

Koç Holding A.Ş. Board of Directors' Report

Dear Shareholders,

Welcome to the 47th General Assembly Meeting of Koç Holding.

We hereby present for your evaluation the Koç Holding Annual Report for 2010. The first section of the report provides general information about Koç Holding, its goals, strategies and operations in 2010, while the succeeding pages detail developments in our core business segments. The second part of the report contains audited financial statements and accompanying notes as of December 31, 2010 and other disclosures required by the Capital Markets Board (CMB).

The financial statements presented in this report have been prepared on a consolidated basis in compliance with International Financial Reporting Standards and CMB Decree Serial XI, No. 29 and related announcements. However, in accordance with the CMB decree dated March 17, 2005, inflation accounting has not been applied since 2005. Other than amounts originating in foreign currencies such as export revenues, convenience translation of the items of the income statement in TL (including net income for the period) into foreign currency have been converted using the average annual exchange rates, while the balance sheet items have been converted using the year-end exchange rates.

Dear Shareholders,

I would now like to share our main assessments on the fiscal year ending 31 December 2010 on behalf of Koç Holding Board of Directors.

Overview of 2010

In 2010, the pace of global economic recovery beat the expectations and the growth rates in the emerging economies outperformed the developed economies. 2010 was a worrisome time especially for the Eurozone due to the issues invoked by the public deficits or the weak banking systems in some of the countries in the region. In the US, despite the strong support extended by the Government and FED to the economy, growth and unemployment rates failed to improve to the desired levels.

Emerging countries, including Turkey, decoupled positively from the developed countries, supported by the structural reforms they carried out before the financial crisis started and their dynamic domestic markets, acting as a locomotive of the world economic recovery.

Focus on stronger balance sheets by both banks and the real sector and increasing productivity and flexibility played a crucial role in Turkey's quick recovery at the beginning of 2010 as the global economy began to show signs of emerging from the crisis. The Turkish GDP is expected to grow by 8% in 2010, reaching the pre-crisis production levels of 2008.

With its focused and balanced portfolio structure, strong cash position, diligent risk management approach and measures aimed at increasing efficiency, Koç Holding was well-equipped to weather the turbulence. As the markets started to show signs of recovery, Koç Holding emerged from the crisis as a stronger player, increasing its revenues and profitability and further strengthening its financial position.

Our consolidated revenues increased by 20% in 2010 compared to a year ago and reached TL53.8 billion. Our domestic and international revenues had a balanced contribution to this increase. Our operating income increased by 18% and reached TL4.1 billion. Net income attributable to equity holders of the parent was TL1.7 billion, up by 21%.

Developments in Koç Holding and Koç Group in 2010

Koç Holding continued to fortify its domestic and international standing, and ranked 273rd in the Fortune Global 500 listing with its 2009 results.

Koç Holding's combined revenues are equal to 7% of Turkey's GDP. We generate 10% of Turkey's total exports, while our listed subsidiaries make up 15% of the total Istanbul Stock Exchange market capitalization.

The main activities of 2010 were as follows:

- Our energy companies completed the year with high revenue increase.
 - ✓ Tüpraş continued its operational flexibility and optimum production and sales policy in 2010 and maintained its profitability despite the market volatility.
 - ✓ Aygaz Group maintained its leadership with around 30% market share.
 - ✓ Opet continued to increase its market share and retained its 3rd position with 16.9% share in white products (gasoline and diesel). One of the most significant developments in 2010 was the renewal of a significant number of the dealership agreements as the exemption on the Turkish Competition Authority's decision to impose a five-year term on usufruct agreements and leases of stations expired on 18 September 2010.
 - ✓ Turkish Airlines and Opet established a 50-50 joint venture named THY-Opet Havacılık Yakıtları, which went into operation in 2010 with the objective to serve THY and other airline companies in the airport countrywide.
 - ✓ 49.6% of Entek shares were sold to AES in order to establish a 50-50 joint venture. Our target is to become one of the leading players in electricity generation by raising our installed generation capacity through acquisitions and greenfield investments.
- In 2010, the domestic automotive market grew by 38%, reaching an all-time high, while our companies continued to be the undisputable leaders in this sector.
 - ✓ Total production of the Group's automotive companies was 585,000 units, representing 52% of all domestic automobile production.
 - ✓ Koç automotive exports grew by 24% to 379,000 units, representing 50% of Turkey's automotive exports.
 - ✓ Koç Group companies accounted for 31% of the domestic sales, with Ford Otosan and Tofaş taking their place at the top of the list.
 - ✓ Ford Otosan announced a \$630 million investment plan for the production of the new Transit series.

- ✓ Tofaş launched the new Doblo in February 2010, and proudly produced the one millionth Fiat Doblo during the year. Further to the agreement concluded with Opel and Vauxhall within the scope of this project, Tofaş increased the number of global brands it produces for to 5.
- Arçelik continued its strong leadership in the domestic market while also strengthening its market share and brand positioning in the international markets.
 - ✓ Turkish white goods and LCD markets grew by 8% and 19%, respectively. Koç Group companies maintained their market leadership positions.
 - ✓ Arçelik's consolidated international sales increased by 11% in euro terms.
 - ✓ Arçelik, which is the 3rd largest household appliances company in Europe, posted significant market share increases, especially in Western Europe.
 - ✓ Arçelik-LG Klima reached 51% market share in Turkey.
- Yapı Kredi recorded above-sector growth and profitability.
 - ✓ Sector deposit growth was 21%, while YKB's deposits grew by 27%.
 - ✓ Sector loan growth was 34%, while YKB's loans grew by 40%. As a result, Yapı Kredi recording the highest loan and deposit growth among its peers.
 - ✓ Yapı Kredi's return on average equity was 27%, the highest level among private banks, versus the sector average of 20%.
 - ✓ Yapı Kredi increased its net income by 45%, recording the highest increase among the four big private banks.

Koç Holding Consolidated Financial Results

(TL million)	2010	2009	Change %
Revenues (net)	53,812	44,841	20
Operating profit	4,105	3,476	18
Profit before tax from continuing operations	3,886	3,159	23
Profit for the year	3,138	2,641	19
Profit for the year - attributable to equity holders of the parent	1,734	1,429	21
Earnings per share (TL)	0.718	0.592	21
Earnings before interest, taxes and amortization - EBITDA	5,073	4,401	15
Operating profit / Revenues (%)	7.6	7.8	-0.1 ¹
Total assets	81,143	66,386	22
Total liabilities	60,165	47,604	26
Total equity	20,978	18,782	12
Shareholders' equity	12,574	11,170	13
Capital expenditures	1,246	1,444	-14
Depreciation and amortization	968	925	5
Revenues / Total assets	0.66	0.68	-0.01 ¹
Operating profit / Total assets (%)	5.1	5.2	-0.2 ¹
Return on Equity (%)	16.0	14.7	1.3
Current ratio	0.85	0.88	-0.04 ¹
Total liabilities / Equity	2.9	2.5	0.3 ¹

1) The changes in ratios are given as percentage point differences

Financial and Operational Results

Koç Group continued to achieve successful results in all business lines.

Koç Holding's 2010 combined revenues increased by 21%, reaching TL82,228 million. After TL17,398 million is deducted for proportional consolidation of joint ventures according to International Financial Reporting Standards and a further TL11,018 million is deducted in lieu of consolidation eliminations and adjustments, the net consolidated revenue of Koç Holding amounted to TL53,812 million.

Koç Holding's operating profit increased by 18% over 2009 and reached TL4,105 million.

Profit before tax from continuing operations was TL3,886 million.

Consolidated net income for 2010 was TL3,138 million, of which TL1,734 million was attributable to equity holders of the parent.

Koç Holding's total assets increased by 22% to TL81.1 billion as of 2010-end. Total shareholders' equity increased by 13% million during the year with the net profit for the period and other capital movements, reaching TL12.6 billion.

Capital expenditures for the year reached TL1,246 million on a consolidated basis and TL1,881 million on a combined basis. The highest capital expenditures were made in the energy sector for the projects related to energy efficiency, operational efficiency and increasing profitability, environmental investments as well as fuel station investments. Energy is followed by automotive with new model and rental car fleet investments. Consumer durables segment comes third with new models and technologies that are environmentally sensitive.

Combined international sales generated by the Group companies exceeded \$11.7 billion, increasing by 27% compared to 2009. Energy and automotive segments accounted for the highest increase.

Employment and labor relations

The total number of employees of Koç Holding, its consolidated subsidiaries and joint ventures was 73,063 as of the end of 2010. On a sectoral basis, the highest number of employees was in the automotive and consumer durables sectors, each accounting for 27% of total Group employees, followed by finance with 23%.

In our 8 companies (Arçelik, Tofaş, Ford Otosan, Arçelik LG, Otokar, Aygaz-Gazal, Türk Traktör and Demir Export) where the collective labor agreements expired in 2010, the agreements covering approximately 28,000 unionized workers were renewed amicably conserving the labor peace.

Dividend proposal

According to the financial statements for the fiscal year January 1, 2010 to December 31, 2010, prepared by Koç Holding A.Ş. in accordance with International Financial Reporting Standards and audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (A member firm of Ernst & Young Global Limited), after a deduction of 5% as legal reserve fund (a sum equal to TL17,717,866.13) in line with Article 466 of the Turkish Commercial Code, a distributable profit of TL1,716,761,133.87 was generated according to the Capital Markets Board's regulations. After addition of TL845,563.00 granted to tax-exempt foundations and associations, a first level dividend base of TL1,717,606,696.87 was reached.

On the basis of the financial statements prepared in line with the statutory records, after deduction of 5% as legal reserve fund (TL17,717,866.13), in accordance with Article 466 of the Turkish Commercial Code the distributable profit amounted to TL336,639,456.46. Furthermore, with the addition of TL1,198,960,943.23 extraordinary legal reserves that may be subject to distribution, the total amount of distributable profit as per the statutory records reached TL1,535,600,399.69.

In line with Capital Markets Board regulations and the provisions of the Company's Articles of Association, it has been decided to allocate the distributable profit as follows:

TL343,521,339.37	As first level dividend to shareholders
TL47,880,122.52	To holders of usufruct right certificates, in accordance with article 32/d of our Articles of Association,
TL6,500,000.00	To Koç Holding Pension and Assistance Foundation, in accordance with article 32/c of our Articles of Association
TL206,478,660.63	As second dividend to shareholders.

We submit the following proposal to the General Assembly's approval:

- Payment of total TL550,000,000.00 dividends, composed of TL343,521,339.37 first dividend and TL206,478,660.63 second dividend, calculated according to the Capital Markets Board regulations and TL47,880,122.52 that will be paid to holders of usufruct right certificates, amounting to a grand total of TL597,880,122.52 in cash as follows:
 - ✓ TL42,057,606.27 from current year's tax exempt statutory income
 - ✓ TL189,076,355.78 from current year's taxable statutory income, and
 - ✓ TL366,746,160.47 from the extraordinary reserves corresponding to tax exempt portion
- TL6,500,000,000 that will be paid to Koç Holding Pension and Assistance Foundation to be expended from current year's taxable statutory income as gross = net.
- TL99,005,494.41 that remains from the current year's statutory income after the payments to be made to the holders of usufruct right certificates and Koç Holding Pension and Assistance Foundation to be allocated as extraordinary legal reserves
- And the dividend distribution to begin on 14 April 2011.

Dear Shareholders,

On behalf of our Board of Directors, I thank you, our valued shareholders, customers, dealers, suppliers, industry and business partners and unions for their continued trust and support, and our employees, for their dedication and outstanding contribution.

In 2011, Koç Group will continue to operate towards its objective of profitable and sustainable growth and maintain maximum focus on risk management. We will accelerate our investments that will create further employment opportunities and increase our efficiency. Within this context, we have budgeted a capital expenditure of TL2.7 billion on a consolidated basis and TL3.7 billion on a combined Group basis.

Sincerely,

Chairman of the Board of Directors



Mustafa V. Koç