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## CEO's Letter

Dear Shareholders,

2009 was a trying year for the whole world. For first time in roughly 60 years, the world economy contracted by 1% in 2009. We were right on the mark when it came to anticipating developments and making projections about this difficult economic environment. Koç Group has distinguished itself through the focused strategy it has implemented in recent years and the crisis projections it has made, paving the way for strong profitability performance in 2009.

The risk management policies to which we consistently adhere made it possible for early warning mechanisms to operate effectively and for us to take the requisite measures far in advance of the crisis. In the middle of 2008, immediately prior to the eruption of the crisis, we completed the restructuring of our portfolio. Because of this, we were ready for the crisis with a strong financial structure and high liquidity. Stringent cost management policies, effective working capital management and optimal capacity utilization ratios we pursued during the crisis resulted in high rates of productivity. In addition to risk management policies, we adopted strategies that increased the significant competitive advantages of our Group companies.

We diversified our export markets to deflect the effects of economic contraction in our major European markets. We continued to place higher importance on R&D and carried on our investments. These policies, complemented by the loyalty and support of our stakeholders, combined to produce notably positive results for the year.

Koç Group posted consolidated revenues of TL 44.8 billion in 2009, down 19% from the year before due to declining oil prices and shrinking export markets. Our operating profit was TL 3.5 billion. When adjusted for the one-off capital gains from the sale of our subsidiaries in 2008, despite difficult market conditions, this figure represents a 3% increase over the base year. Net income amounted to TL 1.4 billion. Our operating profit margin, which was 6.1% in 2008, excluding the one-off capital gains from the sale of our subsidiaries, improved to 7.7% in 2009. Our rank in the Fortune Global 500 has risen steadily over the past five years, from 389<sup>th</sup> in 2004 to 172<sup>nd</sup> in 2009, an indication of the growth of Koç Group in recent years.

The market dominance and profitability of our companies underlies this achievement. We are consolidating our leadership of the all-important energy sector. Tüpraş, one of Europe's largest refineries, provided 70% of Turkey's fuel demand. Through effective stock management and optimal capacity utilization, the Tüpraş refinery margin was far above the Mediterranean average. Moreover, through new investment decisions, we have taken an important step toward sustainability of profitability. Aygaz maintained its clear lead in the sector. While continuing to expand its market share through its pioneering and innovative practices, fuel distributor Opet has been declared sector leader for the fourth time in a row in customer satisfaction surveys.

Our automotive companies continued to be the driving force for the Turkish automotive sector. Ford Otosan, which is celebrating its 50<sup>th</sup> anniversary, maintained its leadership of Turkey's total automotive market for the 8<sup>th</sup> year in a row. Its export of the Transit Connect to North America was a landmark achievement, not only for the company but also for the Turkish automotive industry. The Transit Connect, which is exported to about 50 countries, received the 'North American Commercial Vehicle of the Year' award - another important success. Tofaş built on the progress made in recent years to regain its position as the market leader for passenger car and light commercial vehicles market after eight years. Tofaş became the most successful factory in the "World Class Manufacturing" out of 170 Fiat factories internationally and it is the first and highest scoring manufacturing center to have reached the 'silver' level. Meanwhile, Otocar retained its position as the leading supplier of tactical wheeled vehicles for the Turkish Armed Forces and Türk Traktör maintained its leadership position with a 52% share of the market.

Arçelik, the clear leader of the consumer durables sector in Turkey, grew its profitability much faster than its global competitors. Beko, the brand with the fastest rising market share in Western Europe, was among ten top-selling consumer durable brands in the world in eight major product groups. Increases in market shares abroad are a tangible indication of the rapid and sound steps the company is taking to be a 'global company'. Arçelik-LG continued to dominate the air-conditioner market in Turkey.

The latest crisis tested the stability of the global banking system. Yapı Kredi entered the year with a strong capital base, high liquidity and a favorable funding position. The Bank applied a proactive approach to risk management and focused on innovation throughout the challenging operating climate of 2009. These strategies, combined with strong revenue growth and expense management control, enhanced profitability. Yapı Kredi remained the leading credit card issuer in Turkey and its credit card brand, World, became the 6<sup>th</sup> largest credit card program in Europe and the 10<sup>th</sup> most valuable credit card program in the world.

Our main objective is to consolidate and expand our achievements in the future. To do this, we are designing strategies that emphasize innovation and investment in R&D. According to a study of R&D investment conducted by the EU Commission, Koç Holding was among the top spenders for four years in a row among international companies rising to 427<sup>th</sup> place. We will reinforce the position of our brands in international markets by developing our existing R&D capacity and by using design and technology in the best way possible. Our R&D focus is on developing A-class energy-efficient models.

We strive to produce, innovate, compete and make a profit in the sectors in which we operate while remaining steadfast to the values that make us what we are by assuming responsibility for our business and social environment.

The Vehbi Koç Foundation, Turkey's first private philanthropic foundation, did not stint in its continued support of culture, art and health. The 'For My Country' project carried out by our employees and distributors under the leadership of Koç Holding is growing and evolving every year. The 'Vocational Education: A Top Matter for the Nation' project has succeeded in drawing attention to the critical importance of vocational high schools for Turkey. We continue to provide opportunities to thousands of students through scholarships, internships, coaching and personal development. The project will produce their first graduates in 2010. Koç Holding actively promotes Turkey on international platforms and underwrites a major international art exhibition each year. Koç Holding aspires to reach the highest standards of corporate governance and continued to be one of the most distinguished companies in Turkey in 2009.

As one of the first companies in Turkey to appoint independent members to the board of directors, we select the people for their business experience, international reputation and ability to contribute to our businesses and company. In addition to being one of the rare Turkish companies to base top-level executives' compensation on economic profitability and stock performance, we are proud to be one of the first Turkish companies to sign the United Nations Global Compact.

By taking effective measures to manage the impact of the global crisis on our businesses, Koç Group managed to perform strongly in profitability in 2009. We will keep those measures in place in the coming period and will continue to focus on improving profit margins. In line with international business trends, we will make environmentally friendly, energy efficient investments that enhance our competitiveness while our management processes will emphasize sustainability and productivity.

We intend to step up efforts to develop alternative markets in the BRIC countries (Brazil, Russia, India and China) that show the greatest promise. We also see significant opportunities for our Group in the Middle East and Far East. Our success is based on our ability to derive benefits from our first-mover advantage, timely entrance to the markets and early identification of investment opportunities. We will also endeavor to utilize these attributes in the international markets. In the year ahead, we are more committed than ever to making a difference with our products, services, corporate culture, management skill, and standards and thus create value for our country.

**Dr. Bülent Bulgurlu**  
CEO, Board Member