

Koç Holding utilizes cutting-edge technologies and management techniques through its organization. We are committed to the consistent creation of value for all our stakeholders.

**Dr. Bülent
Bulgurlu**



CEO's Letter

Dear Shareholders,

Implementation of effective counter-measures enabled Koç Group to post successful results for 2008 despite extreme volatility in the global economy and a deepening slowdown in economic activity in Turkey and our key export markets in the last half of the year.

At the beginning of the year, in response to the economic concerns that surfaced in mid-2007, we strengthened our risk management policies and readied an alternative business program based on possible macroeconomic changes. We notified our companies of the measures they needed to apply in June. By September, the positive impact of these measures became visible, enabling us to set new targets for our companies. Thanks to these steps, our companies managed the effects of the crisis successfully and incurred minimal damage.

In addition to implementation of effective risk management policies, as Koç Holding, we pursued our strategic plan to focus on four core business segments and successfully divested our shares in İzocam, Demirdöküm, BOS, Ramenka, Demrad, Oltas, Migros and Koç Allianz at a time when asset prices had reached their peak.

These sales provided significant funds to finance ongoing expenses as well as new investments during this trying period. Thus, we achieved the great majority of our targets as a Group while at the same time fortifying our financial position against foreign exchange rate and interest risks.

Despite the sale of the companies mentioned above, we continued to raise revenues and operating profit. Overall productivity and profitability improved during the year due to growth of our existing business lines and new investments in these areas.

Koç Group's basic indicators continued to improve in 2008 despite adverse conditions in international and local markets. Consolidated revenues have climbed from YTL15 billion in 2003 to YTL56 billion in 2008. Koç Holding became the 186th largest company in the world according to Fortune 500 rankings for 2008. Operating profit for 2008 was up 40% to YTL5.0 billion while net income totaled YTL2.0 billion.

These strong financial results stem from the profitability and market leadership of our companies in our core business segments and their success in designing and marketing new products and services. Strong investments made in the last few years have made Koç Holding the undisputed leader in Turkey's energy sector. Tüpraş, one of Europe's largest refineries, has set new export and sales records. Opet, while continuing to gain market share, remained the top rated company in its sector in terms of customer satisfaction in the annual Customer Satisfaction Index survey held by the Turkish Society for Quality. Aygaz continued to dominate the LPG market.

2008 was a difficult year for the automotive sector as sales in the EU narrowed by 8.1% and slid by 17% in Turkey. Although production and export levels decreased, Koç Group companies were proud to account for 47% of Turkey's total automotive production and exports. Ford Otosan maintained its leadership in the local market for the seventh consecutive year and became an exporter of Ford motor vehicles to the United States. Tofaş's Fiat Linea was selected as "Autobest-Best Passenger Car", Fiorino was exported to 80 countries and voted "International Van of the Year". Otocar won a contract to manufacture Turkey's first national tank for the armed forces. Türk Traktör increased its market share to 50%, a significant improvement.

In consumer durables, Europe -our primary export market - contracted by 3-5% while the local market declined by 3.5%. Our companies in this sector maintained their leadership in the local market with a 54% share in major household appliances and 45% share in televisions. In Russia, Beko LLC became the first Turkish company to receive the "Company of the Year" award in "The fastest developing and the most dynamic company" category in the competition organized by RosBusinessConsulting. In China, Arçelik, which had opened its own factory last year, expanded its distribution network to 12 cities and 200 sales points. Arçelik LG more than doubled exports of air conditioning units.

Although banks around the world have been battered by the global crisis, Koç Group financial services companies reported strong results for 2008. Their healthy position demonstrates very clearly the effectiveness of our risk management policies.

Yapı Kredi increased the size of its branch network from 608 in 2006 to 861 by the end of 2008. The Bank has maintained a capital adequacy ratio of over 15% and a return on average equity above 24%. It continued to increase its market share in profitable products and services. Yapı Kredi's focus on real banking is reflected in its figures and asset quality. Not only did Yapı Kredi open more new branches than any other bank in Turkey in 2008, it was voted the Best Bank in seven categories including "Best Foreign Trade Bank", "Best Internet Branch" and "Best Call Center".

During the year, Tat transferred its tomato paste and meat processing plants to Urfa in southeast Turkey as part of the Harranova development project, setting an important example to other companies.

Koç Holding utilizes cutting-edge technologies and management techniques through its organization. It is committed to the consistent creation of value for all its stakeholders. At the same time we seek to foresee and take maximum benefit from change, we are careful not to lose the values that have made us what we are.

This year we are celebrating the 40th anniversary of Vehbi Koç Foundation. As one of Europe's largest philanthropic foundations, Vehbi Koç Foundation raises the quality of life in Turkey in the areas of education, healthcare, culture & art and environmental protection primarily through its own institutions and by support of other worthwhile charitable foundations.

Creation of a qualified workforce to meet the country's current and future needs is of vital importance as is providing hope to young people faced with the threat of unemployment, one of the most significant problems of our world today. For the past three years we have administered the "Vocational Education: A Top Matter for the Nation" project jointly with the Ministry of National Education and Group companies in order to make vocational and technical training a priority.

Thanks to the support of Vehbi Koç Foundation, scholarships and internships have been given to thousands of students and opportunities for coaching and individual development have been made available. We are taking every opportunity to further develop this very important project.

At Koç Holding, our employee-based "For My Country" corporate citizenship project focused on the environment. Prevention of global warming and climate change and the correct use of natural resources are among the most important issues in the world today. At the same time, we continue to develop environmentally friendly technologies to improve our work processes in line with the measures and targets set forth by the Kyoto Protocol of which Turkey is a signatory.

At Koç, we will monitor the outcome of the Copenhagen Conference very carefully to ensure that our work processes meet the resolutions taken to prevent global warming and reduce production of hothouse gases.

Koç Group has distinguished itself by developing new technologies and by applying these technologies to our work processes. We are one of the top 1000 companies in the world in terms of the resources allocated to R&D - an important indicator of our commitment and success in this area.

In the years ahead, Koç Group is determined to bolster its ranking among the world's largest corporations and maintain its position of esteem and recognition at home and abroad. Working hand in hand with our valued employees, we intend to shape the future successes of the Group on the world stage while continuing to drive the Turkish economy.

Dr. Bülent Bulgurlu
CEO, Board Member