

Board of Director's Report

To our shareholders,

Welcome to the 45th General Assembly of Koç Holding.

We hereby present for your evaluation the Koç Holding Annual Report for 2008. The first section of the report provides general information about Koç Holding, the Company, its goals, strategies and operations in 2008, 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, 2008 and other disclosures required by the Capital Markets Board (CMB).

The consolidated financial statements presented in this report have been prepared in compliance with International Financial Reporting Standards. However, in accordance with the CMB decree (Serial XI, No. 29 and related announcements) dated March 17, 2005, inflation accounting has not been applied. Other than amounts originating in foreign currencies such as export revenues, convenience translation of the items of the income statement in YTL (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.

Overview of 2008

Koç Holding and its subsidiaries achieved successful results under challenging market conditions in 2008. Thanks to effective risk management at company and Holding levels and the precautions taken, our Group entered the crisis environment in an extremely strong position in terms of cash position, portfolio structure and other operational indicators. The negative impact of the crisis on our financial results has been minimized through our efforts to strengthen our position in the markets in which we operate, to tap new market opportunities, and to steadily increase our efficiency.

Our consolidated revenue increased by 19% to YTL55.6 billion, while operating profit increased by 40% to exceed YTL5.0 billion. Net profit (attributable to equity holders of the parent) amounted to YTL2.0 billion, 12% lower than the previous year.

Thanks to the results we have achieved, our Group has continued to strengthen its position in the Turkish economy and among the leading companies of the world. The ratio of the combined revenues of the Group to Turkey's GDP is 9%, our exports constitute 11% of Turkey's total exports, and the share of our publicly traded companies within the total market capitalization of all companies listed on the Istanbul Stock Exchange is 13%. According to our 2007 results, we are 186th among the top 500 companies in the world and 46th among the top 500 public companies in Europe.

Developments in Koç Holding and Koç Group in 2008

In line with our strategic management approach, the main activities we undertook in 2008 were as follows:

- Despite shrinking local and international markets, our automotive companies managed to increase their production and exports. Our output increased by 8% to 561,000 units while our exports increased by 17% to 438,000 vehicles. Ford Otosan was the domestic market leader for the seventh consecutive year. Tofaş held steady at third place and by increasing its production capacity to 400,000 units, it became Turkey's highest capacity automotive company.
- In the consumer durables sector, Arçelik continued to increase its international sales by focusing on emerging markets. In April 2008, the remaining 50% share of Grundig was acquired and our Beko Elektronik company was renamed Grundig Elektronik. LCD TV production increased by 27%. Our companies' ability to develop technology and products that make a difference at an international level played an important role in the successful results these companies attained in domestic and international markets.
- In the energy sector, we continued to increase our market share in all main segments of the local LPG and petroleum products markets. Aygaz maintained its leadership in the LPG market while Opet consolidated its number three position in the petroleum products distribution sector. Thanks to new investments, efficiency improvements and capacity usage optimization, Tüpraş achieved a record high refinery margin. The basic engineering work for the Residium Upgrading project was started.
- As part of its ambitious expansion program started in 2007, Yapı Kredi opened 185 new branches in 2008, making it the bank that opened the highest number of new branches in Turkey. While the Bank increased its market share by focusing on strategic business segments and banking products, it cut costs through the effective use of alternative distribution channels. With the help of brand sharing agreements, the number of World branded credit cards reached 11 million.
- To improve our competitive power by increasing management efficiency and savings, we acquired Kav Danışmanlık Pazarlama ve Ticaret A.Ş. in 2008 by means of a merger.

Under our strategy of focusing on core sectors, which we initiated in 2006:

- In May, we sold our shares in Migros to Moonlight Capital SA, which is controlled by funds managed by BC Partners.
- In June, we sold Demrad to Ada Metal A.Ş.
- In July, we sold our shares in Koç Allianz Sigorta and Koç Allianz Hayat ve Emeklilik to Allianz SE.
- In August, we sold our shares in Oltaş to Continental.

KOÇ HOLDING CONSOLIDATED FINANCIAL RESULTS

(YTL millions)	2008	2007	Change %
Revenues (net)	55,631	46,802	19
Operating Profit	5,036	3,594	40
Operating Profit (adjusted) ¹	3,361	3,354	0
Profit Before Tax from Continuing Operations	3,081	4,067	-24
Profit for the Year	2,578	3,889	-34
Profit for the Year - Attributable to equity holders of the parent	2,024	2,295	-12
Earnings Per Share (Ykr)	YKr 100.5	YKr 127.2	-21
Earnings Before Interest, Taxes and Amortization - EBITDA (adjusted) ²	5,851	4,331	35
Operating Profit / Revenues (%)	9.1	7.7	1.4 ³
Operating Profit (adjusted) / Revenues (%)	6.0	7.2	-1.1 ³
Total Assets	64,890	59,707	9
Total Liabilities	48,758	44,649	9
Total Equity	16,132	15,058	7
Shareholders' Equity	9,749	7,852	24
Capital Expenditures	1,640	1,492	10
Depreciation and Amortization	815	737	11
Revenues / Total Assets	0.86	0.78	0.07 ³
Operating Profit / Total Assets (%)	7.8	6.0	1.7 ³
Operating Profit (adjusted) / Total Assets (%)	5.2	5.6	-0.4 ³
Return on Equity (%)	26.2	41.3	-15.1 ³
Current Ratio	0.86	0.88	-0.03 ³
Total Liabilities / Equity	3.0	3.0	0.1 ³

1) Operating profit excluding one-off capital gains from the sale of subsidiaries.

2) EBITDA excluding one-off capital gains from the sale of subsidiaries.

3) The changes in ratios are given as percentage point differences.

Koç Holding A.Ş.

Board of Director's Report

Financial and Operational Results

The Group continued to achieve successful results in all its areas of operation.

The combined revenue of Koç Holding increased by 16% in 2008 to reach YTL80,881 million. After YTL18,377 million is deducted on application of International Financial Reporting Standards to partnerships that are subject to common management and a further YTL6,872 million is deducted from this amount in lieu of adjustments from consolidation, the net consolidated revenue of Koç Holding amounted to YTL55,631 million, an increase of 19%.

Koç Holding's operating profit increased by 40% against the 2007 results to reach YTL5,036 million. When one-off capital gains attributable to the sale of our subsidiaries is deducted, our operating profit is YTL3,361 million.

Our profit before tax from continuing operations decreased by 24% to YTL3,081 million. A rise in foreign exchange losses due to increasing exchange rates towards the end of the year played an important role in decreasing profitability against 2007. When the affects of capital gains from the sale of subsidiaries and foreign exchange gains/losses are eliminated from both years, the increase in adjusted income before tax is 6%.

Consolidated net profit for 2008 was YTL2,578 million and profit attributable to equity holders of the parent was YTL2,024 million.

The total assets of Koç Holding increased by 9% to YTL64.9 billion. The shareholders' equity increased to YTL9,749 million with an increase of YTL1,897 million by the end of 2008 as a result of the net profit for the period and capital movements realized during the year.

In 2008, investments of YTL1,640 million were made. The most important investments were refinery modernization, station and terminal investments in the energy sector and capacity and new product investments in the automotive and consumer durables sectors.

Despite the economic crisis, our international sales continued to increase in 2008, with combined revenues of the Group companies in international markets exceeding \$15 billion. The sectors that contributed most to the international sales of Koç Group were automotive, energy and consumer durables.

Employment and Labor Relations

The total employment of Koç Holding, its subsidiaries and joint ventures was 70,750 as of the end of 2008.

On a sectoral basis, the highest level of employment was in the consumer durables, automotive and finance sectors, which together accounted for 80% of the Group's personnel.

In our companies whose collective employment agreements expired in 2008, the agreements were renewed amicably. MESS Union Collective Employment Agreement, which at the date of signing encompassed about 31,000 union workers in nine Group companies, was signed between the MESS Employers' Union and Turkish Metal Workers' Union with no disputes arising during the process. Also, a collective employment agreement covering 271 union workers at our Demir Export company was renewed in 2008.

Dividend Proposal

According to the financial reports for the fiscal year January 1st, 2008 to December 31st, 2008, prepared in accordance with International Financial Reporting Standards by Koç Holding A.Ş. and audited by Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member of PricewaterhouseCoopers), after a deduction of 5% for legal reserve fund

(a sum equal to YTL47,019,781.40) in line with Article 466 of the Turkish Commercial Code, a distributable profit of YTL1,976,534,976.60 was generated according to the Capital Markets Board's regulations. After addition of YTL183,111.50 granted to tax-exempt foundations and associations, a first level dividend base of YTL1,976,718,088.10 was achieved. On the basis of the financial reports prepared in line with the legal records, after deduction of 5% for legal reserve fund (YTL47,019,781.40), in accordance with Article 466 of the Turkish Commercial Code and after a loss of YTL10,640,839.33 was deducted, distributable profit amounted to YTL893,375,846.65. 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:

YTL 395,343,617.62	As first level dividend to shareholders
YTL 56,277,123.05	To holders of dividend right certificates, in accordance with article 32/d of our Articles of Association,
YTL 15,351,161.38	To Koç Holding Pension and Assistance Foundation, in accordance with article 32/c of our Articles of Association (after the deductions paid at a rate of 1% during the year)
YTL 7,179,882.38	As second dividend to shareholders.

and to allocate the YTL419,224,062.22 remaining according to the legal records as extraordinary reserves.

We hereby present to the General Assembly for approval, the proposal that dividends of YTL402,523,500.00, which consists of the YTL395,343,617.62 first dividend that is a legal requirement and YTL7,179,882.38 second dividend, not be distributed in cash but be given as bonus shares to shareholders; and that the payments allocated for holders of dividend right certificates be funded from the exceptional current year profits portion of the current year's profit and the payments allocated for the Koç Holding Foundation for Pension and Assistance be funded from the ordinary profits portion of the current year's profit and that the payment date be set as May 4, 2009.

Dear Shareholders,

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



Chairman of the Board of Directors
Mustafa V. Koç