MACROECONOMIC OVERVIEW

October 2008

Koç Holding

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Global Markets

Global Economic Growth

Real Growth (%)	Old Forecast 2008	Old Forecast 2009	New Forecast 2008	New Forecast 2009
World	**4.1**	**3.9**	**3.9**	**3.0**
US	1.3	0.8	1.6	0.1
Euro Zone	1.7	1.2	1.3	0.2
China	9.7	9.8	9.7	9.3
Japan	1.5	1.5	0.7	0.5
Emerging Europe	4.6	4.5	4.5	3.4

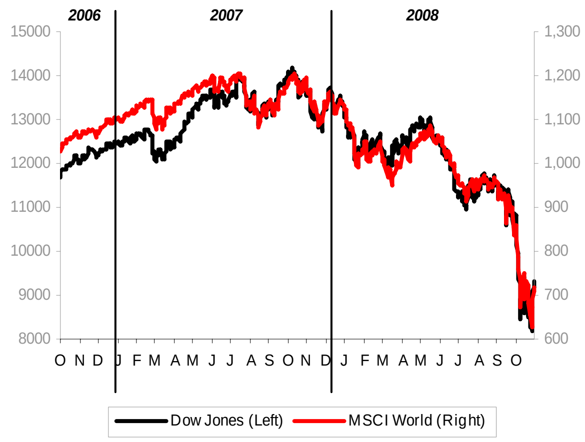
Source: IMF estimates, October 2008

The current financial market meltdown being witnessed in the United States and other major economies is feared to lead to longer and deeper economic downturns in some of these countries.

Recently, the IMF made downward revisions to their global GDP growth forecasts, especially for 2009 (down from 3.9% to 3.0%). Specifically, the U.S., Eurozone and Japanese economies are all widely expected to slip into recessions, threatening growth in emerging markets.

Given the strong trade affairs and the traditional ties, growth dynamics and economic indicators coming from the Eurozone are particularly important for Turkey.

Dow Jones & MSCI (Morgan Stanley Capital International) World Index

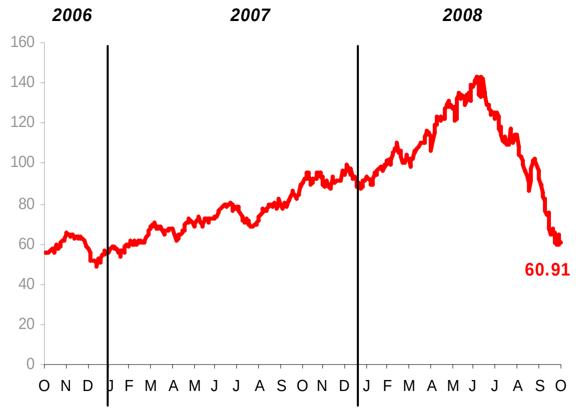


Source: Reuters

The rescue plans announced by the US and other major economies to bring relief to the financial system, involving significant capital injections into banks, partial nationalization, guarantees of bank borrowings and liquidity injection were initially taken positively by the global markets.

However the fears that these plans will remain insufficient to resolve the problems, coupled by the weakening growth outlook and recession worries lead to continous volatility in the financial markets.

Brent Petroleum



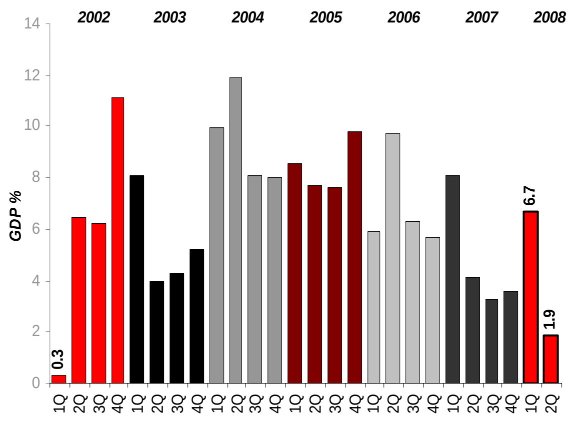
Source: Reuters

Oil prices continued their downward trend, after peaking at close to $140 per barrel in July. A barrel of Brent oil closed below $70 for the first time since August 2007. Prospects for slowing global growth in 2008–2009, the resolution of weather-related supply constraints and increased oil supply have led to some easing of commodity prices since mid-July.

Looking ahead, oil demand growth is likely to continue to moderate with the slower global growth envisaged for the rest of 2008 and for 2009.

Turkey – Macroeconomic Indicators

Growth



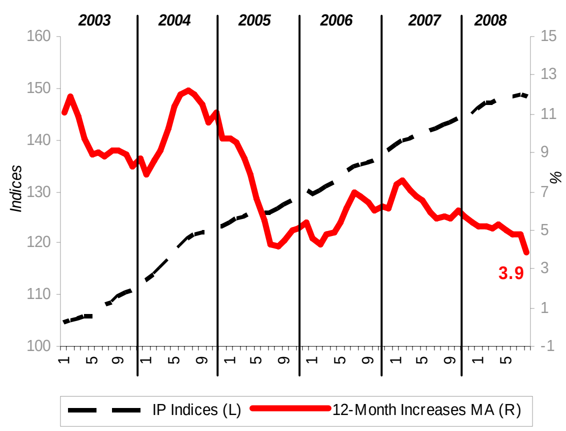
Source: Turkstat

Real Growth (%)	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 H1
GDP	3.3	3.6	6.7	1.9	4.2
Agriculture	-8.2	-10.9	2.6	-3.5	-1.5
Manufacturing Industry	4.3	4.0	7.0	2.5	4.7
Construction	3.9	0.3	3.1	0.9	2.0
Trade	6.9	6.7	9.1	3.3	6.1

2Q08 GDP growth confirmed that the Turkish economy continued to grow uninterruptedly since 4Q01. However, 1.9% real growth in 2Q08 was significantly lower than the market expectation of 3.6%, after averaging 6.8% in the previous 5 years.

Annual domestic demand growth was 2.8% in 2Q08, significantly lower than 7.6% growth in the first quarter. Deterioration in consumer confidence due to political and global concerns clearly showed its impact on economic activities in 2Q08.

Industrial Production



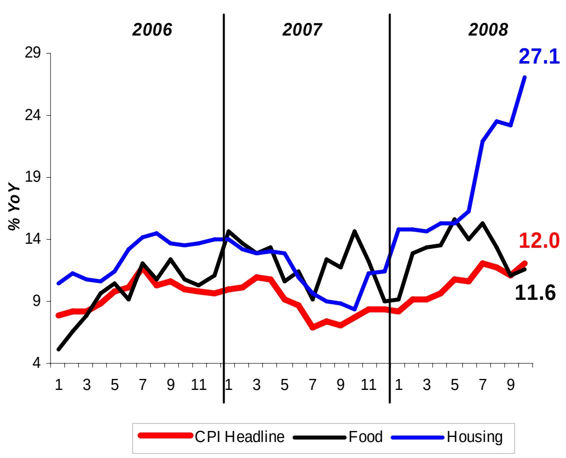
Source: Turkstat

%	2008 Mar	2008 Apr	2008 May	2008 Jun	2008 Jul	2008 Aug
IP (YoY)	2.5	6.3	2.4	0.8	3.4	-4.0

Industrial production (IP) contracted by 4.0% YoY in August, partly due to negative seasonality and weak performance in the manufacturing output. With the latest data, industrial output growth in Jan-Aug came to 3.6% YoY, well below the 5.8% YoY increase in the same period of last year.

We observed a slowdown in some of the export oriented sectors with largest weight in the total industry such as textiles, machinery and equipment, chemicals, and motor vehicles.

Inflation



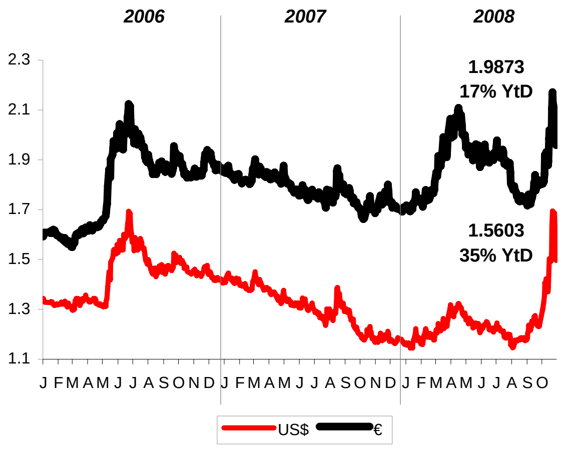
Source: Turkstat

%	2008 May	2008 Jun	2008 Jul	2008 Aug	2008 Sep	2008 Oct
CPI (YoY)	10.7	10.6	12.1	11.8	11.1	**12.0**
CPI (MoM)	1.49	-0.36	0.58	-0.24	0.45	**2.60**
Core - H (YoY)	9.8	10.4	10.6	10.9	10.5	**10.0**

CPI increased by 2.6% in October, significantly higher than market consensus of 1.6%. Meanwhile, PPI increased 0.6%, which is lower than market consensus of 1.4% increase. With the October figure, annual CPI reached 12.0% from September figure of 11.1%; while YoY PPI surged to 13.3% from 12.5%.

The year-end inflation target, which was revised last week by Central Bank, was around 11.1%. Accordingly, with the latest figures, even the most revised CBT target was already exceeded two months before the end of the year.

Foreign Currencies



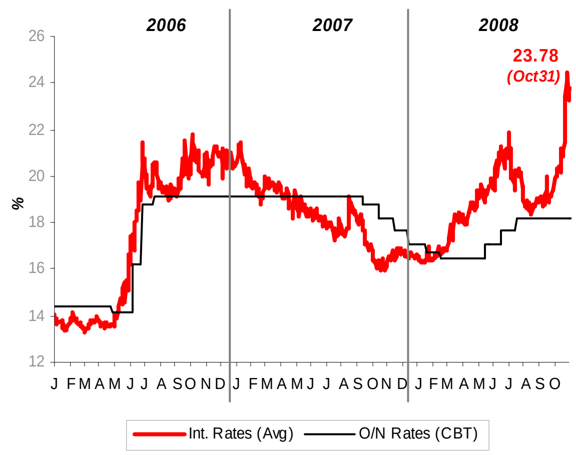
Source: CBT

YTL		2008							
	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	**Oct**
$	1.16	1.31	1.28	1.21	1.22	1.16	1.17	1.23	**1.56**
€	1.71	2.06	2.00	1.87	1.92	1.81	1.73	1.80	**1.99**
C Basket (1$ + 0.77€)	2.47	2.90	2.82	2.65	2.70	2.55	2.51	2.62	**3.09**
Parity (€/$)	1.47	1.58	1.56	1.55	1.57	1.56	1.47	1.46	**1.27**

Worsening sentiment in the domestic market resulted in a sharp devaluation of YTL against major currencies.

The FX rate initially reached its peak during mid-April due to worries regarding AKP's closure case. While the confidence for the local currency improved following the verdict of the Constitutional Court, latest developments in the world financial markets and increasing levels of capital outflows from the domestic market resulted in a further devaluation during the last two weeks.

Nominal Interest Rates



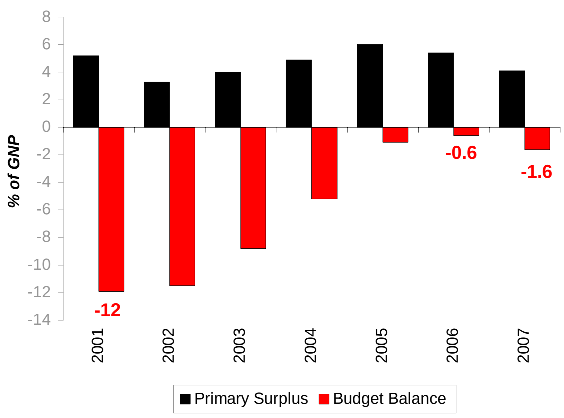
Source: Treasury

%	2007			2008			
	Dec	May	Jun	Jul	Aug	Sep	Oct
Real Interest	9.9	10.8	11.0	10.7	9.2	9.7	12.2

Deteriorating global financial conditions and political environment results in a larger increase in Turkey's risk premium, and hence, in its real interest rates compared to other emerging countries.

Rates on the benchmark bond surged by 50bps to 24% in the last two months. The CBT is expected to remain cautious until the global backdrop stabilizes.

Central Government Budget



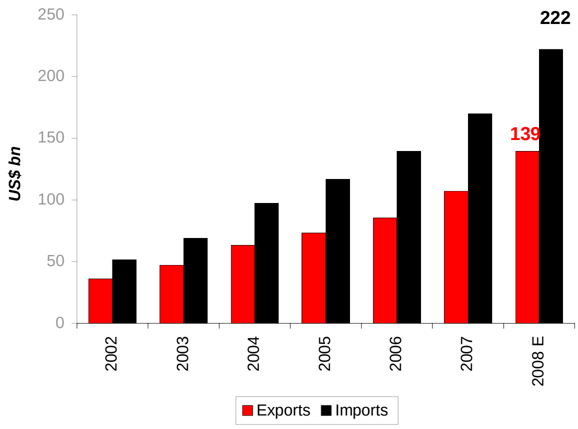
Source: Ministry of Finance

Jan-Sep YTL bn	2007	2008	% Chg.	% Real Chg.	% of 2008 Target	2008 Target
Revenues	141.8	160.7	13.3	2.0	78.5	204.6
Tax Revenues	111.7	127.3	14.0	2.6	74.3	171.2
Expenditures	154.0	165.5	7.5	-3.3	74.4	222.6
Interest Exp.	42.8	41.3	-3.4	-13.0	73.8	56.0
Budget Balance	-12.2	-4.8	60.4	44.4	26.8	-18.0
Primary Balance	30.6	36.5	19.4	7.4	96.1	38.0

In the first nine months of the year, budget deficit was YTL4.8 billion (27% of the year-end target), whereas primary surplus reached YTL36.5 billion (96% of the year-end target), which confirmed that fiscal performance was satisfactory so far in 2008.

In this environment it is crucial that the government remains committed to fiscal prudence and to implement a new reform agenda. A strong relationship with the IMF in the form of a precautionary standby agreement would also help to preserve investor confidence.

Foreign Trade



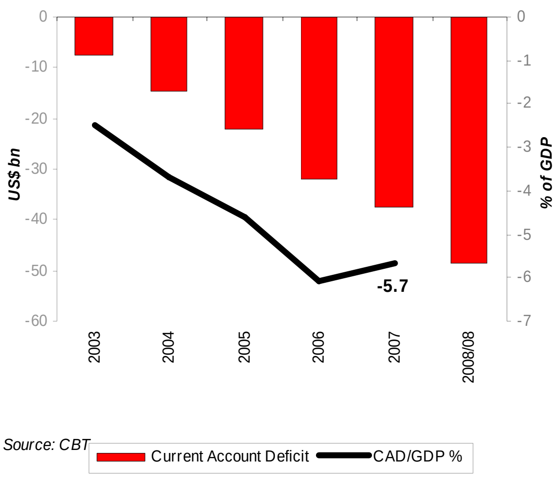
Source: Turkstat

US$ billion	2008					
	Apr	May	Jun	Jul	Aug	Sep
Trade Deficit	-68.7	-69.7	-72.1	-73.8	-76.0	-75.6
Current Account Deficit	-41.9	-43.1	-45.8	-47.1	-48.7	--

The trade deficit has climbed to US$58.2 billion in Jan-Sep period from US$45.4 billion in the same period of last year. Turkey's annual trade deficit reached US$76 billion. The increase in commodity and energy prices had been the primary reason behind the widening in the external trade deficit.

Exports to EU countries might weaken given lower GDP growth estimates on EU countries. Turkey has partially compensated negative effects of low growth in EU area by increasing its export to Middle East, CIS countries and Asia.

Balance of Payments



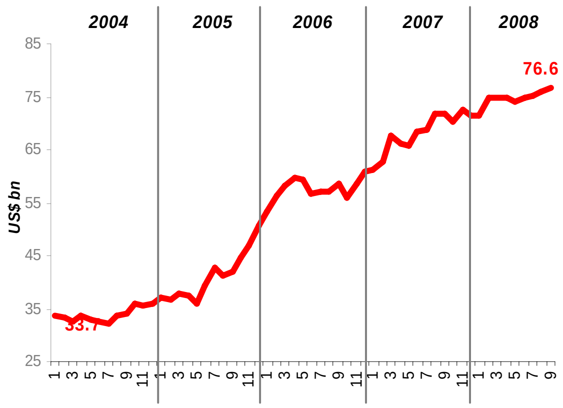
Source: CBT

US$ Billion	2007 Annual	12-Month 2008 (Aug)	2008 Jan - August
C/A Deficit	-37.7	-48.7	-34.8
Net Errors&Omis.	1.1	-6.2	-4.5
T.Financial Need (1+2+3)	-36.6	-55.0	-36.8
Capital Flows (1) net	52.2	63.3	45.2
FDI	20.1	15.4	9.0
Portfolio Inv.	0.7	-2.2	1.4
Credits (Excl. IMF)	35.6	43.7	33.1
IMF Credits (2)	-4.0	1.6	2.5
Reserve Chg.(3)	-11.6	-10.0	-10.9

With the August reading, the 12-month cumulative current account deficit (C/A) reached US$48.7 billion. The C/A deficit is widening; FDI flow is limited and portfolio inflow is weak due to the global credit conditions.

Although the C/A deficit is likely to decrease due to slowing domestic demand and falling energy prices, we think that the financing of the C/A deficit will remain as one of Turkey's foremost problems due to difficulties in the roll-over of the large private sector debt.

Central Bank International Reserves



Source: CBT

	2008						24
US$ Billion	Apr	May	Jun	Jul	Aug	Sep	Oct
CBT Reserves	74.7	74.1	75.0	75.1	75.9	76.6	70.0

The Central Bank's foreign exchange reserves stand at US$70.0 billion as of 24 October 2008 while total foreign debt is around 37.5% of GDP, which is a reasonable level compared to most of the emerging countries.

Expectations

Inflation

The slow-down in economic outlook supports the disinflation phase

Inflation has been rising steadily since August 2007, mainly because of the supply side shocks, notably high food and energy prices. The annual CPI reached 12.0% in October, already exceeding the CBT's newly revised upper limit. Despite the slow down in demand, we expect inflation to remain around this level in the coming months, partly reflecting a further upward adjustment to electricity prices and pass-through effects of devaluation. We expect CPI to decelerate moderately to 8.0 % at the end of 2009.

Under our assumptions, whereby the monetary stance will be cautious, expectations are well managed and fiscal policy is conducted consistently with the inflation target, we foresee inflation on a downward trend in the medium term. However, the short-term will be challenging with potential liquidity injections, price hikes in electricity and natural gas and volatility in FX rates.

Interest and FX Rates

CBT to preserve its cautious stance

The Central Bank of Turkey (CBT) argues that inflation will fall gradually in the coming months if the positive outlook on oil and commodity prices continues.

We think it will be difficult to cut rates in the current economic environment, since the level of real interest rates will be the primary reason of potential portfolio investments in the coming months. Global financial conditions could trigger a further phase of local currency weakness, which would have a negative effect on inflation and inflation expectations. We expect the CBT either to remain on hold in 2008 or to introduce small upward adjustments to be able to attract higher levels of foreing investors to the Turkish fixed income market.

Economic Growth

Growth is expected to remain below potential

We expect economic activity to remain weak in the second half of 2008 and during the first half of 2009. We foresee real GDP growth to be an estimated 2.7% in 2008 and 2.0% in 2009, reflecting the impact on domestic demand growth of high borrowing rates and the continued deterioration in export markets.

The expected recovery in agricultural output, some public spending before local elections in March 2009 and a limited recovery in private expenditures –gradual revival foreseen only in 3Q09- should also be supportive in the next year. However, one should not expect a rapid recovery, as the repercussions of the global turmoil will certainly continue into 2009.

Basic Macroeconomic Indicators for 2009

		2007	2008 Estimation	2009 Koç Projections	2009 Government Program
GDP	US$ bn	656	753	683	788
Economic Growth	%	4.6	2.7	2.0	4.0
CPI (Year-end)	%	8.4	10.0	8.0	7.5
YTL / US$ (Year-end)	YTL	1.16	1.50	1.59	
YTL / US$ (Average)	YTL	1.30	1.28	1.57	1.41
YTL / Euro (Year-end)	YTL	1.71	1.95	2.05	