

# Automotive

Success built on ingenuity

**Production...** **47%** of total motor vehicles  
**88%** of commercial vehicles

**Exports...** **47%** of total motor vehicles  
**96%** of commercial vehicles

**Sales...** **Market leader**  
with  
**17%** in passenger cars  
**41%** in commercial vehicles  
**50%** in farm tractors  
**25%** in total automotive



### Global crisis challenges the automotive sector

2008 was a very difficult year for the automotive sector around the world, including Turkey. In global markets, automobile sales were negatively affected by high oil prices during the first half of the year. Sales started to decline even more sharply after the third quarter as the deepening economic crisis began to assert itself on the markets. While sales in the U.S., the world's largest market, faced historic declines, the U.S. auto giants like General Motors and Daimler Chrysler applied to the Administration and Congress for financial support. Companies in other countries began suspending production, laying off workers, postponing model launch dates, and deferring investments due to the contraction in demand. In Germany, the biggest market in Europe, the 2008 production level decreased by 3% against 2007 for the first time since 2002 while sales decreased by 1.9%. Meanwhile, the Japanese market shrunk by 6.5% to experience its worst year since 1974.

Total sales in the Turkish automobile market, which were up in the first five months of 2008 compared with the same period in 2007, began to decline from June onwards. Total sales of passenger cars and light commercial vehicles declined by 17% to 494,023 units, according to the Automobile Distributors Association. Passenger car sales fell by 14.4% while the sale of light commercial vehicles slid by 20.8%. The 53.3% decline in sales during the last quarter of the year made it the worst fourth quarter for domestic automotive sales since 2002.



Total automotive production, on the other hand, increased by 4.3% during the year. Exports grew by 14.6% to \$21.9 million, according to data from the Automotive Manufacturers Association, despite the contraction in the export markets, mainly due to the strong performance in the first half of the year.

During the first half of 2008, the entry of low-priced Far Eastern brands into the market intensified competition. In Turkey, where car purchases are financed mostly by bank loans, expectations that interest rates would decline towards the end of the year led potential buyers to defer car purchases. This resulted in a decline in sales which was later compounded by the deepening global crisis and subsequent expectations of a decrease in the Special Consumption Tax towards the end of the year.

Volatile energy prices and escalating foreign exchange rates increased costs while the decrease in domestic demand caused manufacturing plants, many of which had recently invested in capacity increases, to stand idle.

Due to the internal dynamics of the heavy commercial vehicle market, the impact of the crisis on this segment was relatively mild. The trend towards higher usage of buses in public transportation and fleet purchases was another factor ameliorating the negative effects of the crisis.

The farm tractor market was adversely affected by the crisis even though the VAT burden on tractors and agricultural equipment was cut from 18% to 8% and the Government continued to support farmers by subsidizing 50% of agricultural equipment purchases. Adverse impact of the crisis intensified since banks cancelled their loan programs, became more selective and increased their interest rates, thereby dampening demand.

The defense industry was strong with higher domestic demand for locally manufactured products as well as stronger demand from export markets.

### Koç Group Automotive Segment

In 2008, Koç Group companies accounted for 47% of Turkish automotive production and exports.

Despite a significant contraction of the domestic market, total production of Koç Group's automotive companies exceeded 561,000 units - an increase of 7.9% over 2007. The automotive exports of the Group reached 437,595 units, an annual increase of 16.7%. Koç Group companies continued their leadership in the commercial vehicles segment with a production level of 462,532 units and realized 96.2% of Turkey's commercial vehicle exports in 2008.

There is continued concern that the global economic crises will worsen. In addition, contraction of the North American, European and Asian markets makes it unlikely that the automotive sector will recover anytime soon. However, it is inevitable that new equilibriums will emerge in the market and it is quite possible that during this process, manufacturers will turn to alternative means to increase their competitive advantages and move operations to more efficient production hubs.

In this context, Koç Group automotive companies, which have long-standing strong partnerships with world automotive giants such as Ford Motor Co. and Fiat S.p.A., made significant investments, initiated large scale export projects and begun to serve as a production hub for several brands, aiming to maximize the advantages they can derive from the restructuring process that will take place in the global automotive market. In particular, such advantages as increased R&D focus, the employment of advanced technologies and the implementation of cost reduction projects, as well as an experienced and efficient labor force, will be the main factors that differentiate Koç Group companies and create added value in this process.

In 2008, Koç Group companies accounted for 47% of Turkish automotive production and exports.

Despite the contraction in the export markets, automotive exports increased by 14.6%.



## Ford Otosan

**Total Revenues:**  
\$5,419 million

**Domestic Market Position:**  
Market leader for the 7<sup>th</sup> consecutive year  
14.7% total market share

**Network:**  
204 dealers including  
77 main sales points

**International Position:**  
Production and export center for Transit and Transit Connect models

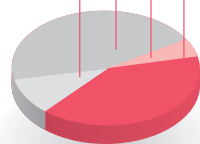
**Share of International Revenues:**  
69%

**Gross Profit Margin:**  
14.5%

**Operating Profit Margin:**  
8.7%

### Shareholder Structure:

Koç Holding  
38.46%  
Other Koç  
2.58%  
Ford Motor Co.  
41.04%  
Free Float  
17.93%



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## Market leader for the 7<sup>th</sup> consecutive year and automotive export champion

Established in 1959 as a small assembly facility, Otosan quickly developed into a production hub and laid the foundation of the Turkish automotive industry. With the Transit and Transit Connect commercial models produced in partnership with the Ford Motor Company at the Kocaeli factory, Ford Otosan remained Turkey's largest commercial vehicles manufacturer and automotive exporter in 2008. Its 14.7% market share in 2008 made Ford Otosan the market leader for the 7<sup>th</sup> consecutive year. The Company holds a 23.4% market share of the commercial vehicle segment as the market leader and an 8.5% share of the passenger car segment, holding the 4<sup>th</sup> place.

Ford Otosan ranked 2<sup>nd</sup> in İstanbul Chamber of Industry's listing of "Turkey's Top 500 Industrial Enterprises 2007" and is also the 2<sup>nd</sup> largest exporter in the country. Capacity and improvement investments at the award-winning Kocaeli Plant increased annual production capacity to 320,000 units. Prior to the economic crisis, the factory was working at full capacity but, due to the recession, average annual capacity utilization was realized at 82%.

Ford Otosan, one of Turkey's longest established automotive companies, celebrates its 50<sup>th</sup> anniversary in 2009. It has flexible production and planning strategies and believes in running operations at an optimum inventory level. Combined with its extensive and successful dealer network and strong financial structure, Ford Otosan continues to operate with a minimum loss of efficiency. Moreover, its cash flow-oriented approach serves as an important precaution in the volatile economic environment.

Ford Otosan's stable profit margins, cash-generation power and high dividend yield make it a defensive stock even in hard times and has created added value to its shareholders. In the coming years, Ford Otosan aims to maintain its profit margins, increase its market share with its strong product portfolio, continue its leadership position in the Turkish automotive market and become the production hub of Ford Europe. In 2008, in anticipation of the adverse effects of the financial crisis, the Company kept its investments at around YTL70 million in capacity increase, modernization and product development projects.

## Revamped product range strengthens market leadership

Ford Otosan closed 2007 with the very successful launch of the Mondeo model and almost completely revamped its product range, particularly for passenger cars in 2008. Ford Focus, which is one of the most powerful models and best selling cars in the C segment since its first launch in 1999, was revamped according to the Ford Kinetics design philosophy. Focus Coupe Cabriolet and Focus WRC series of the same model have also been launched. These vehicles appeal to the C segment, which comprises up to 50% of car sales in Turkey.

Another important product launch completed in 2008 was Ford Kuga, the Company's representative in the J-M segment and Ford's first 4x4 produced in Europe. During the last quarter of the year, the 7<sup>th</sup> generation Fiesta, which is one of the most powerful models of the B segment and leader of its class in 2005 and 2007, and the 2<sup>nd</sup> generation KA were introduced.

In the commercial vehicle segment, Connect Kombi Colorline and Ford Cargo 1835 4x2, along with the trucks and 4.6 ton-series vans were added to the Transit's wide product range, thereby appealing to additional customer segments and helping the Company increase its market share in this product group.

In April 2009, Ford Otosan will start exporting Transit Connect, one of the most successful models in the Turkish and European markets, to North America, thereby becoming the first Turkish Company to export cars to the Americas.



## Major competitive advantages supporting leadership

Kocaeli Plant's low-cost, flexible production, port facilities, logistical advantages, proximity to suppliers and the Company's major export program give Ford Otosan a unique competitive advantage in the sector. On account of its emphasis on innovation, Ford Otosan has been investing in automotive technologies that utilize renewable energy sources. It is carrying out the first hybrid car project in Turkey in the light commercial vehicle segment in partnership with TÜBİTAK MAM and İstanbul Technical University.

With the aim of meeting customer requests rapidly and improving customer satisfaction, Ford Otosan has established a strong and experienced distribution network. Currently, in line with geographic features, sales capacity and representative outlets, Ford Otosan serves its customers through 204 facilities.

## Awards recognize success

Ford Otosan received many awards in Turkey and abroad in 2008. For the 3<sup>rd</sup> time, the Company won the "Şehabettin Bilgisu Environment Award" given by Kocaeli Chamber of Industry. Among the other awards garnered by the Company were the "Grand Award in the Large Establishments Category" and the "Passenger Vehicles and Supplier Industry Sectoral Award in the Large Establishments Category" given by the Sectoral Performance Appraisal Organization and the "Worker Health and Safety Best Practices Award" given by the Ministry of Labor and Social Security. Ford Otosan also came in 1<sup>st</sup> in the "Product Category" as part of the European Union Environment Awards Turkey Program and 2<sup>nd</sup> in the "Management Category" as part of the same program. Finally, the Company became the world champion at the Castrol Fiesta Sporting Trophy International world championship.



## 2009 and beyond

Ford Otosan aims to become a powerful company that designs its own vehicles and develops new automotive technologies, thus becoming an engineering and R&D center within the global Ford organization. As a result of its efforts at technology improvement geared towards light commercial vehicle design and production, the Company intends to double the number of its R&D employees by 2012. The rapid rise of Ford Otosan will be reflected not just in sales and export figures but also in patents, scientific publications, brand and design development, design awards and market share.



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## Tofaş

**Total Revenues:**  
\$3,711 million

**Domestic Market Position:**  
3<sup>rd</sup> with 12.4% total market share

**Network:**  
159 dealers including  
75 main sales points

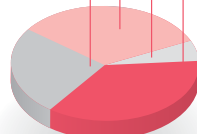
**International Position:**  
Production and export center for Doblo, MiniCargo and Linea models. In charge of Fiat's Middle East and North Africa markets. Joint projects with JSC Sollers in Russia.

**Share of International Revenues:**  
69%

**Gross Profit Margin:**  
5.2%

**Operating Profit Margin:**  
5.1%

**Shareholder Structure:**  
Koç Holding  
37.59%  
Other Koç  
0.27%  
Fiat Auto S.p.A  
37.86%  
Free Float  
24.29%



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## Success of MiniCargo

Established in 1968 by Koç Holding's founder Vehbi Koç, Tofaş is a joint venture of Koç Holding and Fiat S.p.A. Currently it is one of Fiat's three strategic international production hubs. In addition to the Doblo and MiniCargo models produced at the Bursa factory, it exports Fiat's Linea model to international markets, thus making it an important global player.

Despite the extreme price competition, thanks to a controlled pricing policy, Tofaş retained its 3<sup>rd</sup> position in the passenger car segment with 8.8% share, in the backdrop of a contracting domestic market. In the light commercial vehicles segment, the launch of new models enabled Tofaş to increase its market share to 18.3%, securing the 2<sup>nd</sup> place. Tofaş, one of the leading automotive companies of Turkey, celebrated its 40<sup>th</sup> anniversary in 2008. Despite the affects of the global crisis, the Company achieved important increases in its total production level, export figures and revenues. The major factor behind this impressive performance was the launch of the MiniCargo model, which belongs to a totally new segment created by Tofaş in the light commercial vehicle category. Tofaş produces this model for Peugeot and Citroen in addition to Fiat.

## Record increase in exports

Tofaş set a new record in 2008 by exporting 209,474 vehicles, 43.3% more than a year earlier. Export revenues rose 62% to YTL3.3 million. Take-or-pay export agreements were a key factor behind this success at a time when the European automotive market, the Company's major export destination, contracted significantly.

## Turkey's highest capacity automotive company

In 2007, with a production capacity of 250,000 units, Tofaş reached 85% capacity utilization rate. In 2008, production capacity increased to 360,000 units, of which 74% was utilized. Major investments brought capacity up to 400,000 units by the end of 2008, giving Tofaş the highest production capacity among all automotive companies in Turkey. The Company's capex reached Euro 326.6 million in 2008. Over the last five years, Tofaş has invested a total of Euro 1,027 million in capacity increase, modernization and new models.

## The new Doblo

The success of the Doblo, a light commercial vehicle, stands as a turning point in Tofaş's history. The development and production of the new generation Doblo, also known as project "263" is being carried out by Tofaş. Tofaş holds the intellectual property rights to the new Doblo, as it does for the MiniCargo, a significant achievement for the Company and the Turkish automotive sector.

The annual production target for the new Doblo is 120,000 units. In 2008, Euro 185 million was invested and an additional Euro 210 million of investment is foreseen in 2009 for the project. The new Doblo will also be produced under the take-or-pay agreements provided by Fiat and two-thirds of the total production will be exported. The vehicle is planned for launch by the end of 2009.

## Biggest R&D center in the Turkish automotive sector- R&D spending above global standards

In line with its mission of "becoming the most competitive and self-sufficient passenger and commercial vehicle development hub of Fiat by 2010", Tofaş has recently restructured its R&D department. Tofaş R&D center's goal is to reach a capacity enabling the Company to develop a new vehicle every two years. Tofaş R&D center is Fiat's 2<sup>nd</sup> largest in Europe and 3<sup>rd</sup> largest in the world. The Company spent YTL293 million on R&D in 2008, becoming the biggest R&D center in the Turkish automotive sector. With a ratio of annual R&D spending to net revenues as high as 5%, Tofaş has managed to exceed world standards in terms of the level of R&D investments.



## International Van of the Year: Fiat Fiorino

Under the five brands it offers to its customers, Tofaş has a wide range of models to satisfy various customer needs and tastes in Turkey. Through the new models it launched in 2008, the Company further expanded its product range. Tofaş launched different versions of the Fiorino model, Fiat's MiniCargo brand, as well as the Fiat Bravo and Fiat 500. In August, the Company unveiled the Grande Punto model. In addition to these, the Lancia Delta and Alfa Romeo Mi-To, which hit the market in Italy during the first half of the year and the revamped Alfa 159 were launched in Turkey.

Ferrari Scuderia 430 and Maserati Grantourismo, Grantourismo S and Quattroporte S versions were launched in Turkey in 2008 by Fer-Mas, the Ferrari and Maserati distribution company. The Company started receiving orders for the Ferrari California following its first exhibition at the Istanbul Autoshow.

## Koç Fiat Kredi

Koç Fiat Kredi provides financial solutions to the five Fiat brands under the Tofaş umbrella. During the first half of 2008, following an agreement with Türk Traktör, it began to extend loans for Case New Holland agricultural machinery which are part of the Fiat brand portfolio. The Company is continuing talks regarding financing of other Fiat brands and will start issuing loan insurance in the first quarter of 2009.

During 2008, Koç Fiat Kredi had considerable success despite the contraction in the market, issuing 14,399 loans which financed 23.4% of Tofaş's total sales and 46% of its loan-based sales.



## 40 years of success

Tofaş received many awards in 2008: "Autobest 2008" for the Fiat Linea; "International Van of the Year 2008" for Fiat Scudo and "International Van of the Year 2009" in two different categories for Fiat Fiorino.

Tofaş marked its 40<sup>th</sup> anniversary in 2008 with various cultural activities. It capped the year with four awards it received at the MediaCat Felis Advertising Awards for the Fiat Bravo product launch infomercial. The Company also received an award in the "Training and Development" category of the Human Resources Management Awards organized for the first time in 2008 by PER-YÖN, the Personnel Management Association of Turkey, the first NGO established in the area of human resources management in Turkey.

## Corporate Governance Index

Tofaş improved its corporate governance rating from 7.74 to 8.16 and is one of the first companies in the ISE Corporate Governance Index.

## 2009 and beyond

In line with the rapidly changing international scene, in 2009 Tofaş will give priority to creating alternative sales areas, effective working capital management, turning the crisis into opportunity by focusing on costs and expenses and strengthening the Company and its stakeholders.

Tofaş's goal for the domestic market for 2009 is to increase its market share to 13.4%. In terms of export volume, the Company foresees a level similar to that of 2008 despite shrinkage in the European market.

In 2009, in addition to the production of the "263" project, the Linea model with a 1.6 liter engine will be added to the product line and exported to Russia on a SKD basis.



Tofaş increased its export revenues by 62%, thanks to the take-or-pay agreements.



## Türk Traktör

**Total Revenues:**  
\$609 million

**Domestic Market Position:**  
Market leader with 50% market share

**Network:**  
NH brand: 102 tractor dealers, 71 spare part dealers, 434 service dealers  
CASE IH brand: 12 dealers

**International Position:**  
Engineering and production center for New Holland TD and Case JX farm tractors

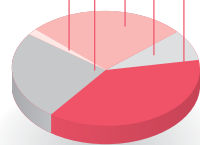
**Share of International Revenues:**  
40%

**Gross Profit Margin:**  
17.5%

**Operating Profit Margin:**  
8.2%

### Shareholder Structure:

Koç Holding 37.50%  
Koç Holding, held for sale 2.31%  
Case New Holland 37.50%  
Free Float 22.01%  
Other 0.68%



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## Turkey's biggest farm tractor producer and exporter

Türk Traktör, a joint venture of Koç Holding and CNH Global NV, one of the world's largest tractor and agricultural product manufacturers, has been operating in Turkey since 1954. Despite the 50% contraction in the domestic market and price pressure resulting from the devaluation of the Turkish Lira on farm tractor imports from Europe and the U.S., as a local producer, Türk Traktör was able to increase its market share thanks to its strong distribution network and large customer portfolio.

With 102 tractor dealers operating under the New Holland brand, 71 spare part dealers and 434 service dealers, the Company has the largest dealership network in Turkey. Türk Traktör integrated its manufacturing and service operations by merging with New Holland Trakmak in 2008. The Company expanded its dealer network even further with the CASE IH brand launched in 2007, adding 12 new dealers including sales, spare parts and technical support.

There were significant changes in market demand in 2008. Nevertheless, Türk Traktör succeeded in adapting to volatile market conditions by making use of its vertical integration. In order to minimize the effects of the crisis and decrease inventory for all products, the Company restructured its domestic tractor production level, strengthened collection mechanisms and reviewed its commercial and industrial investments.

### Increase in all market shares

With its annual tractor production capacity of 35,000 units and engine production capacity of 25,000 units, Türk Traktör is the largest domestic manufacturer in the sector. In 2008, the Company increased its market share of New Holland branded products by 10% to attain a market share that is 30 points higher than that of its closest rival, thus consolidating its leadership position. The CASE IH branded vehicles launched in 2007 increased their market share from 0.4% to 2.4%. Through new product launches in the combine harvester market, dealers with a high level of expertise and comprehensive after-sales support service, the Company was able to retain its market share and leadership. Moreover, in the cotton harvesting machine market, the Company turned in a good performance, increasing its market share by 7%.

## Expanding product range in a contracting market

Türk Traktör offers the largest product range in Turkey and has been serving Turkish farmers with 68 main models and 250 variations under the New Holland brand. In conformity with new engine emission and noise regulations, all models were upgraded in 2008 and existing models were supported with new features in line with customer expectations.

### R&D focus

Türk Traktör has one of the largest R&D departments of any industrial company in Turkey. The Company strengthened its position in the market in 2008 through the high quality products it manufactured using its own R&D resources and technology. Türk Traktör is among the most important R&D centers within the Case New Holland universe and aims at maintaining this position.

### Awards

In 2008, Türk Traktör received numerous awards: the "Agricultural Industry Success Award" given by the Turkish Society of Agriculturists; the "Quality Circle Award" given by the Turkish Society for Quality (KalDer) Ankara Branch for its project that provides 100% product recycling, and the award for "Best Application at Industrial Level" given by the Ministry of Employment and Social Security, for its project to eliminate risks on the assembly lines by conducting a workbench-based risk analysis.

The Company has started providing "Risk Analysis" training for blue collar workers and as part of this project, risk analyses using control lists have been conducted in the field. A total of 10,000 points have been checked and 225 improvements achieved, thereby significantly improving personnel safety.

### Corporate Governance Index

Türk Traktör improved its corporate governance rating from 7.52 to 7.83 and is one of the leading companies in the ISE Corporate Governance Index.

## Otokar

Since 1963, Otokar, utilizing its own technology and design capabilities has been manufacturing minibuses, buses, 4x4 tactical vehicles, light armored vehicles for the defense industry and trailers and semi-trailers for the freight and logistics sectors at its Sakarya factory. Otokar celebrated its 45<sup>th</sup> anniversary in 2008. Thanks to its achievements in the defense industry, it has been affected by the crisis to a lesser extent than the automotive sector as a whole and increased its revenues by 12% in 2008. The Company has continued to work for its customers, business partners and investors with its slogan "The experience that makes a difference".

### 15% increase in exports

Otokar increased its total exports by 15% to \$115 million while the international sales and service network increased to 30 countries, mainly in Europe. Otokar strengthened its presence in foreign markets in commercial vehicles in particular and posted a 58% increase in exports of small buses.

The Company expanded its production area to 552,000 m<sup>2</sup> after purchasing the factory, facilities and the land owned by Otoyal A.Ş.

### The first national tank

In 2008, Otokar became the main contractor for the "ALTAY - Project for Modern Tank Production Using National Resources" through an agreement it signed with the Defense Industry Undersecretariat for a project to design the first Turkish tank.

### New orders for the export champion

In 2008, Otokar, Turkish defense industry's export leader, entered new markets with armored vehicles that the United Nations Forces started using in the Middle East, Africa and Gulf countries. Throughout the year, Otokar delivered military vehicles made for the Turkish Armed Forces to the Turkish Army. At the end of 2008, the Company won the Tactical Wheeled Vehicles tender and has been selected to start negotiations to supply 861 Land Rover Defender vehicles.

## A natural gas-powered bus

Otokar's performance in the first nine months of 2008 in the commercial vehicle category paralleled that of the automotive sector. During the last quarter, the Company performed well because of its bus fleet sales and collective purchases. Behind this success are brands like Doruk buses, launched in 2008 and Sultan buses, both of which strengthened their positions in the market, and the minibus series. As part of the projects carried out at Otokar R&D center for developing vehicles using alternative fuels, the Doruk DG was added to the product line in November.

Despite the recession in the trailer market, Otokar managed to maintain its position and share in this market and developed the new Eco series targeted at the local transportation companies.

### Design award for Doruk LE

Doruk LE, designed specifically for disabled passengers, was awarded the "Best Design Award" at the Design Turkey Awards.

### Corporate Governance Index

Otokar received a score of 7.94 for its corporate governance rating and became one of the leading companies in the ISE Corporate Governance Index.



## Otokoç

Otokoç celebrated its 80<sup>th</sup> anniversary in 2008, making it Turkey's oldest automotive company. Following the mergers of the previous year, Otokoç now operates as a single legal entity. It is a leader in automotive retailing with Otokoç and Birmot brands as well as the premier car rental company with Avis and Budget brands. On the automotive retailing side, the Company maintained its growth by establishing four new facilities and renovating nine facilities in 2008. In addition, the Company opened five new Budget offices during the year, of which four are corporate owned and one is franchised.

Otokoç had a 28% share in Ford Otosan's sales and a 29% share in Tofaş's sales in 2008, selling a total of 39,000 new cars and 5,700 used cars. The Company recorded revenues of YTL140 million from service, YTL154 million from spare parts, and YTL8 million from insurance and vehicle financing.

Otokoç and Birmot continued their quality focused projects in 2008 and made their mark on the vehicle retailing sector by obtaining the ISO 14001 Environmental Management System and OHSAS 18001 Job Security and Employee Health certificates.

## Beldeyama

Beldeyama, a partnership with Yamaha (Japan), is Turkey's leading manufacturer and exporter of two-wheeled vehicles. Beldeyama's revenue in 2008 was YTL83 million and its export revenues \$27 million as a result of 39,000 moped exports.