MACROECONOMIC OVERVIEW

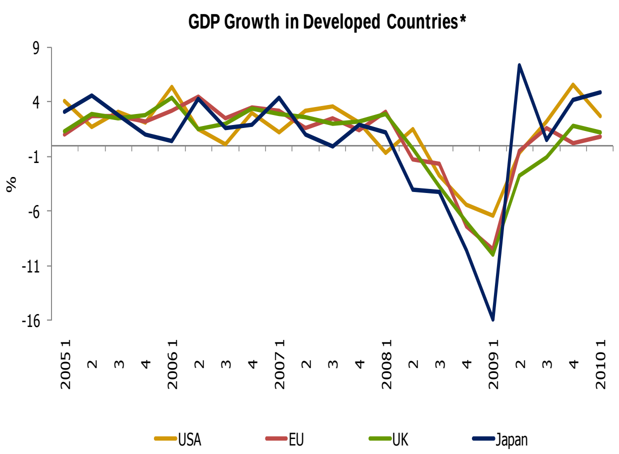
JULY 2010

Koç Holding

CONTENTS

GLOBAL MARKETS

GLOBAL ECONOMIC GROWTH



*Seasonally adjusted, annualized quarterly growth rates

Global economy has continued to grow in the first quarter of 2010, despite sovereign risk issues in some European economies. Japanese economy is enjoying a strong recovery both due to a weaker base and a better-than expected increase in exports. The US economy is also exhibiting a good performance, although the growth rate in the first quarter of 2010 has significantly fallen down when compared to the last quarter of 2010. Not surprisingly, both the Eurozone and the UK economies are growing at pretty dismal rates due to ongoing concerns regarding the sustainability of public finances. Meanwhile, developing countries continued to lead the global economy recovery with countries such as Brazil, India, China and Turkey exhibiting stellar growth performances in the first quarter of 2010.

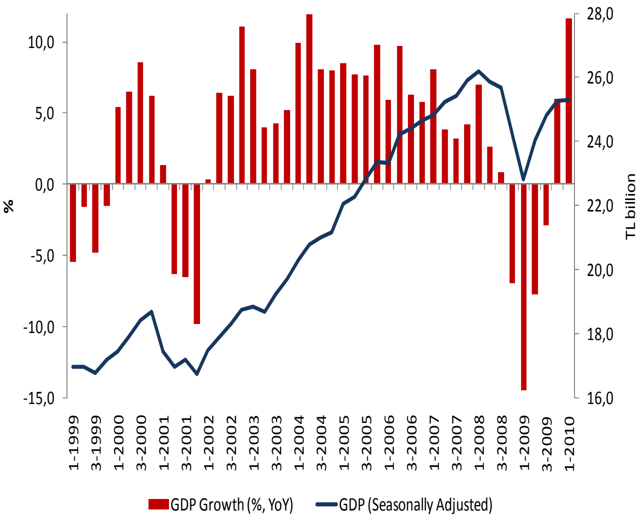
GLOBAL ECONOMIC GROWTH FORECASTS

World Economic Outlook Projections (IMF, July 2010)	2010	2011
WORLD OUTPUT(%)	**4,6**	**4,3**
Advanced Economies	2,6	2,4
- USA	3,3	2,9
- Euro Zone	1,0	1,3
- Japan	2,4	1,8
Emerging Economies	6,8	6,4
- Central & Eastern Europe	3,2	3,4
- China	10,5	9,6

The International Monetary Fund recently upgraded its global growth projections for 2010 on the back of robust expansion in Asia and other emerging economies in the first half of 2010. IMF increased the global growth forecast for 2010 by 0.4 pp to 4.6%, but kept its 2011 forecast unchanged at 4.3%. The IMF also emphasizes downside risks that have risen sharply mainly because of financial market turbulence resulting from some of EU member's debt crisis. Otherwise, according to the Article Consultation Report dated May 26, the IMF expects Turkish economy to expand 6.25% this year.

TURKEY – MACROECONOMIC INDICATORS

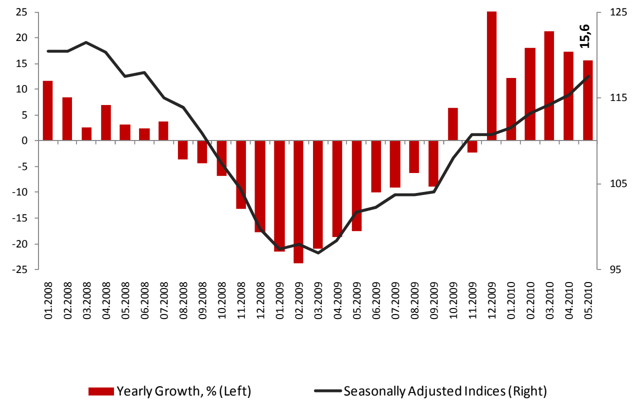
ECONOMIC GROWTH



Real Growth, %	2007 Annual	2008 Annual	2009 Annual	2009 Q1	2010 Q1
GDP	**4,7**	**0,9**	**-4,7**	**-14,5**	**11,7**
Agriculture	-6,7	4,3	3,6	1,4	-3,2
Manufacturing	5,6	-0,1	-7,2	-22,3	20,6
Construction	5,7	-8,1	-16,3	-18,6	8,0
Trade	5,7	-1,5	-10,4	-26,2	22,4

The GDP growth was %11.7 yoy in Q110 thanks to weak base year effect anad growing domestic demand. The recent figures also revealed that the economy had continued to grow for the second straight quarter. While consumption increased by 9.9% yoy, investments rose by 14.4% yoy. The rise in total investments mainly stemmed from the 22.1% yoy rise in private sector demand. Meanwhile, seasonally-adjusted GDP growth rate was only 0.1% qoq in Q1.

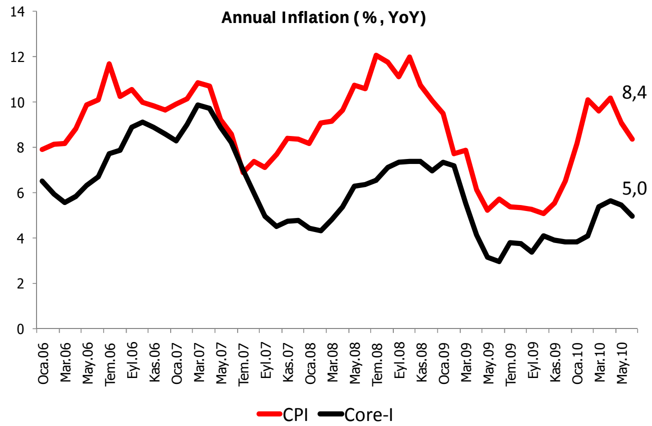
INDUSTRIAL PRODUCTION



%	2009 Dec	Jan	Feb	Mar	Apr	May
IP (YoY)	25,3	12,3	18,0	21,2	17,3	15,6

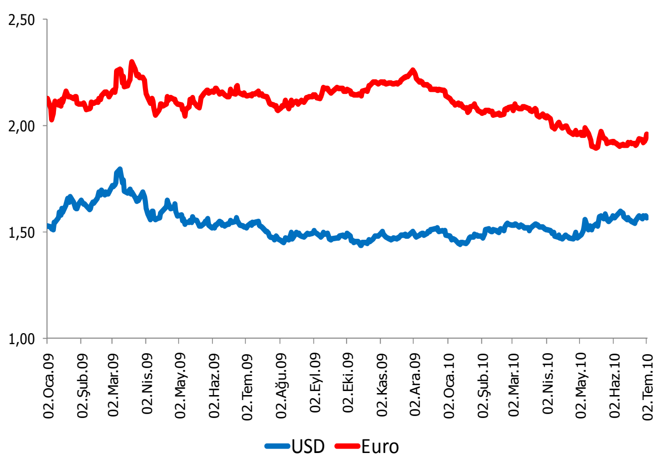
Industrial production continued to rise for the sixth consecutive month in May, showing a 15.6% increase over the same month of last year; boosting expectations that the growth rate will remain high in the second quarter as well. However, despite the improvements, the industrial production is yet to catch its pre-crisis levels. When seasonally adjusted, the index recently stands at 117.5. This figure was 121.5 in March of 2008.

INFLATION



Annual CPI inflation continued its downward trend and stayed in single digits last month, falling from 9.1% in May to 8.4% in June. We continue to maintain our 2010 year-end CPI inflation projection at 8%. The main driver behind better tahn June inflation reading was the 2.5% mom decline in food prices. The most preferred core inflation (the CB's favorite indicator), came down to 4.95% yoy in June from 5.5% a month ago. The PPI declined by 0.50% mom in June, lower than the expected 0.27% increase. Accordingly, the annual PPI decline to 7.6% from the preceding 9.2%. The figures show that cost-led inflationary pressure is still absent.

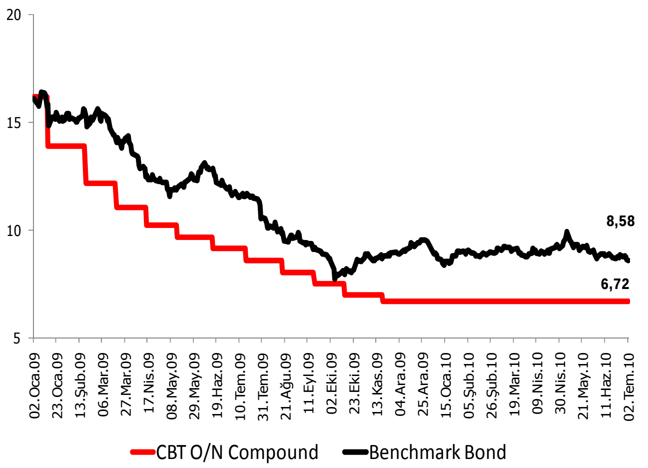
FOREIGN EXCHANGE RATES



	CBT Rates			Devaluation (%)	
	30/06/2010	31/05/2010	31/12/2009	MoM	YtD
USD	1,5737	1,5665	1,4873	0,5	5,8
Euro	1,9292	1,9273	2,1427	0,1	-10,0
FX Basket	1,7515	1,7469	1,8150	0,3	-3,5

Despite ongoing concerns in global markets in June, TL was quite stable against major foreign currencies with the FX basket appreciating against the TL only by 0.3%. We have seen the FX sales by domestic investors to slow down in June, contributing to the relative stability in the exchange rates.

INTEREST RATES



%	Jan	Feb	Mar	Apr	Nis	Jun
Reel Int. Rates (Ex-ante)	1,9	1,9	1,7	1,7	1,7	1,4

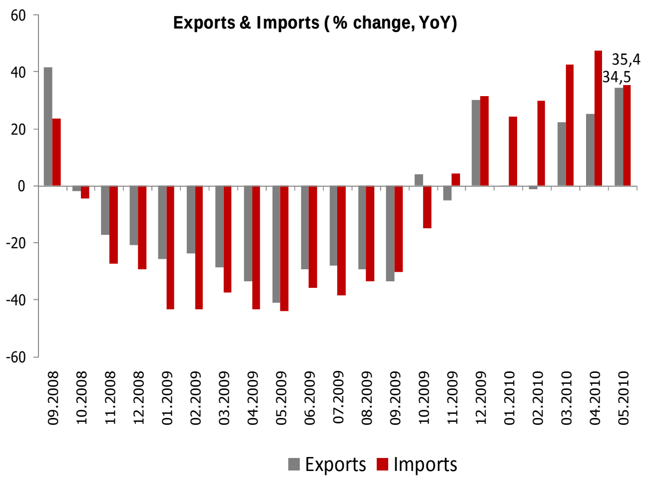
In line with easing inflation expectations on the back of better than expected inflation reading in May, interest rates in the bond market declined on average by about 50 bps in June when compared to May, bringing the average monthly yield on benchmark bond to 8.81%. As the decline in the interest rates surpassed the pace of improvement in inflation expectations, ex-ante real interest came down to 1.4% in June, lowest level recorded since the start of 2001.

CENTRAL GOVERNMENT BUDGET

Jan - May (Billion TL)	2009	2010	% Change
Revenues	**86,2**	**102,6**	**19,2**
Tax Revenues	66,2	82,8	25,0
Indirect Taxes	40,7	54,3	33,4
Non-tax Revenues	20,0	19,8	-0,7
Expenditures	**106,9**	**112,6**	**5,3**
Primary Expenditures	80,8	88,4	9,4
Social Security	21,1	22,7	7,3
Interest Expenditures	26,1	24,2	-7,3
Budget Balance	**-20,7**	**-10,0**	**-51,7**
Primary Balance	5,4	14,2	161,8

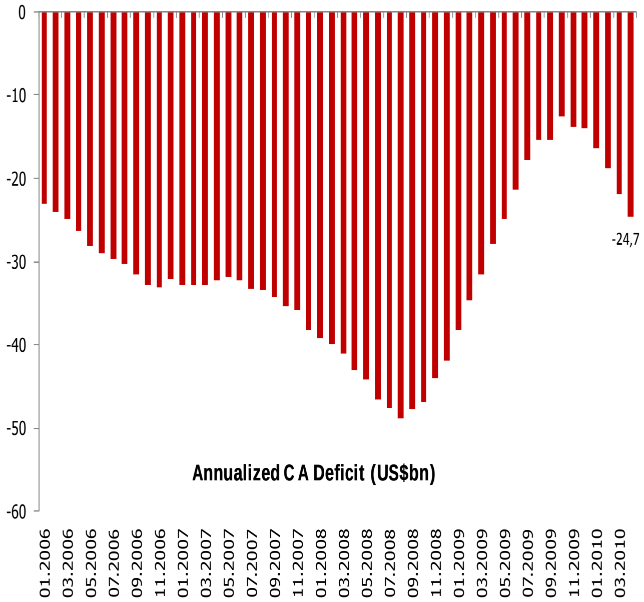
The budget ran a surplus of TL 5.8 billion in May, which is the first surplus the budget posted in 21 months since August 2008. In the same month of last year the budget had posted a deficit of TL 610 million. In the month, the primary surplus came in at TL 8 billion, indicating a staggering 82.1% yoy increase. The budget performance is successful entirely in 2010. While improving domestic consumption supports tax revenues, primary expenditures are being controlled by the government. In Jan-May, the budget deficit came in at TL 10 billion with a 51.7% yoy decline (The government's official target for 2010 is TL 50.2 billion). The primary surplus increased 161.8% yoy to TL 14.2 billion, already exceeding the target of TL 6.6 billion.

FOREIGN TRADE



In May, the foreign trade deficit widened to USD 4.8bn from USD 3.5bn in 2009. Exports rose 34.5% yoy to USD 9.88bn while the increase in imports was a higher 35.4% yoy to USD 14.7bn. If current problems deepen in the EU, export-oriented industries will be affected negatively in Turkey. In Jan-May, imports increased 36.6% yoy to USD 68.1bn and exports were up 15.6% yoy to USD 45.5bn. In the same period, the foreign trade deficit soared to USD 22.6bn, 115.5% is quite higher compared to the same period of last year. Year-end trade deficit expectations stand at USD 50bn. The widening in the deficit is expected to continue in the near term amid the recovery in the economy.

BALANCE OF PAYMENTS



Financing of Current Account Balance (US$ million)	2009	2010 Jan-Apr	2009 Apr/ 2010 Apr
C/A Balance	-13,961	-14,251	-24,650
Capital Flows(net)	9,385	20,556	35,319
FDI (net)	6,332	1,743	5,238
Portfolio Inv. (net)	196	7,270	9,733
Other Investment (net)	2,857	11,543	20,348
Net Errors & Omission	4,687	-1,213	-1,396
Reserve Changes *	-111	-5,092	-9,273

* (-) sign indicates reserve accumulation

The current account deficit of Turkey was realised at USD 4.4bn in April due to the widening foreign trade deficit, pushing the annual deficit to USD 24.6bn from USD 14bn in December 2009. We expect that the deficit will continue to widen to USD 30bn at the year-end 2010.

MACROECONOMIC ESTIMATION & PROJECTIONS

		2008	2009	2010 Koç Projections	2010 Government Program
GDP	US$ bn	742	618	702	641
Economic Growth	%	0,7	-4,7	4,0	3,5
CPI (Year-end)	%	10,1	6,5	8,0	5,3
TL / US$ (Year-end)	YTL	1,51	1,51	1,58	
TL / US$ (Average)	YTL	1,29	1,55	1,54	1,61
TL / Euro (Year-end)	YTL	2,14	2,16	1,98	