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Mustafa V. Koç



Chairman's Statement

Koç Holding's esteemed shareholders, valued business partners and employees,

The world witnessed great changes in the political, social and economic spheres during 2008. The year was dominated by the global crisis and its financial and economic repercussions as well as by political tension on the national stage.

The global economy is going through one of the most difficult periods since World War II. The crisis, which started in the U.S. and spread to other countries, has changed international balances and called into question the efficacy of present day economic and political systems. Institutions and companies that are able to adjust and manage change survive; those that do not, as we have seen from global examples, are history.

Despite the trillions of dollars governments have poured into the largest economies in the world, economic recovery is proceeding at an agonizingly slow pace. In today's world, where all economies are increasingly integrated and interdependent, it is inevitable that a crisis of the scope and size of the current one will have a serious impact on Turkey's economy and companies.

The pronounced economic slowdown witnessed in developed countries in the last half of 2008, hit Turkey's export markets hard. This became painfully apparent during the final months of the year, leading to steep declines in production and industrial utilization. This has dampened growth, restricted capital flows and reduced the volume of foreign trade.

In Turkey, as in other countries around the globe, the credit crunch, weak consumer demand, depressed export markets and low consumer and business confidence put a brake on economic growth. The Turkish economy, which had begun to lose steam from mid-2006, went into negative growth territory in the last quarter of 2008. The slump in economic activity had a negative effect on macroeconomic balances, however low costs and weak demand has relieved inflationary pressures and brought the current account deficit down to more manageable levels.

Revival of domestic demand is linked to recovery of consumer and business confidence. This calls for a comprehensive action plan on the economic, political, social and diplomatic fronts. The success of these initiatives, combined with skillful management of expectations, will ease credit markets, inject new confidence into the market, stimulate domestic demand and thus prevent Turkey's industries from losing their competitive advantages.

To do this, the presence of economic and political anchors is of key importance. A new agreement with the International Monetary Fund (IMF) would reinforce the country's credibility and foreign exchange liquidity. The renewal of negotiations with the European Union would also boost confidence in the market. We believe that pushing forward with reforms required by the EU for membership would increase Turkey's global competitiveness.

Sustainable growth can only be achieved through new foreign investment. Enactment of structural reforms would show that Turkey is a safe harbor for investors, resulting in an acceleration of foreign capital inflows as the effects of the global crisis fade.

In today's world, developing countries will bear much of the weight of global economic growth. Turkey, due to its geopolitical location and stature in the region, can be one of the architects of the 21st century provided that commitment to democratic reform remains strong.

The ability to react and adjust to the abrupt and sweeping changes taking place today depend on effective and prudent financial management, global perspective, astute evaluation of risks and opportunities, selective assessment of investment prospects, innovation and team work. These attributes characterize Koç Group, enabling us to reshape our businesses, limit the damage from this period of volatility and emerge more powerful than ever, both in Turkey and in the international arena.

Koç Group became a leaner and more focused organization in 2008. Timely divestiture from companies deemed to be extraneous to our four main business groups yielded a significant inflow of cash at a critical time while improving the overall structure and cohesiveness of the Group. The extraordinary income derived from the sale of these companies gives Koç Holding a war chest that fortifies its financial structure and adds to its ability to manage costs and revenues in the present period of declining demand and tight credit.

In our home market, Koç Group retained its dominant position in all its core businesses. Our brands, products and services are the most admired in Turkey. We are a leader in production and technology and a sought-after employer. We are globally competitive, with a history of long-term partnerships with international companies. For the second year in a row, Koç Group ranked among the 100 top companies from rapidly developing economies selected by Boston Consulting Group in the "2009 BCG 100 - New Global Challengers" list.

Today's challenges call for responsible and farsighted management, effective utilization of resources and responsible corporate citizenship that promote social welfare and environmental protection. Koç has a long and proud history of sensitivity to both social and environmental issues. We are concerned about global warming and climate change and seek ways to improve our production processes with these issues in mind.

Through our companies, Koç Holding and Vehbi Koç Foundation, we contribute to raising the quality of life in Turkey. Our university, secondary and nursing schools and hospital rank among the finest in Turkey. We are a leader in improving vocational education and have generously built and equipped primary schools throughout the country. We are proud to sponsor the Istanbul Biennial through 2016, an international contemporary art exhibition held every other year.

Our commitment to education, healthcare, culture and art and environmental protection is a fundamental part of our corporate culture and will remain so in the years ahead.

The world is going through tough times that leave no company unaffected. Production and profitability are down across the board. There is little good corporate news anywhere. Yet, we are confident that we are well-equipped to cope with the present economic downturn and look steadfastly toward the future. We are determined to continue to create value for our shareholders, business partners, employees, customers and thus to add value to our country and community.

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