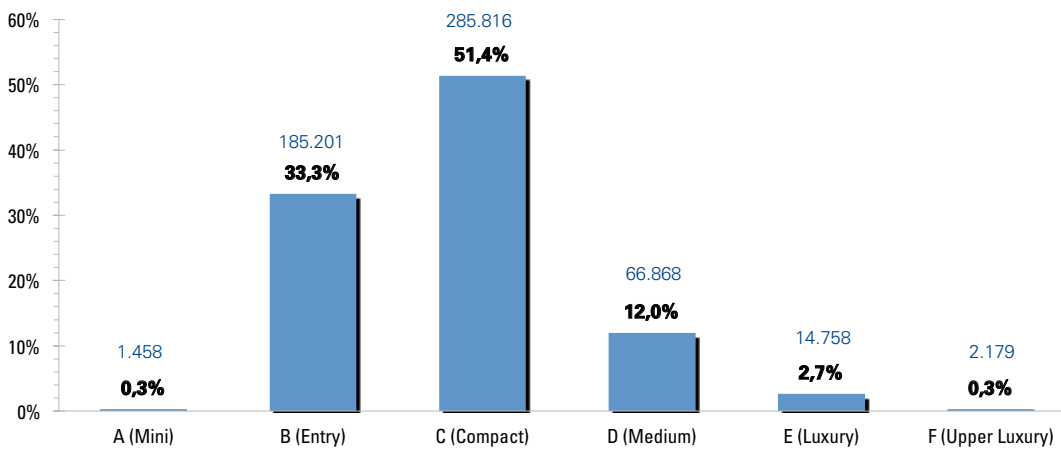
Brand	2012 Cumulative		2011 Cumulative		2011 / 2012 Cumulative
	Number	%	Number	%	%
FORD	106.166	13,7	133.277	15,4	-20.3
FIAT	102.432	13,2	128.869	14,9	-20.5
VOLKSWAGEN	92.840	11,9	81.911	9,5	13.3
RENAULT	89.205	11,5	119.488	13,8	-25.3
OPEL	49.825	6,4	54.437	6,3	-8.5
HYUNDAI	46.119	5,9	49.005	5,7	-5.9
TOYOTA	34.576	4,4	37.996	4,4	-9.0
CITROEN	30.544	3,9	30.439	3,5	0.3
PEUGEOT	29.562	3,8	34.915	4,0	-15.3
DACIA	28.964	3,7	21.339	2,5	35.7
MERCEDES-BENZ	21.964	2,8	21.025	2,4	4.5
NISSAN	20.120	2,6	20.319	2,4	-1.0
CHEVROLET	18.492	2,4	23.610	2,7	-21.7
HONDA	16.516	2,1	13.309	1,5	24.1
BMW	15.247	2,0	15.018	1,7	1.5
AUDI	13.720	1,8	12.064	1,4	13.7
KIA	12.715	1,6	10.494	1,2	21.2
SKODA	10.118	1,3	7.590	0,9	33.3
SEAT	5.811	0,7	6.059	0,7	-4.1
VOLVO	5.247	0,7	4.662	0,5	12.5
MITSUBISHI	4.465	0,6	8.042	0,9	-44.5
ISUZU	2.684	0,3	2.909	0,3	-7.7
KARSAN	2.418	0,3	3.027	0,4	-20.1
SSANGYONG	2.089	0,3	1.896	0,2	10.2
SUZUKI	1.780	0,2	1.340	0,2	32.8
MINI	1.758	0,2	1.735	0,2	1.3
IVECO	1.673	0,2	1.833	0,2	-8.7
LAND ROVER	1.590	0,2	2.139	0,2	-25.7
ALFA ROMEO	1.052	0,1	898	0,1	17.1
TATA	1.044	0,1	1.857	0,2	-43.8
GEELY	1.019	0,1	1.405	0,2	-27.5
MAZDA	1.013	0,1	1.848	0,2	-45.2
DFM	921	0,1	3.407	0,4	-73.0
CHERY	810	0,1	2.045	0,2	-60.4
JEEP	799	0,1	888	0,1	-10.0
PROTON	760	0,1	1.113	0,1	-31.7
SUBARU	640	0,1	761	0,1	-15.9
PORSCHE	497	0,1	442	0,1	12.4
LANCIA	276	0,0	178	0,0	55.1
SMART	0,0	60	60	0,0	60.0
JAGUAR	84	0,0	168	0,0	-50.0
INFINITI	41	0,0	102	0,0	-59.8
FERRARI	21	0,0	23	0,0	-8.7
MASERATI	18	0,0	24	0,0	-25.0
BENTLEY	18	0,0	10	0,0	80.0
ASTON MARTIN	10	0,0	20	0,0	-50.0
AMBORGHINI	2	0,0	6	0,0	-66.7
SAAB	0	0,0	0	0,0	0.0
CHRYSLER	0	0,0	47	0,0	-100.0
LADA	0	0,0	10	0,0	-100.0
DAIHATSU	0	0,0	379	0,0	-100.0
OTOKAR	0	0,0	0	0,0	0.0
BMC	0	0,0	0	0,0	0.0
DODGE	0	0,0	1	0,0	-100.0
<b>TOTAL:</b>	<b>777.761</b>	<b>100.0</b>	<b>864.439</b>	<b>100.0</b>	<b>-10.0</b>

### 2012 Passenger Car Sales Distribution per Engine Volume



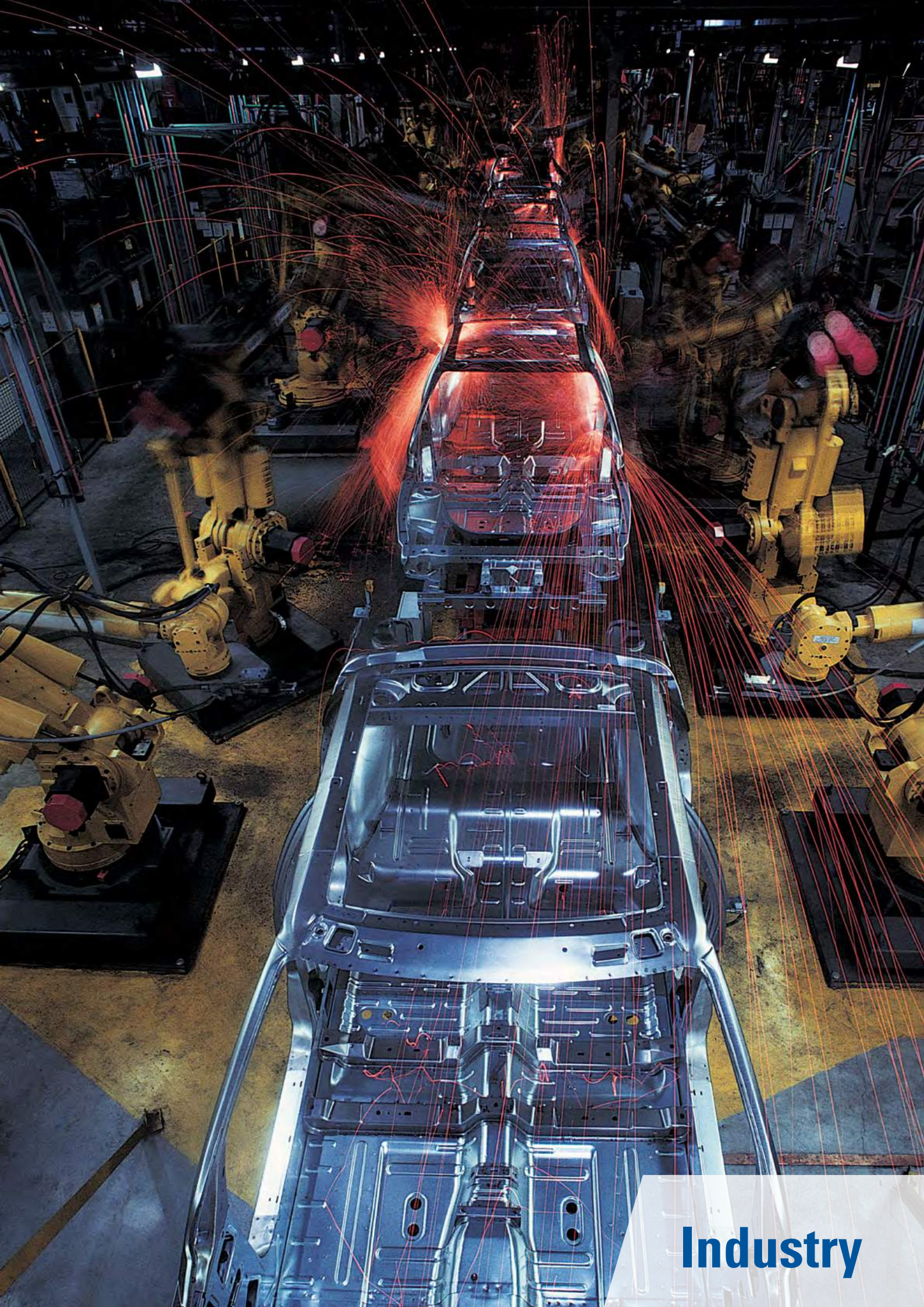
Source: ODD

### 2012 Passenger Car Automobile Market Segment Distribution



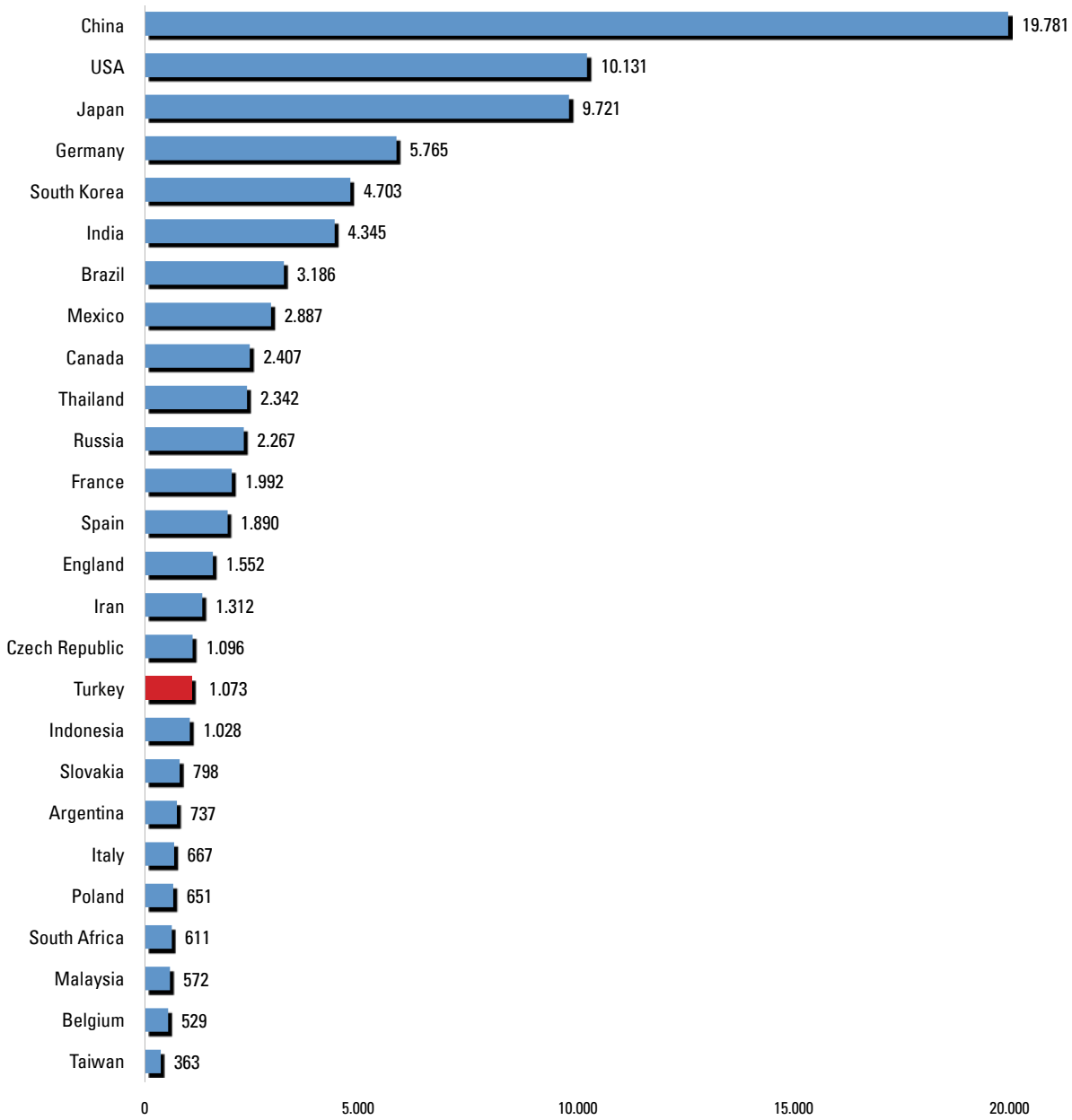
Source: ODD





**Industry**

## Global Motor Vehicles Manufacturing 2012



Source: ODD

## 2012 Manufactures of Turkish Automotive Industry

FIRMS	P. CARS	%	LIGHT LORRY	%	LORRY	%	PICKUP TRUCK	%	BUS	%	MINIBUS	%	Minibus	%	TRACTOR	%	TOTAL
A.I.O.S.	0	0	2.258	79	0	0	521	0	166	3	0	0	1.818	44	0	0	4,763
B.M.C.	0	0	0	0	1.241	5	0	0	207	3	0	0	100	2	0	0	1,548
FORD OTOSAN	0	0	0	0	7.362	28	238.706	56	0	0	26.029	89	0	0	0	0	272.097
HATTAT TARIM	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2.713	6	2,713
HONDA TURKEY	21.850	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	21,850
HYUNDAI ASSAN	86.976	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	86,976
KARSAN	0	0	3	0	1.002	4	11.180	3	0	0	3.255	11	8	0	0	0	15,448
M.A.N. TURKEY	0	0	0	0	0	0	0	0	1.134	18	0	0	0	0	0	0	1,134
M. BENZ TÜRK	0	0	0	0	16.666	63	0	0	3.336	52	0	0	0	0	0	0	20,002
OTOKAR	0	0	0	0	0	0	369	0	619	10	51	0	1.812	43	0	0	2,851
OYAK RENAULT	310.602	54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	310,602
TEMSA GLOBAL	0	0	597	21	0	0	372	0	957	15	0	0	428	10	0	0	2,354
TOFAŞ	80.943	14	0	0	0	0	175.485	41	0	0	0	0	0	0	0	0	256,428
TOYOTA	76.925	13	0	0	0	0	0	0	0	0	0	0	0	0	0	0	76,925
TÜRK TRAKTÖR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	39.542	94	39,542
<b>TOTAL</b>	<b>577.296</b>	<b>100</b>	<b>2.858</b>	<b>100</b>	<b>26.271</b>	<b>100</b>	<b>426.633</b>	<b>100</b>	<b>6.419</b>	<b>100</b>	<b>29.335</b>	<b>100</b>	<b>4.166</b>	<b>100</b>	<b>42.255</b>	<b>100</b>	<b>1.115.233</b>

LIGHT LORRY: GVW 3.5-12 Ton, LORRY: GVW 12 Ton and Up

Source: ODD

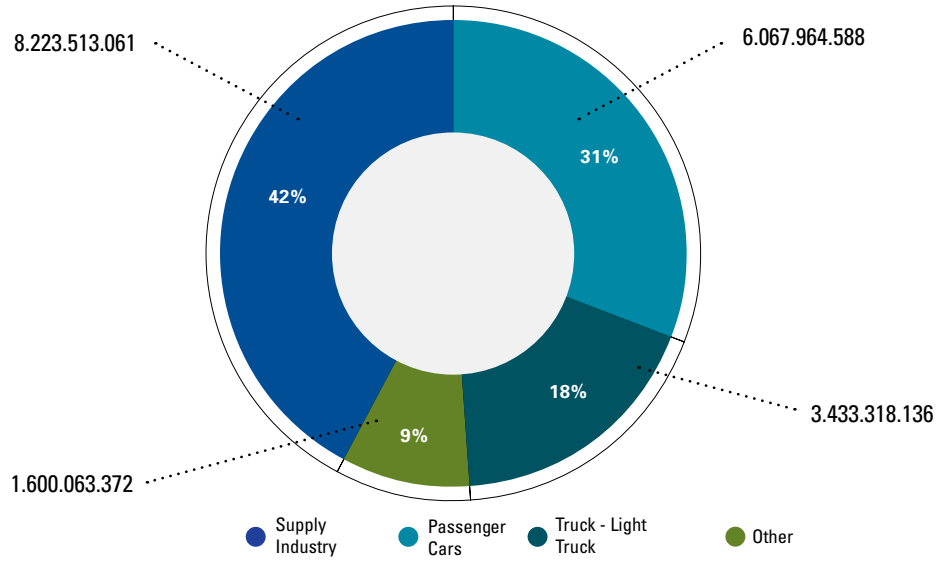
## Automotive Manufacturing and Capacity

	MANUFACTURING	CAPACITY	CAPACITY USE
Light Vehicles*	1.033.264	1.502.916	69
Truck	29.129	62,196	47
Bus	6.427	11.100	58
Minibus	4.158	6.732	62
F Tractor	42.255	54.996	77
<b>Total</b>	<b>1.115.233</b>	<b>1.637.940</b>	<b>68</b>

\* Light vehicles cover passenger cars, pickups and minibuses.

Source: ODD

## 2012 Turkish Automotive Industry Export



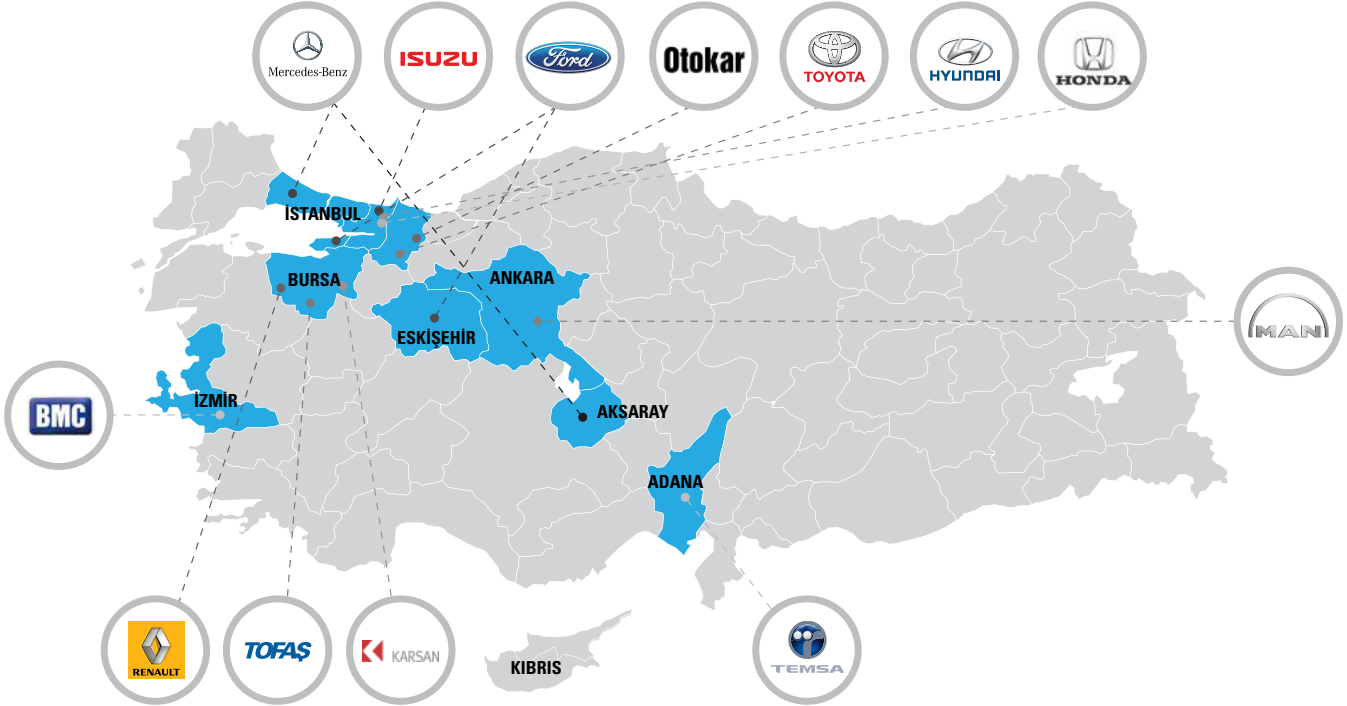
Source: ODD

## 2012 Exports of Automotive Industry Firms in Turkey

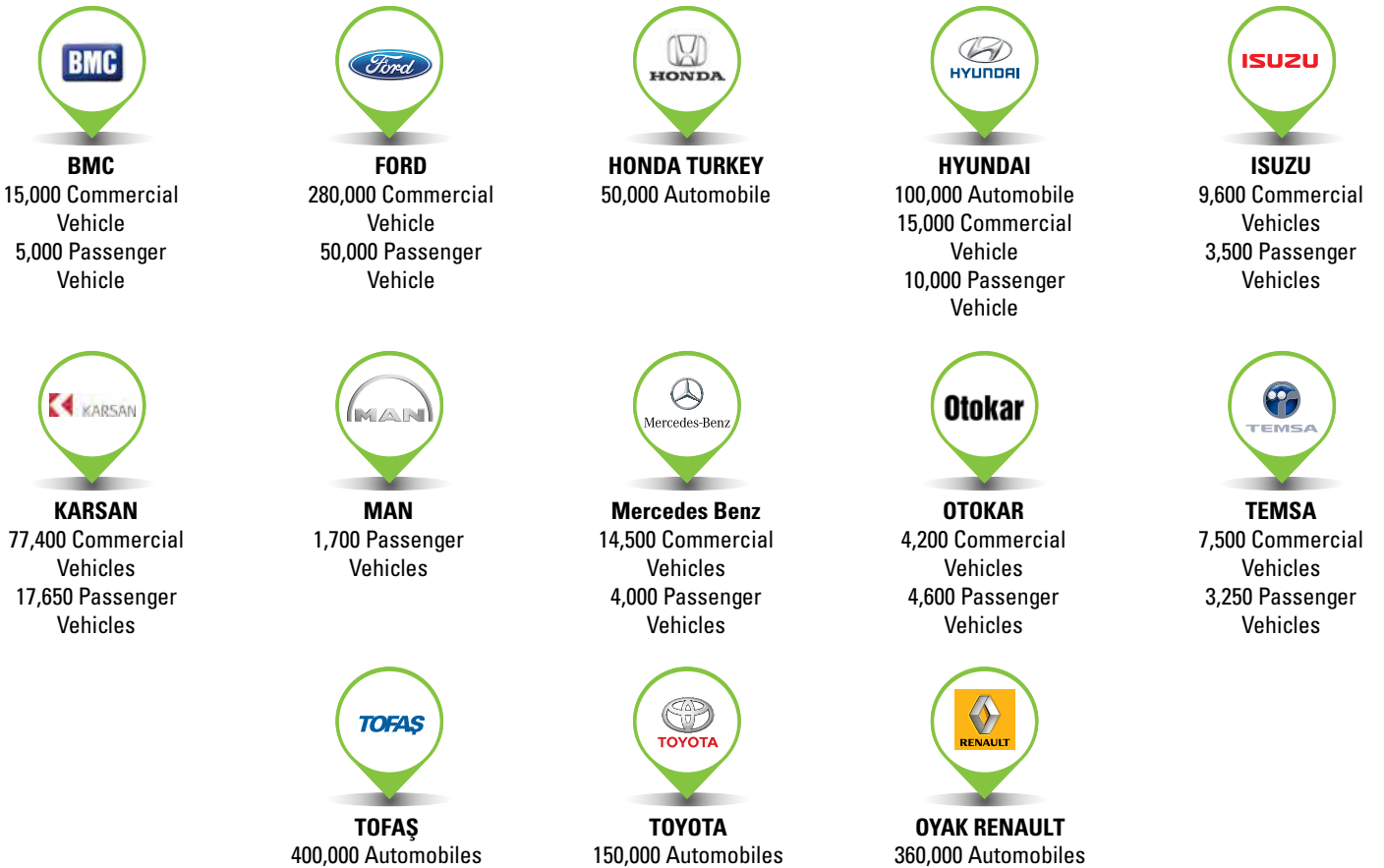
FIRMS	P. CARS	%	TRUCK	%	PICKUP TRUCK	%	BUS	%	MINIBUS	%	MIDIBUS	%	TRACTOR	%	TOTAL
A.I.O.S.	0	0	0	0	0	0	0	0	0	0	943	80	0	0	943
B.M.C.	0	0	189	7	0	0	71	2	81	0	0	0	0	0	341
FORD OTOSAN	0	0	613	23	174.221	60	0	0	16.315	99	0	0	0	0	191.149
HATTAT TARIM	0	0	0	0	0	0	0	0	0	0	0	0	859	6	859
HONDA TÜRKİYE	7.959	2	0	0	0	0	0	0	0	0	0	0	0	0	7.959
HYUNDAI ASSAN	67.453	16	0	0	0	0	0	0	0	0	0	0	0	0	67.453
KARSAN	0	0	6	0	10.980	4	0	0	0	0	8	1	0	0	10.994
M.A.N. TÜRKİYE	0	0	0	0	0	0	885	22	0	0	0	0	0	0	885
M.BENZTÜRK	0	0	1.824	68	0	0	2.230	55	0	0	0	0	0	0	4.054
OTOKAR	0	0	0	0	163	0	116	3	25	0	206	17	0	0	510
OYAK RENAULT	227.162	55	0	0	0	0	0	0	0	0	0	0	0	0	227.162
TEMSA GLOBAL	0	0	50	2	37	0	745	18	0	0	24	2	0	0	856
TOFAŞ	46.868	11	0	0	107.200	37	0	0	0	0	0	0	0	0	154.068
TOYOTA	63.549	15	0	0	0	0	0	0	0	0	0	0	0	0	63.549
TÜRK TRAKTÖR	0	0	0	0	0	0	0	0	0	0	0	0	14.572	94	14.572
<b>TOTAL</b>	<b>412.991</b>	<b>100</b>	<b>2.682</b>	<b>100</b>	<b>292.601</b>	<b>100</b>	<b>4.047</b>	<b>100</b>	<b>16.421</b>	<b>100</b>	<b>1.181</b>	<b>100</b>	<b>15.431</b>	<b>100</b>	<b>745.354</b>

Source: ODD

## Turkish Automotive Industry Manufacturing Capacity



Source: ODD



# Our Publications

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**Investment Incentive System in Turkey**



**Automotive Industry New Incentive System in Turkey**



**New Investment Incentive System with Questions and Answers**



**Investment in Turkey**



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