



Automotive Outlook and Trends in CEE, Russia and Turkey

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Central and Eastern Europe ("CEE") Automotive Market

CEE / Main Countries

- Bulgaria
- Czech Republic
- Hungary
- Poland
- Romania
- Russia
- Slovakia
- Slovenia
- Turkey
- Ukraine

CEE / Characteristics

- ▶ CEE have experienced substantial changes since the early 1990s.
- ▶ Some countries joined to EU and become key players in global industry operations.
- ▶ Geographically nestled between the EU and the Commonwealth of Independent States (CIS)
- ▶ Strategic location for global automotive companies to supply and export products.

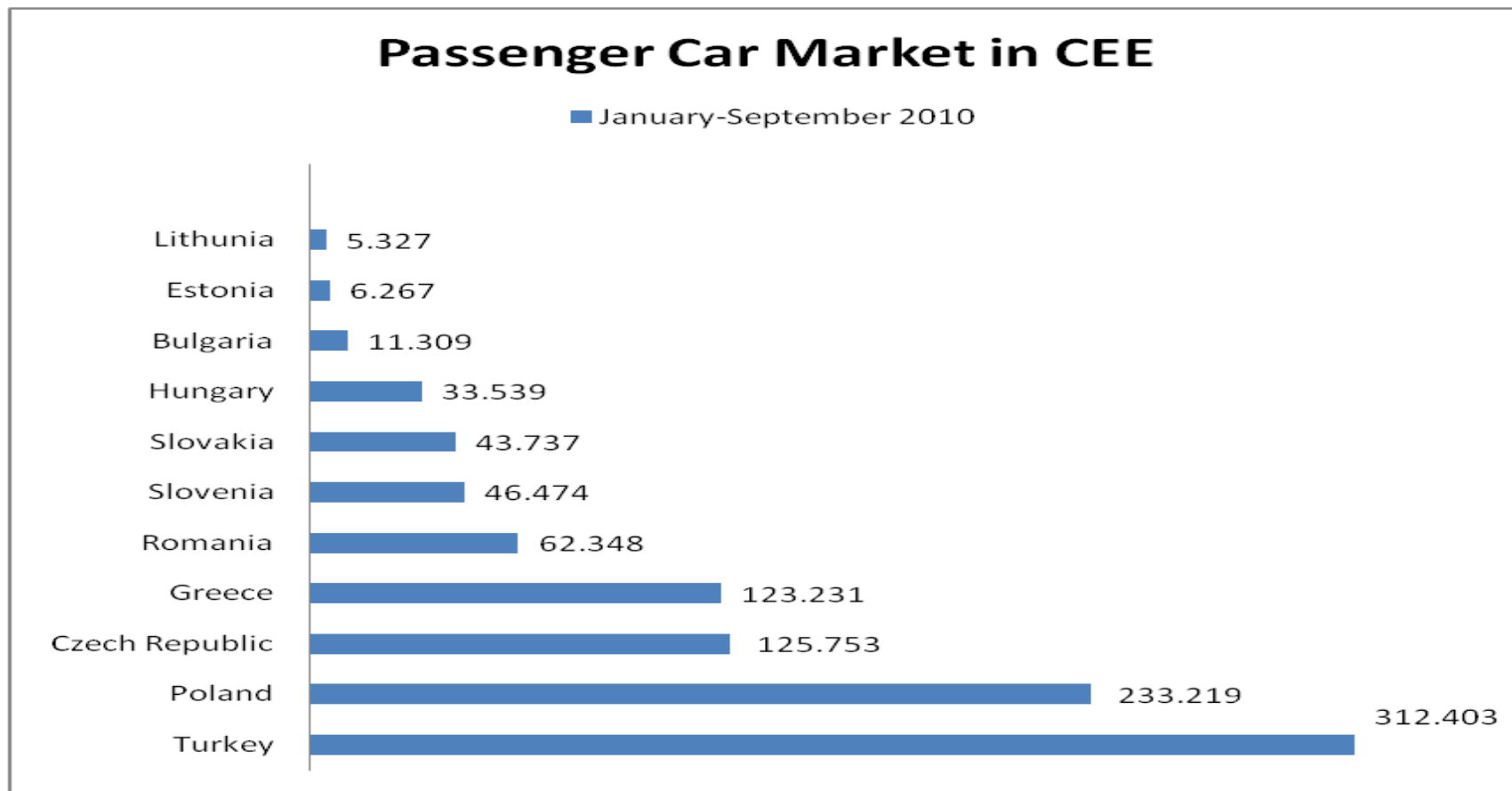
CEE / Automotive Market

- ▶ Represents an evolving region of diverse economies;
 - Indigenous automotive operations,
 - Aspirations for attracting new, or more, automotive foreign direct investment.
 - Adoption to EU economic policies affecting the auto industry,
 - such as common external tariffs and regulatory type approval.
- ▶ Combination of lower costs with cheaper land and labour attracts global automakers,
- ▶ Reduction of tariffs and VAT on vehicles (EU effect)

CEE / Global Downturn

- ▶ Key countries have experienced a dramatic economic slowdown,
- ▶ Major markets for exports have been negatively affected.
- ▶ Passenger car sales were affected as nearly elsewhere in the world.
- ▶ Romania and Hungary were most affected, where as Czech Republic and Slovakia recorded an increase in sales

CEE / Current Situation



Source: ACEA (European Automobile Manufacturer's Association)

CEE / Future Prospects

- ▶ Passenger car sales are expected to grow in the long run,
- ▶ Potential economic development beyond capital cities.
- ▶ CEE is clearly to remain a net exporter of vehicles.

Years	Projected Sales in Units	Projected Production in Units
2011	3.808.663	5.769.352
2012	4.479.892	6.497.232
2013	5.275.932	7.314.985
2014	6.106.662	8.009.410

Russian Automotive Market

Russia / Automotive Market

- ▶ One of the most dynamic sectors for the Russian economy.
- ▶ Leads in the production of cars in the so-called lower price group,
- ▶ Grew at an average annual rate of 21% over the past five years to reach 2,76 million before the downturn,
- ▶ Was the fastest growing European automotive market.
- ▶ Was the second largest automotive market in Europe.

Russia / Global Downturn

- ▶ Purchasing of cars on credit in Russia accounts for 40-45%
- ▶ Banking system has been affected, interest rates soared.
- ▶ Output of light vehicles from 1,469,898 to 595,807 in 2008 and 2009.
- ▶ Has been hit hardest among CEE countries in Global Downturn
- ▶ Negative GDP growth of %7,9 in 2009.
- ▶ Resulted in production freezes, investment cuts and price increases.

Russia / Risks and Opportunities

Risks

- ▶ High dependence on commodity prices,
- ▶ Increased protectionist measures, Shortage of skilled and unskilled labour,
- ▶ Transport infrastructure and availability of capacity does not match,

Opportunities

- ▶ Old car fleet and relatively low car density,
- ▶ High population,
- ▶ Strong consumer preference for foreign brands,
- ▶ Still a net importer of vehicles,
- ▶ Government has adopted a ten-year automotive industry strategy.

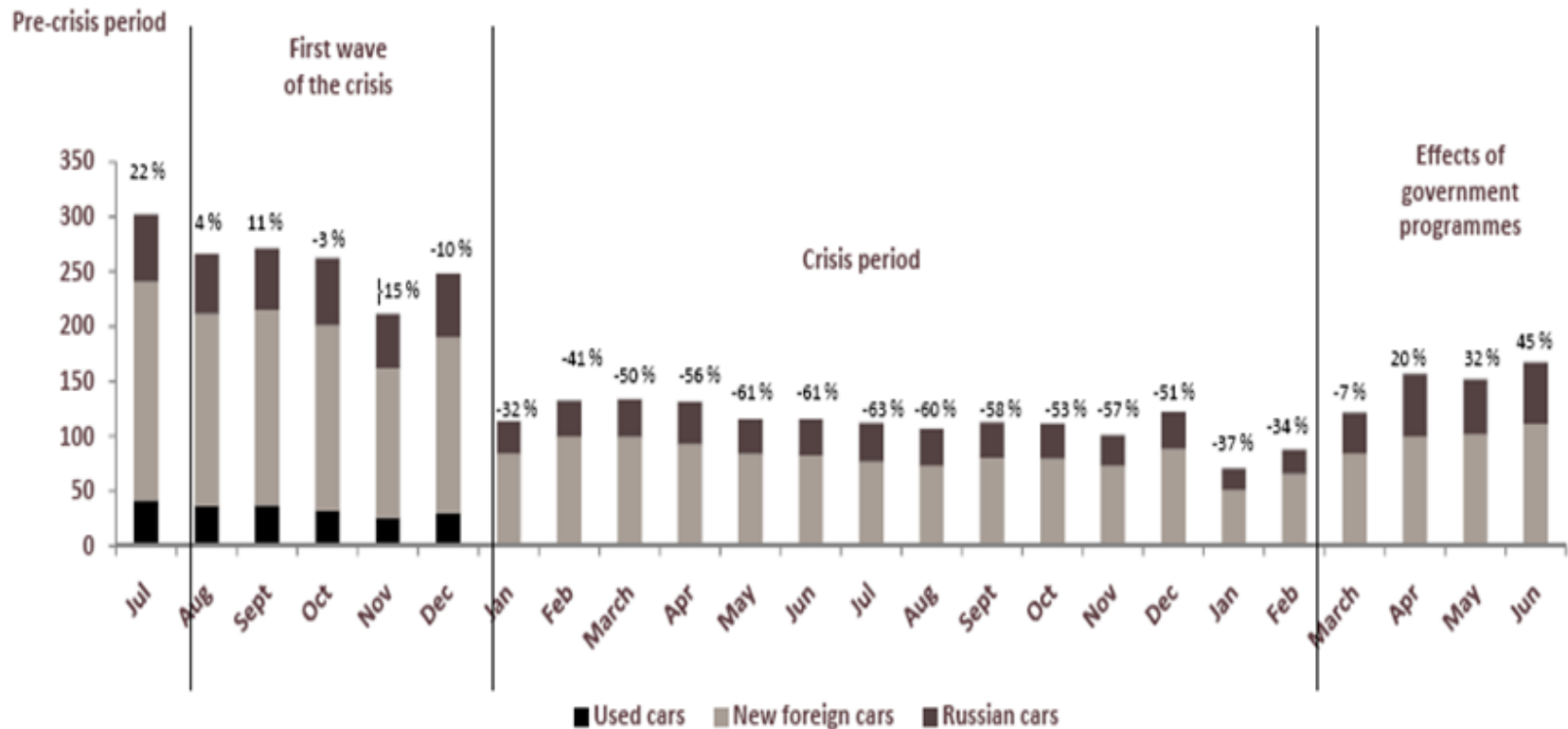
Russia / Measures to Eliminate Impact of Downturn

Government;

- ▶ Allocated USD 63 M to subsidize automotive consumer finance,
- ▶ Widened the price bracket to include a broader range of locally produced cars,
- ▶ Initiated a scrapping program for vehicles older than 10 years,
- ▶ Increased import customs duties to 30% in order to stimulate local manufacturing
- ▶ Provided state guarantees and financial aids to national automakers

Russia / Current Situation

Car sales in Russia from July 2009 through June 2010 and prior-year comparison, thousand vehicles



Sources: AEB, Goskomstat, GTK, ACM-holding, Autostat

Russia / Current Situation

- ▶ In the first half of 2010, the passenger car market grew by 3% in quantitative terms and by 9% in monetary terms against the same period last year.
- ▶ The biggest growth was seen in the segment of foreign cars produced in Russia.

Car Category	Thousand Vehicles			USD billion		
	1H 2010	1H 2009	Change	1H 2010	1H 2009	Change
Russian brands	240	200	20%	2,2	1,6	38%
Foreign cars produced in Russia	250	190	32%	4,7	2,9	62%
New cars imports	267	345	-23%	7,0	8,2	-15%
Used car imports	6	8	-25%	0,1	0,1	0%
TOTAL	763	743	3%	14,0	12,8	9%

Sources: AEB, Goskomstat, GTK, ACM-holding, Autostat

*The analysis includes used foreign cars and excludes light commercial vehicles

Russia / Future Prospects

- ▶ If there are no wide-scale changes in the market, expected production to grow over next several years.
- ▶ Key factors facilitating output growth;
 - Overall improvement in demand for cars due to the aging of Russia's car fleet,
 - Low market saturation and an improving macroeconomic environment,
 - Prolongation of high customs duties,
 - Carmakers' big investment plans,
 - Programs for industry development and government support of demand
- ▶ As the market recovers, global manufacturers' activities in Russia is also increasing.

Russia / Future Prospects



*Autofacts forecast



Turkish Automotive Market

Turkey / Characteristics

- ▶ EU entry negotiation since 2005,
- ▶ Large Population
- ▶ Modest impact of economic downturn on light vehicles
 - ▶ +12% in sales / -21% in production in 2009
- ▶ Local producers cooperate with foreign OEMs
- ▶ No premium car production
- ▶ People with engineering background
- ▶ Limited availability of personnel
- ▶ Sales potential due to population size; bridge to emerging markets

Turkey / Automotive Market

- ▶ The biggest single car producer is Oyak Renault.
- ▶ Toyota and Honda entered the market in the 1990s.
- ▶ Hyundai's first overseas production plant was founded in 1997.
- ▶ Chery Automobile (China) will start operations in Turkey in the second half of 2011.
- ▶ Home to bus and truck manufacturers such as Mercedes Benz, Isuzu and Iveco.
- ▶ Tofaş (Fiat) and Otosan (Ford) are leading producers in LVCs.

Turkey / Automotive Market

- ▶ Passenger car sales peaked with 678,000 between 2003 and 2004 due to a scrapping program,
- ▶ Domestic car sales in 2008 fell 17% to 494,569 units, but rose nearly 13% to over 557,000 vehicles in 2009.
- ▶ Has expanded rapidly with more integration into the European automotive value chain.
- ▶ 80% of the country's automotive production is for export,
- ▶ Accounted for 30% of overall Turkish export sales in 2008.

Turkey / Risks and Opportunities

Risks

- ▶ Difficulty in meeting Public Budget targets.
- ▶ Dependent on large capital inflows
- ▶ Inflation as an ongoing issue
- ▶ Negative account balance
- ▶ Geographical position might put exports to some countries at risk.

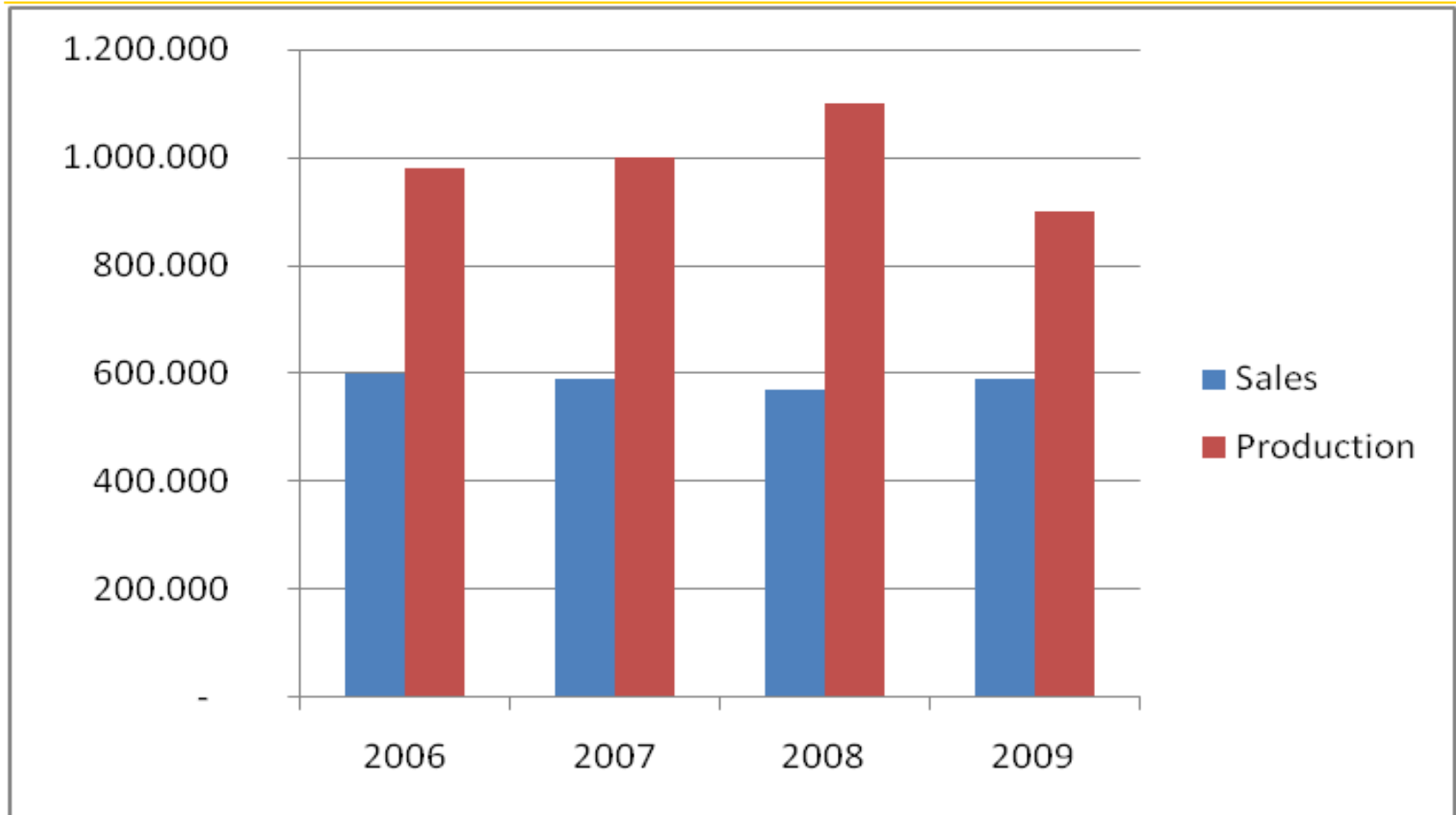
Opportunities

- ▶ Low car density with strong population growth
- ▶ Low labour cost
- ▶ Well-established foreign automotive industry
- ▶ Old age of cars
- ▶ Organized and well-established sub-sector companies

Turkey / Global Downturn

- ▶ Had a significant impact on Turkey's automotive industry.
- ▶ Passenger car production fell 18% to 510.931 compared to 2008.
- ▶ Consumption tax break in 2009 resulted 10% increase in passenger car sales.
- ▶ In terms of light vehicle and car production, Turkey also has benefited from the European scrapping programs.

Turkey / Global Downturn



Light vehicle sales and production compared (in units), 2006-2009

Source: J.D. Power and Associates

Turkey / Current Situation

► Passenger car sales as of September

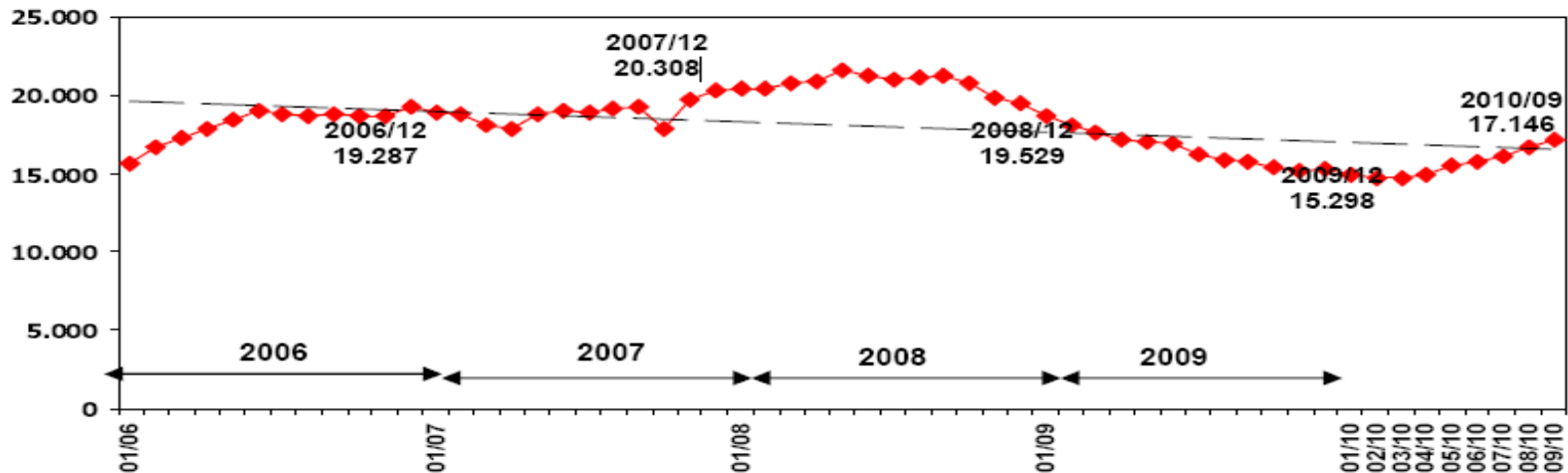
	Sales in 2009	Sales in 2010	%
Local	94.742	96.921	2,3
Import	186.403	215.482	15,6
Total	281.145	312.403	11,1

Source: Automotive Manufacturers Association (OSD)

Turkey / Current Situation

- ▶ Operational and financial advantages provided by car rental, leasing, consumer finance and used vehicle trading companies.
- ▶ As of September 2010; the car loans provided by Consumer Finance Companies is amounted 4.521.000 TL and car & commercial vehicle consumer loans is provided by banks is amounted 12.625.000 TL.

Reserve for Auto Loans as of September 2010 (Million TL):



Source: Automotive Distributors Association (ODD)

Turkey / Incentives & R&D Activities

- ▶ 100% R&D Expenses allowance from CIT base since 2008.
- ▶ Income Tax and Social Security Premium support in R&D Activities
- ▶ New investment incentives (with Investment Certificate),
 - ▶ Reduced Rate CT
 - ▶ VAT and Customs Duty Exemption
 - ▶ Social Security Premium Support
 - ▶ Interest Support
 - ▶ Investment Land Allocation
- ▶ Vehicle seats Crash Test Facility is in operation METU/Ankara,
- ▶ Centre of excellence for Hybrid Electric vehicles will be ready next year in Marmara Araştırma Merkezi
- ▶ Turkish Automotive R&D platform recently established.

Turkey / Future Prospects

- ▶ It is expected that Turkish automotive industry will achieve production of 1,1 M units by 2012.
- ▶ Offers a great potential with;
 - ✓ A population greater than 76 million,
 - ✓ The lowest car density in Europe,
 - ✓ An average car age of 16 years.

Turkey / Future Prospects

- ▶ With free trade access to the EU Turkey will continue to become attractive for foreign automotive players and as an export hub,
- ▶ Image of a low-cost, high quality location, bridging Europe and Asia, will continue to attract foreign investment
- ▶ Improved and organized Sub-sectors such as
 - ▶ Fleet rental companies
 - ▶ Leasing companies
 - ▶ Consumer finance companies
 - ▶ Used vehicle trading companies

are expected to stimulate sales.