MACROECONOMIC OVERVIEW

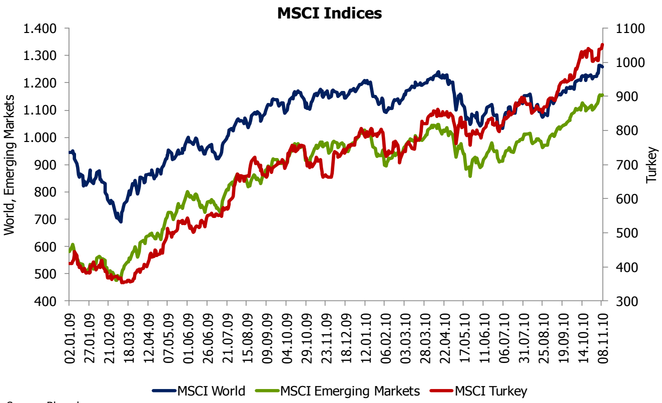
NOVEMBER 2010

Koç Holding

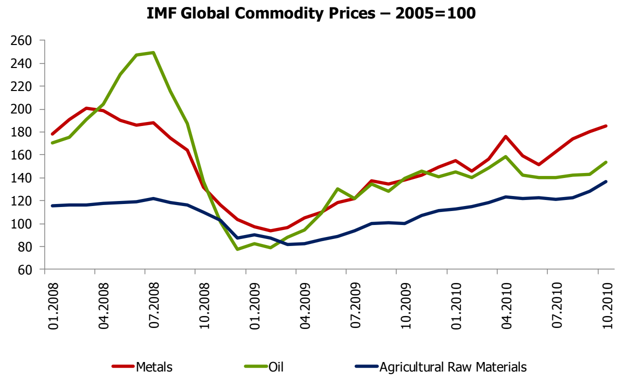
CONTENTS

GLOBAL ECONOMY

GLOBAL FINANCIAL MARKETS



Source: Bloomberg



Source: IMF

Global financial markets have been on an upward trend since August with the expectation of a new round of quantitative easing from the FED. Abundant and cheap liquidity has found its way mostly towards emerging markets, resulting in an appreciation of the currencies of recipient countries. In line with expectations, FED has announced a new bond purchase program in the magnitude of 600 billion dollars, slightly higher than market expectations. Increasing supply of USD has led to a depreciation of the dollar against major currencies, raising concerns of currency manipulation. Indeed, looming currency and trade wars are on the top of the agenda of global leaders that are trying to increase coordination in global economic policy.

Commodity prices have been on a rise all through 2010, with the pace of increases fasten in the last couple of months. Aside from global investors' search for higher yields, US dollar's rapid fall against major currencies has also led to an increase in commodity prices. Although still far from the speculative bubble in the first half of 2008, increase in commodity prices is putting pressure on inflation, especially in net commodity importing countries.

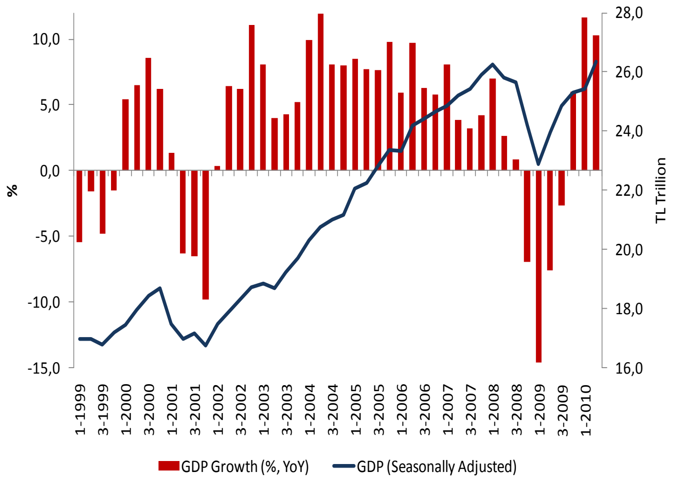
GLOBAL ECONOMIC GROWTH FORECASTS

World Economic Outlook Projections (IMF, October 2010)	2010	2011
WORLD OUTPUT(%)	**4,8**	**4,2**
Advanced Economies	2,7	2,2
- USA	2,6	2,3
- Euro Zone	1,7	1,5
- Japan	2,8	1,5
Emerging Economies	7,1	6,4
- Central & Eastern Europe	3,7	3,1
- China	10,5	9,6
- Turkey	**7,8**	**3,6**

The International Monetary Fund (IMF) upgraded its global growth projections for 2010 in October on the back of stronger recovery in some of the leading developed countries and emerging markets in the first half of 2010. However, global growth forecasts for 2011 have been reduced by 0.2 percentage points mostly due to weaker economic growth projections for the developed countries. As it was the case in the last couple of years, emerging economies are expected to remain as the main engine of growth for the global economy. According to the IMF, Turkish economy is expected to expand by 7.8% in 2010 with the growth rate decelerating to 3.6% in 2011.

TURKEY – MACROECONOMIC INDICATORS

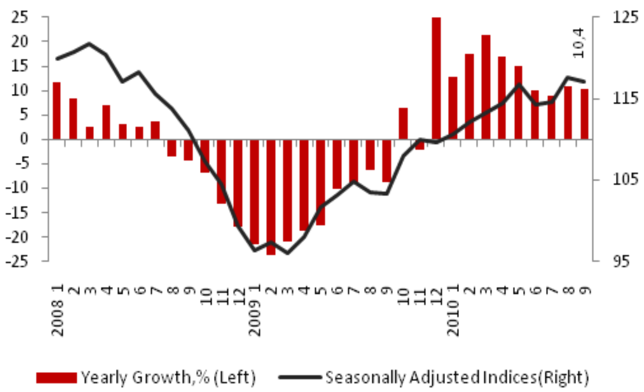
ECONOMIC GROWTH



Real Growth, %	2007 Annual	2008 Annual	2009 Annual	2010 Q1	2010 Q2
GDP	**4,7**	**0,9**	**-4,7**	**11,7**	**10,3**
Agriculture	-6,7	4,3	3,7	0,1	0,6
Manufacturing	5,6	-0,1	-7,0	21,0	15,4
Construction	5,7	-8,1	-16,1	8,3	21,9
Trade	5,7	-1,5	-10,2	20,7	14,0

Turkish economy grew by 11% in the first half of 2010, surpassing expectations by a wide margin. As of the end of first half of 2010, Turkey has fully recovered from the crisis, as the seasonally adjusted national output has reached highest level on records, surpassing previous peak that was registered in the first quarter of 2008. Private consumption and investment were the main factors behind the strong growth performance in the first half of 2010.

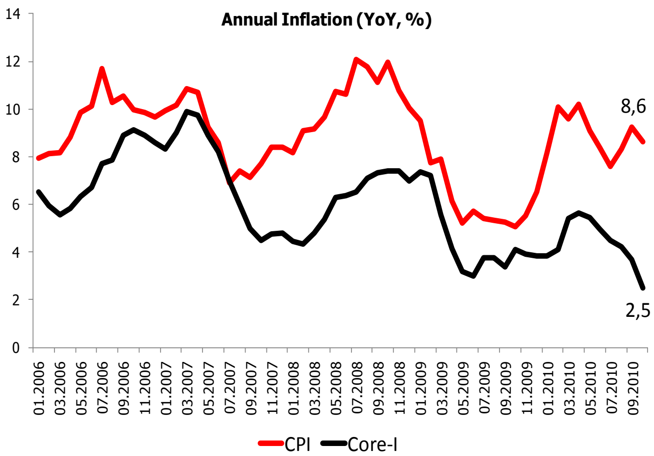
INDUSTRIAL PRODUCTION



YoY, %	2010 Apr	May	Jun	July	Aug	Sep
Industrial Production	16,9	15,0	10,0	8,8	10,8	10,4

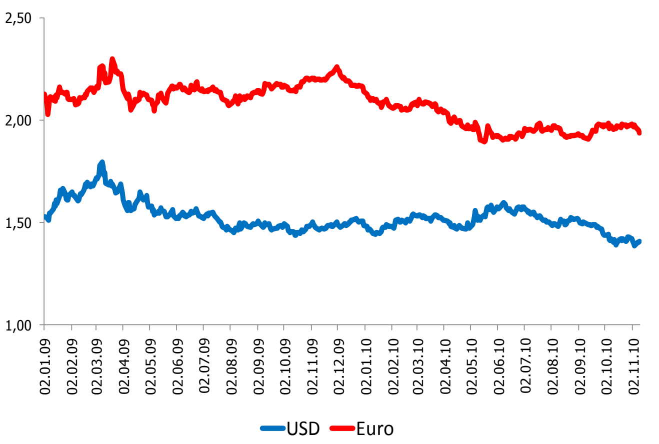
Industrial production (IP) increased by 10.4% yoy in September. However, this rise was mainly due to a weak base. After being adjusted for calendar and seasonal effects, total IP was down by 0.4% mom, showing that output growth lost some momentum in the month. Still, main manufacturing sub-sectors such as non-metals, machinery & equipment and automotive products, performed strong in September, surpassing yoy growth levels recorded in August.

INFLATION



In October, consumer prices increased 1.83% mom, bringing the annual CPI inflation to 8.62%. The main culprit behind the inflation surprise on the upside is the continuation of record food price inflation. The Central Bank warned earlier for pressure to come from the food segment. We should note that annual food inflation is 17.1% as of October. Despite the disappointing October inflation figures, core inflation remained benign; the most preferred core inflation (the CB's favorite indicator), fell to 2.5% yoy (from 3.7% yoy), underlying inflationary pressures remain weak.

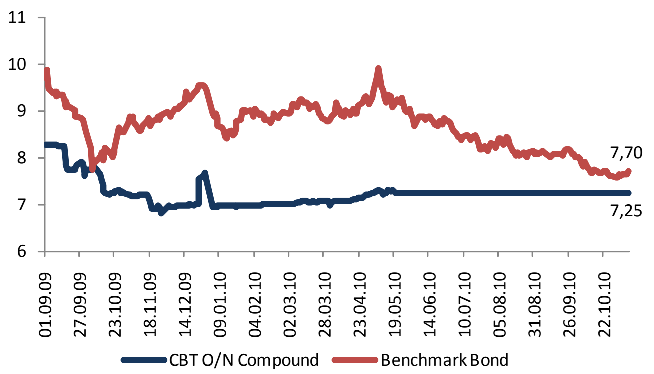
FOREIGN EXCHANGE RATES



	CBT Rates			Change (%)	
	28/10/2010	30/09/2010	31/12/2009	MoM	YtD
USD	1,4301	1,4434	1,4873	-0,9	-3,8
Euro	1,9746	1,9693	2,1427	0,3	-7,8
FX Basket	1,7024	1,7064	1,8150	-0,2	-6,2

Foreign investors' increasing interest in Turkish bonds and equities, as well as increasing foreign borrowing by the corporations that are led by banks have led to a rapid increase in capital inflows in Turkey, resulting in an appreciation of the TL both in nominal and real terms. TL's appreciation against the USD was more pronounced due to dollar's depreciation in global markets.

INTEREST RATES



%	May	Jun	July	Aug	Sep	Oct
Reel Int. Rates (Ex-ante)	1,7	1,4	1,1	1,0	0,9	0,6

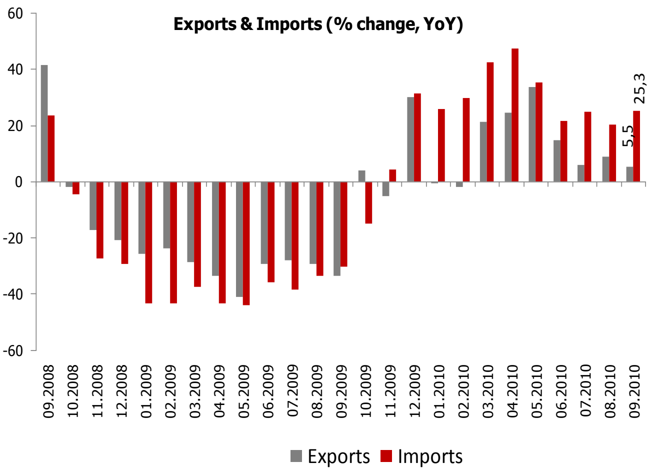
Foreign investors' demand for TL denominated bonds has increased substantially in 2010 resulting in a decline in interest rates on bonds to historically lowest levels. Central Bank's commitment to keep policy rate at 7% for an extended period and subdued core inflation also helped interest rates to decline since May 2010.

CENTRAL GOVERNMENT BUDGET

Jan - October (Billion TL)	2009	2010	% Change
Revenues	**175,4**	**206,9**	**18,0**
Tax Revenues	139,2	170,4	22,5
Indirect Taxes	90,6	116,9	28,9
Non-tax Revenues	36,2	36,5	0,8
Expenditures	**218,6**	**230,0**	**5,2**
Primary Expenditures	168,4	188,6	12,0
Social Security	45,2	47,1	4,1
Interest Expenditures	50,2	41,5	-17,5
Budget Balance	**-43,2**	**-23,1**	**-46,5**
Primary Balance	7,0	18,3	161,6

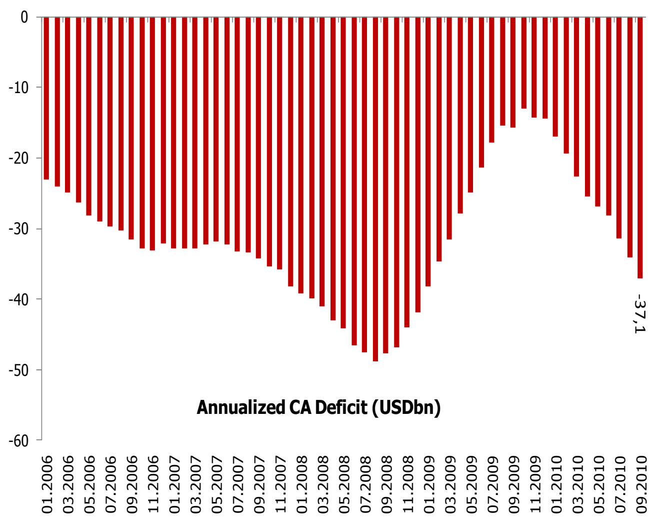
In the first ten months of 2010, central government budget posted a deficit of TL 23.1 billion, representing a 46.5% yoy decline. Primary surplus amounted to TL 18.0 billion. Please note that the primary surplus target for 2010 is TL 6.6 billion. On the other hand, the Government unveiled the details of the 2011 budget, which foresees a deficit at TL 33.5 billion, 24.2% lower than the deficit targeted in the 2010 budget. Declining interest payments and ambitous tax collection projections are expected to improve the budget outlook. One of the most important developments regarding fiscal policy is the AKP Government's change of mind about the Fiscal Rule. Apparently, the Government does not want to have its hands tied before the elections in 2011.

FOREIGN TRADE



Economic recovery widens Turkey's trade gap. The trade deficit increased 67% yoy to USD 6.7 billion in September, pushing annual trade deficit from USD 49.4 billion in 2009 to USD 60 billion this year. Export growth decelerated since June onwards, mostly due to the termination of incentives in some of the Western European countries. In the first nine months of 2010, exports increased by 12% when compared to the same period of last year. Imports increased faster in 2010, both due to recovering domestic demand and higher commodity prices on average when compared to last year. In the same period, imports surged by 30%, leading way to a very rapid widening in the trade deficit from USD 27.4 billion to USD 48.6 billion.

BALANCE OF PAYMENTS



Financing of Current Account Balance (US$ million)	2009 Jan–Sep	2010 Jan–Sep	2009 Sep/ 2010 Sep
C/A Balance	-9,761	-32,479	-37,128
Capital Flows(net)	3,589	38,505	44,767
FDI (net)	5,725	3,966	5,091
Portfolio Inv. (net)	777	13,461	12,880
Other Investment (net)	-2,913	21,078	26,796
Net Errors & Omission	5,506	2,454	1,618
Reserve Changes	666	-8,480	-9,257

The current account balance posted as deficit of 32.5 billion dollar in the first nine montsh of 2010, pushing the annual deficit to USD 37.1 billion. As a result of the widening trade deficit, we expect the current account balance continue to deteriorate with an expected deficit of USD 38.5 billion at the year-end 2010.