

There is no shortcut to long-term success. At Koç, we will continue to shield ourselves from risk and calibrate strategies according to insightful interpretation of changing forces and balances.

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Rahmi M. Koç



## Honorary Chairman's Message

Dear Shareholders,

2008 will be remembered as a defining moment in history – a harbinger of a transformation of the world economic order.

It is no exaggeration to say that the shocking events witnessed in the second half of the year will reshape the world economy, modify the speed of economic globalization and usher in a period of intense debate over the failure and viability of current economic and financial systems.

How did the world get to this point? The financial crisis that has been wreaking havoc in markets in the U.S. and across the world since August 2007 had its origins in an asset price bubble that interacted with new and complex financial products that masked risk. Companies failed to follow their own risk management procedures and regulators and supervisors failed to restrain excessive risk taking. Thus, what had started as essentially a U.S. problem quickly spread to other markets. The collapse of major financial institutions in August and September of 2008 - and the move by governments to bail-out some of these – hastened the emergence of a worldwide crisis of confidence, a freeze in credit markets and sinking stock markets.

As consumer and business spending dropped, economies in the U.S., U.K., Euro Zone and Japan stagnated, business losses multiplied and pressure on the real economy intensified. Government economic recovery packages, bank bailouts, intervention in credit markets and easing of monetary policies prevented an even more disastrous financial collapse. The same level of support was not extended to the manufacturing sector however.

In the midst of all this, the U.S. elected a new president, Barack Obama, who came to office on the platform of change. Time is needed to understand whether he succeeds in stimulating and restoring confidence in the economy and the global system. From our standpoint today, we can see that certain fundamental changes will take place: finance will be reorganized and better regulated and effective risk management will become more important.

Governments around the world started to confront the global crisis in late 2008 by putting into place a variety of measures to stabilize the financial markets and stimulate the economy. Companies reviewed their operations and set into motion steps to cut costs, adjust production schedules and revise their product lines in order to survive the downturn.

Effects of the global crisis began to be felt strongly in Turkey in the third quarter, as economic growth dipped to half a percentage point, the lowest growth rate seen in the rapidly expanding Turkish economy for 27 quarters. In the fourth quarter, GDP receded by 6.2%. Consumer and business confidence plunged to a historic low. Yet, thanks to the restructuring of the banking sector and financial discipline put into place after the 2001 crisis and minimal exposure to mortgages and derivatives, the impact of the global economic crisis has been relatively lighter in Turkey than in other countries.

In 2009, as the depth of the economic malaise becomes more apparent, GDP growth will diminish, unemployment will rise and companies will go out of business. In this environment, only strong and smart companies will be able to turn the crisis to their advantage.

Turkey, due to its geopolitical position in the eastern Mediterranean and the Black Sea and strong ties with the U.S., European Union and NATO, finds itself at the crossroads of the central issues of our day: conflict in the Middle East and the Caucasus, terrorism and energy. As a neighbor of Iran, Iraq, Syria, Georgia, Armenia in the east and as a major conduit for energy pipelines and shipping, Turkey finds itself entering a period of unexpected opportunity to strengthen its position in the Middle East at a time when the U.S. is trying to open new diplomatic initiatives.

At the same time Turkey is attempting to regain momentum with the European Union. The visit of the Prime Minister to Brussels and the appointment of a head negotiator after a long delay signal that new importance will be placed on reviving relations with the EU, which in the current global economic crisis, will provide an important anchor for the economy. A new agreement with the IMF will provide another key anchor.

As Koç Group, even as we take the steps necessary to combat current conditions, we reaffirm our belief that Turkey's strategic location, young and ambitious population and high growth potential will be strengthened by the changing trends in the market. Thus, the long term potential of Turkey remains the focus of our business strategy.

We entered the present crisis in a strong financial position due to the restructuring of our portfolio in recent years in which we have divested some companies and acquired others. Such proactive restructuring enabled us to maintain our position in world markets.

There is no shortcut to long-term success. The secret lies in predicting and adapting to change. At Koç, we will continue to shield ourselves from risk and calibrate strategies according to insightful interpretation of changing forces and balances. Serious and stringent review of the risks and opportunities facing us will guide our Group through this trying period and position us for profitable growth in the future.

At all times, and especially now, we remain committed to being a responsible corporate citizen by protecting the interests of our shareholders and business partners and creating value for our employees, suppliers, dealers, customers, community and nation.

In closing, I would like to thank our managers for their diligence and dedication and extend my appreciation to our shareholders and investors for their unwavering belief in the integrity, performance and promise of Koç Group.

**Rahmi M. Koç**  
Honorary Chairman

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