

KOÇ HOLDİNG A.Ş.

**CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003
TOGETHER WITH AUDITOR'S REPORT**

AUDITOR'S REPORT

To the Board of Directors of
Koç Holding A.Ş.

1. We have audited the accompanying consolidated balance sheet of Koç Holding A.Ş. ("Koç Holding" or "the Group") at 31 December 2003 and the related consolidated statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira ("TL") as at 31 December 2003. These consolidated financial statements are the responsibility of Koç Holding's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Koç Holding A.Ş. at 31 December 2003 and the consolidated results of its operations, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw your attention to the following matters:

4. As explained in Note 3 to the consolidated financial statements, the statements include the accounts of the parent company, its Subsidiaries, Joint Ventures and the Associate. Subsidiaries are companies in which Koç Holding has power to control the financial and operating policies for the benefit of Koç Holding through the exercise of voting power relating to the shares held by Koç Holding and its Subsidiaries together with the voting power which Koç Holding effectively exercises relating to the shares held by Koç family members and enterprises controlled by them. Joint Ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by Koç Holding and its Subsidiaries (through the "control basis") and one or more other parties. In effect the Koç family members allow Koç Holding to exercise the voting power in respect of their shares held in these companies. In the consolidated financial statements, the shares held by Koç family members are treated as minority interest.

5. As explained in Note 2 to the consolidated financial statements, Euro (“EUR”) and US Dollar (“USD”) amounts shown in the accompanying consolidated financial statements have been included solely for the convenience of the reader of the consolidated financial statements and are translated from TL, as a matter of arithmetic computation only, at the official EUR and USD bid rates announced by the Central Bank of the Republic of Turkey (“CBRT”) at 31 December 2003. Such translation should not be construed as a representation that the TL amounts have been or could be converted into EUR and USD at these or any other rates.

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM

Istanbul, 12 April 2004

KOÇ HOLDİNG A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

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KOÇ HOLDİNG A.Ş.

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

	Notes	2003 EUR'000 (*)	2003 USD'000 (*)	2003 TL billion	2002 TL billion
ASSETS					
Current assets:					
Cash and cash equivalents	6	1,069,315	1,336,856	1,866,031	1,807,954
Investments:					
-held-for-trading	7.a	993	1,241	1,732	980
-available-for-sale	7.b	305,782	382,288	533,611	423,819
-held-to-maturity	7.c	244,946	306,231	427,448	162,443
Reserve deposits with the Central Banks	8	123,531	154,438	215,570	246,719
Loans and advances to customers	9	820,936	1,026,334	1,432,593	1,625,640
Trade receivables	10	1,369,525	1,712,179	2,389,920	2,120,489
Due from related parties	11	11,291	14,116	19,703	58,502
Inventories	12	804,774	1,006,128	1,404,388	1,158,333
Other current assets	13	161,845	202,338	282,431	363,378
Total current assets		4,912,938	6,142,149	8,573,427	7,968,257
Non-current assets:					
Loans and advances to customers	9	381,969	477,537	666,563	473,661
Investments:					
-available-for-sale	7.b	173,087	216,393	302,049	241,118
-held-to-maturity	7.c	459,821	574,867	802,420	687,548
Investment in associated undertaking	14	1,011	1,264	1,765	1,849
Investment property	17	34,396	43,002	60,023	70,645
Property, plant and equipment	15	2,046,050	2,557,970	3,570,504	3,716,248
Intangible assets	16	291,355	364,252	508,436	412,664
Other non-current assets		34,926	43,664	60,948	98,450
Total non-current assets		3,422,615	4,278,949	5,972,708	5,702,183
Total assets		8,335,553	10,421,098	14,546,135	13,670,440

(*) Euro ("EUR") and US Dollar ("USD") amounts presented above are translated from Turkish Lira ("TL") for convenience purposes only, at the official TL exchange rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2003, and therefore do not form part of these consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") (Note 2.c).

These consolidated financial statements as at and for the year ended 31 December 2003 have been approved for issue by the Board of Directors on 12 April 2004 and signed on its behalf by Rüşdü Saraçoğlu, President of Financial Services Group, and by Emine Alangoya, Accounting Manager.

The accompanying notes form an integral part of these consolidated financial statements.

KOÇ HOLDİNG A.Ş.

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

	Notes	2003 EUR'000 (*)	2003 USD'000 (*)	2003 TL billion	2002 TL billion
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Customer deposits	18	1,455,966	1,820,247	2,540,765	2,659,851
Bank borrowings	19	1,058,273	1,323,053	1,846,763	1,769,692
Bonds issued		468	585	817	5,579
Insurance technical reserves	21	102,419	128,045	178,729	169,984
Trade payables	20	1,012,644	1,266,006	1,767,136	1,640,598
Due to related parties	11	14,174	17,715	24,730	32,618
Taxes on income	23	46,631	58,298	81,374	90,282
Other current liabilities	22	482,296	602,967	841,642	791,906
Total current liabilities		4,172,871	5,216,916	7,281,956	7,160,510
Non-current liabilities:					
Customer deposits	18	121,306	151,656	211,687	172,859
Bank borrowings	19	648,155	810,323	1,131,077	1,174,292
Insurance technical reserves	21	147,921	184,931	258,133	188,010
Provision for employment termination benefits	24	72,681	90,865	126,833	115,820
Deferred tax liabilities	23	11,318	14,150	19,751	176,808
Other non-current liabilities		43,380	54,232	75,699	82,861
Total non-current liabilities		1,044,761	1,306,157	1,823,180	1,910,650
Total liabilities		5,217,632	6,523,073	9,105,136	9,071,160
Minority interest					
- Koç family members	33	525,083	656,459	916,308	949,742
- Other	33	733,354	916,839	1,279,756	1,205,439
Minority interest	33	1,258,437	1,573,298	2,196,064	2,155,181
Shareholders' equity:					
- Share capital	25	452,560	565,790	789,750	203,156
- Adjustment to share capital	25	431,829	540,382	753,675	914,756
Total paid-in share capital		884,389	1,106,172	1,543,425	1,117,912
Share premium		2,449	2,553	4,172	4,172
Translation reserve	3.f	(4,571)	(5,714)	(7,976)	1,971
Cumulative loss on hedging	30	(10,613)	(13,269)	(18,521)	(44,227)
Retained earnings	26	987,830	1,234,985	1,723,835	1,364,271
Total shareholders' equity		1,859,484	2,324,727	3,244,935	2,444,099
Total liabilities and shareholders' equity		8,335,553	10,421,098	14,546,135	13,670,440

Commitments and contingent liabilities 30

(*) EUR and USD amounts presented above are translated from TL for convenience purposes only, at the official TL exchange rate announced by the CBRT at 31 December 2003, and therefore do not form part of these consolidated financial statements prepared in accordance with IFRS (Note 2.c).

The accompanying notes form an integral part of these consolidated financial statements.

KOÇ HOLDİNG A.Ş.**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

	Notes	2003 EUR'000 (*)	2003 USD'000 (*)	2003 TL billion	2002 TL billion
Revenues:					
Non-finance	5	8,088,334	10,112,030	14,114,725	10,570,945
Finance	5	795,929	995,070	1,388,953	2,313,047
		8,884,263	11,107,100	15,503,678	12,883,992
Operating costs:					
Non-finance	5	(7,708,273)	(9,636,878)	(13,451,492)	(10,303,647)
Finance	5	(698,867)	(873,724)	(1,219,574)	(2,125,388)
		(8,407,140)	(10,510,602)	(14,671,066)	(12,429,035)
Operating profit:					
Non-finance	5	380,061	475,152	663,233	267,298
Finance	5	97,062	121,346	169,379	187,659
		477,123	596,498	832,612	454,957
Share of result of associate	14	(48)	(60)	(84)	(2)
Financial income-net	27	83,652	104,581	145,978	23,627
Other income/(expense)-net		306	383	534	(71,608)
Loss on net monetary position	2	(19,993)	(24,996)	(34,890)	(110,891)
Income before taxes on income and minority interest		541,040	676,406	944,150	296,083
Taxes on income	23	(86,365)	(107,973)	(150,713)	(71,957)
Income before minority interest		454,675	568,433	793,437	224,126
Income attributable to minority interest:					
- Koç family members	33	(61,056)	(76,332)	(106,547)	(50,707)
- Other	33	(174,645)	(218,341)	(304,768)	(127,104)
Net income		218,974	273,760	382,122	46,315
Weighted average number (000's) of shares with face value of TL1,000 value each					
	4.ag	763,943,497	763,943,497	763,943,497	758,782,196
Basic and diluted earnings per share in full					
	4.ag	287	358	500	61

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The accompanying notes form an integral part of these consolidated financial statements.

KOÇ HOLDİNG A.Ş.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

	Share capital	Adjustment to share capital	Share Premium	Translation reserve	Cumulative loss on hedging	Retained Earnings			Shareholders' equity total
						General and legal reserves	Unappropriated net income/(loss)	Retained earnings total	
Balances at 1 January 2002	101,578	989,368	4,172	47,759	(31,605)	2,011,985	(669,052)	1,342,933	2,454,205
Decrease in retained earnings due to additions to scope of consolidation	-	-	-	-	-	(2,811)	-	(2,811)	(2,811)
Increase in retained earnings due to disposals from scope of consolidation	-	-	-	-	-	4,800	-	4,800	4,800
Transfers	-	-	-	-	-	(669,052)	669,052	-	-
Increase in share capital	101,578	(74,612)	-	-	-	(26,966)	-	(26,966)	-
Currency translation differences	-	-	-	(45,788)	-	-	-	-	(45,788)
Cumulative loss on hedging	-	-	-	-	(12,622)	-	-	-	(12,622)
Income for the year	-	-	-	-	-	-	46,315	46,315	46,315
Balances at 31 December 2002	203,156	914,756	4,172	1,971	(44,227)	1,317,956	46,315	1,364,271	2,444,099
Decrease in retained earnings due to additions to scope of consolidation	-	-	-	-	-	(856)	-	(856)	(856)
Increase in retained earnings due to disposals from scope of consolidation	-	-	-	-	-	2,474	-	2,474	2,474
Transfers	-	-	-	-	-	46,315	(46,315)	-	-
Increase in share capital	586,594	(161,081)	-	-	-	(24,176)	-	(24,176)	401,337
Currency translation differences	-	-	-	(9,947)	-	-	-	-	(9,947)
Cumulative gain on hedging	-	-	-	-	25,706	-	-	-	25,706
Income for the year	-	-	-	-	-	-	382,122	382,122	382,122
Balances at 31 December 2003	789,750	753,675	4,172	(7,976)	(18,521)	1,341,713	382,122	1,723,835	3,244,935

The accompanying notes form an integral part of these consolidated financial statements.

KOÇ HOLDİNG A.Ş.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

Notes	2003 EUR'000 (*)	2003 USD'000 (*)	2003 TL billion	2002 TL billion
Operating activities:				
Net income	218,974	273,760	382,122	46,315
Adjustments to reconcile net income to net cash provided by operating activities:				
Net income attributable to minority interest	33 235,701	294,673	411,315	177,811
Dilution loss due to the restructuring in finance sector	-	-	-	64,219
Depreciation and amortisation - net	449,324	561,744	784,102	825,866
Changes in reserves and provisions	4.ad 22,819	28,528	39,821	(38,033)
Gain on sale of tangible and intangible assets	(2,423)	(3,029)	(4,228)	(2,941)
Net interest income	4.ad (273,644)	(342,109)	(477,528)	(503,730)
Fair value (gain)/loss on financial assets	(4,854)	(6,069)	(8,471)	20,036
Banking sector interest income	434,641	543,387	758,479	1,652,983
Banking sector interest expense	(244,648)	(305,859)	(426,929)	(1,172,880)
Taxation expenses	86,365	107,973	150,713	71,957
Dividend income	11 (1,184)	(1,480)	(2,066)	(707)
Net cash provided from operating activities before changes in operating assets and liabilities				
	921,071	1,151,519	1,607,330	1,140,896
Net changes in operating assets and liabilities	4.ad (529,570)	(662,068)	(924,140)	(1,309,265)
Income taxes paid	(91,471)	(114,357)	(159,621)	(52,607)
Net change in operating assets and liabilities				
	(621,041)	(776,425)	(1,083,761)	(1,361,872)
Net cash provided/(used in) by operating activities				
	300,030	375,094	523,569	(220,976)
Investing activities:				
Purchase of tangible and intangible assets	(508,341)	(635,528)	(887,092)	(1,203,784)
Cash provided from sale of tangible and intangible assets	181,192	226,526	316,193	105,337
Net assets of subsidiaries acquired	31 152,325	190,437	265,818	153,596
Changes in other non-current assets and other non-current liabilities	4.ad 17,386	21,736	30,340	121,524
Effect of changes in minority shares	33 (156,889)	(196,143)	(273,783)	(2,452)
Increase in retained earnings from the companies included and excluded from the scope of consolidation	927	1,159	1,618	1,989
Effect of restructuring in finance segment	-	-	-	(1,158,369)
Acquisition of subsidiaries	31 (237,354)	(296,739)	(414,199)	(263,420)
Dividend income	11 1,184	1,480	2,066	707
Net cash used in investing activities				
	(549,570)	(687,072)	(959,039)	(2,244,872)
Financing activities:				
Capital increase	229,983	287,525	401,337	-
Share capital increase attributable to minority interest	33 51,837	64,807	90,460	1,364,767
Dividend paid attributable to minority interest	33 (99,638)	(124,567)	(173,875)	(119,815)
Increase / (decrease) in short-term borrowings	44,162	55,215	77,071	(252,720)
(Decrease) / increase in long-term borrowings	(24,764)	(30,960)	(43,215)	324,622
Proceeds from issuance of bonds	468	585	817	11,157
Repayment of bonds	(3,197)	(3,997)	(5,579)	(28,643)
Non-banking financial income	399,135	498,999	696,520	517,663
Non-banking financial expense	(315,484)	(394,418)	(550,542)	(494,036)
Net cash used in financing activities				
	282,502	353,189	492,994	1,322,995
Cumulative gain / (loss) on hedging	14,731	18,416	25,706	(12,622)
Cumulative gain on hedging on attributable to minority interest	33 551	688	961	-
Translation difference	(5,700)	(7,126)	(9,947)	(45,788)
Translation difference attributable to minority interest	33 (8,134)	(10,170)	(14,195)	52,188
Net increase / (decrease) in cash and cash equivalents	34,410	43,019	60,049	(1,149,075)
Cash and cash equivalents at the beginning of the year	1,018,904	1,273,833	1,778,060	2,927,135
Cash and cash equivalents at the end of the year				
6	1,053,314	1,316,852	1,838,109	1,778,060

(*) EUR and USD amounts presented above are translated from TL for convenience purposes only, at the official TL bid rate announced by the CBRT at 31 December 2003, and therefore do not form part of these consolidated financial statements prepared in accordance with IFRS (Note 2.c).

The accompanying notes form an integral part of these consolidated financial statements.

KOÇ HOLDİNG A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Koç Holding A.Ş. ("Koç Holding") was established on 11 December 1963 as a corporation to coordinate the activities of, and liaise between, companies operating in different fields including trade, manufacturing, agriculture, finance and retailing, and is registered in Turkey.

As of 31 December 2003, the number of people employed by Koç Holding, Subsidiaries and Joint Ventures (collectively referred as the "Group") in 2003 is 53,985 (2002: 50,019).

The address of the registered office is as follows:

Nakkaştepe Azizbey Sok. No: 1
Kuzguncuk-İSTANBUL

Koç Holding is registered with the Capital Markets Board ("CMB") and its shares have been quoted on the Istanbul Stock Exchange ("ISE") since 10 January 1986. At 31 December 2003, the shares quoted on the ISE represent some 19.72% of the total shares. At 31 December 2003, the principal shareholders and their respective shareholdings in the Company are as follows (Note 25):

	%
Companies owned by Koç family members	43.63
Koç family members	27.51
Vehbi Koç Vakfi	7.17
Other	21.69
	100.00

Koç Holding is organised mainly in Turkey into six main business segments:

- Automotive
- Finance
- Consumer durable
- Food and retailing
- Energy
- Other (*)

(*) Other operations of Koç Holding mainly comprise foreign trade, tourism, information technologies and construction, none of which is of a sufficient size to be reported separately.

Geographical segment information has not been included in the consolidated financial statements since geographical segments other than Turkey are not material enough to be reported separately.

KOÇ HOLDİNG A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

The Subsidiaries ("Subsidiary") of the Group, their country of incorporations, nature of businesses and their respective business segments, are as follows:

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>Nature of business</u>	<u>Segment</u>
Beldesan Otomotiv Yan Sanayii ve Tic. A.Ş. ("Beldesan")	Turkey	Production	Automotive
Beldeyama Motorlu Vasıtalar San. A.Ş. ("Beldeyama")	Turkey	Production	Automotive
Birmot Birleşik Motor Sanayi ve Tic. A.Ş. ("Birmot")	Turkey	Trading	Automotive
Döktaş Ticaret ve San. A.Ş. ("Döktaş")	Turkey	Production	Automotive
Mako Elektrik Sanayi ve Ticaret A.Ş. ("Mako")	Turkey	Production	Automotive
Otokar Otobüs Karoseri Sanayi A.Ş. ("Otokar")	Turkey	Production	Automotive
Otokoç Otomotiv Tic. ve San. A.Ş. ("Otokoç")	Turkey	Trading	Automotive
Otomotiv Lastikleri Tevzi A.Ş. ("Otomotiv Lastikleri")	Turkey	Trading	Automotive
Otoyol Pazarlama A.Ş. ("Otoyol Pazarlama")	Turkey	Trading	Automotive
Otoyol Sanayi A.Ş. ("Otoyol")	Turkey	Production	Automotive
Tekersan Jant Sanayi A.Ş. ("Tekersan")	Turkey	Production	Automotive
Trakmak Traktör ve Ziraat Makinaları A.Ş. ("Trakmak")	Turkey	Trading	Automotive
Türk Traktör ve Ziraat Makinaları A.Ş. ("Türk Traktör")	Turkey	Production	Automotive
Koç Allianz Hayat Sigorta A.Ş. ("Koç Allianz Hayat")	Turkey	Life insurance	Finance
Koç Allianz Sigorta T.A.Ş. ("Koç Allianz Sigorta")	Turkey	Insurance	Finance
Koç Tüketici Finansmanı ve Kart Hizmetleri A.Ş. ("Koç Finans")	Turkey	Consumer finance	Finance
Arçelik A.Ş. ("Arçelik")	Turkey	Production	Consumer durable
Ardutch B.V. ("Ardutch")	The Netherlands	Holding	Consumer durable
Artesis Teknoloji Sistemleri A.Ş. ("Artesis")	Turkey	Technology, development	Consumer durable
Beko Deutschland GmbH ("Beko Deutschland")	Germany	Trading	Consumer durable
Beko Electronics Espana S.L. ("Beko Espana")	Spain	Trading	Consumer durable
Beko Elektronik A.Ş. ("Beko Elektronik")	Turkey	Production	Consumer durable
Fusion Digital Technology Ltd. ("Fusion")	The U.K.	Technology development	Consumer durable
Beko France S.A. ("Beko France")	France	Trading	Consumer durable
Beko Polska S.A. ("Beko Polska")	Poland	Trading	Consumer durable
Beko Ticaret A.Ş. ("Beko Ticaret")	Turkey	Trading	Consumer durable
Beko UK Ltd. ("Beko UK")	The U.K.	Trading	Consumer durable
Blomberg Werke GmbH ("Blomberg GmbH")	Germany	Production	Consumer durable
Blomberg Vertriebsgesellschaft GmbH ("Blomberg mbH")	Germany	Distribution	Consumer durable
Elektra Bregenz AG ("Elektra AG")	Austria	Trading	Consumer durable
Raupach Wollert GmbH ("Raupach")	Germany	Holding	Consumer durable
SC Arctic SA ("Arctic")	Romania	Production	Consumer durable
Sherbrook International Ltd. ("Sherbrook")	The U.K.	Trading	Consumer durable
Türk Demir Döküm Fabrikaları A.Ş. ("TDDF")	Turkey	Production	Consumer durable
Demrad Döküm Ürünleri Sınai ve Tic. A.Ş. ("Demrad")	Turkey	Production	Consumer durable
DD Heating Limited ("DD Heating")	The U.K.	Trading	Consumer durable
Panel Radyatör Sanayi ve Ticaret A.Ş. ("Panel")	Turkey	Production	Consumer durable
Düzey Tüketim Malları Pazarlama A.Ş. ("Düzey")	Turkey	Trading	Food and retailing
Limited Liability Company Rambutya ("Rambutya")	Kazakhstan	Retail	Food and retailing
Migros Türk T.A.Ş. ("Migros")	Turkey	Retail	Food and retailing
Ramstore Bulgaria A.D. ("Ramstore Bulgaria")	Bulgaria	Retail	Food and retailing
Ramstore Sınırlı Sorumlu Türk Gıda Müessesesi ("Ramstore Azerbaijan")	Azerbaijan	Retail	Food and retailing
Tat Konserve Sanayi A.Ş. ("Tat Konserve")	Turkey	Food and beverage	Food and retailing
Tat Tohumculuk A.Ş. ("Tat Tohumculuk")	Turkey	Agriculture	Food and retailing
Aygaz A.Ş. ("Aygaz")	Turkey	LPG	Energy
Opet Aygaz Bulgaria E.A.D. ("Opet Aygaz Bulgaria")	Bulgaria	Distribution	Energy
Opet Aygaz BV ("Opet Aygaz BV")	The Netherlands	Distribution	Energy
Bursa Gaz ve Ticaret A.Ş. ("Bursa Gaz")	Turkey	Trade	Energy
Entek Elektrik Üretimi A.Ş. ("Entek")	Turkey	Power generation	Energy
Mogaz Petrol Gazları A.Ş. ("Mogaz")	Turkey	LPG	Energy

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(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>Nature of business</u>	<u>Segment</u>
Ayvalık Marina ve Yat İşletmeciliği San. ve Tic. A.Ş. ("Ayvalık Marina")	Turkey	Tourism	Other
Bilkom Bilişim Hizmetleri A.Ş. ("Bilkom")	Turkey	Trading	Other
Bozkurt Tarım ve Gıda San. A.Ş. ("Bozkurt")	Turkey	Agriculture	Other
İzocam Ticaret ve Sanayi A.Ş. ("İzocam")	Turkey	Production	Other
Kav Danışmanlık Pazarlama ve Ticaret A.Ş. ("Kav Danışmanlık")	Turkey	Consultancy	Other
Koçnet Haberleşme Teknoloji ve İletişim Hizm. A.Ş. ("Koçnet")	Turkey	Information Technology	Other
Koç Sistem A.Ş. ("Koç Sistem")	Turkey	Technology	Other
Koçtaş Yapı Malzemeleri Ticaret A.Ş. ("Koçtaş")	Turkey	Trade	Other
Marmaris Altınyunus Turistik Tesisleri A.Ş. ("Mares")	Turkey	Tourism	Other
Ram Dış Ticaret A.Ş. ("Ram Dış Ticaret")	Turkey	Foreign trade	Other
Ram Pacific Ltd. ("Ram Pacific")	China	Foreign trade	Other
RMK Gemi Yapım Sanayi A.Ş. ("RMK Marine")	Turkey	Production	Other
Set Oto Ticaret ve Turizm A.Ş. ("Setoto-Avis")	Turkey	Car Rental	Other
Setur Servis Turistik A.Ş. ("Setur")	Turkey	Tourism	Other
Tek-Art Kalamış ve Fenerbahçe Marmara Turizm Tesisleri A.Ş. ("Tek-Art Marina")	Turkey	Tourism	Other
Tek-iz İzolasyon ve Yapı Elemanları San. A.Ş. ("Tek-iz")	Turkey	Production	Other
Tütaş Türk Turizm A.Ş. ("Talya Tütaş")	Turkey	Tourism	Other

For the purposes of segment information in these consolidated financial statements, Koç Holding's stand-alone financial statements were included within the "Other" segment (Note 5).

The Joint Ventures ("Joint Ventures"), their main operations, sectors and joint venture partners of Koç Holding are explained below (Note 3.c):

<u>Joint Venture</u>	<u>Nature of business</u>	<u>Segment</u>	<u>Joint Venture Partner</u>
Ford Otomotiv Sanayi A.Ş. ("Ford Otosan")	Production	Automotive	Ford Motor Co.
Tofaş Türk Otomobil Fabrikası A.Ş. ("Tofaş")	Production	Automotive	Fiat Auto S.p.A.
Koç Fiat Kredi Tüketici Finansmanı A.Ş. ("Fiat Finans")	Finance	Finance	Fiat Auto S.p.A.
Koç Finansal Hizmetler A.Ş. ("Koç Finansal Hizmetler" or "KFS")	Holding	Finance	UniCreditoItaliano
Koçbank A.Ş. ("Koçbank")	Banking	Finance	UniCreditoItaliano
Koçbank Azerbaijan Ltd. ("Koçbank Azerbaijan")	Banking	Finance	UniCreditoItaliano
Koç Faktoring Hizmetleri A.Ş. ("Koç Faktoring")	Factoring	Finance	UniCreditoItaliano
Koç Finansal Kiralama A.Ş. ("Koç Lease")	Leasing	Finance	UniCreditoItaliano
Koçbank Nederland N.V. ("Koçbank Nederland")	Banking	Finance	UniCreditoItaliano
Koç Asset Management S.A. ("KAM Swiss")	Portfolio Management	Finance	UniCreditoItaliano
Stiching Custody Services KBN ("Stiching Custody")	Custody	Finance	UniCreditoItaliano
Koç Portföy Yönetimi A.Ş. ("Koç Portföy")	Portfolio management	Finance	UniCreditoItaliano
Koç Yatırım Menkul Değerler A.Ş. ("Koç Menkul")	Brokerage	Finance	UniCreditoItaliano
Arçelik LG Klima San. ve Tic. A.Ş. ("Arçelik LG Klima")	Production of air conditioners	Consumer durable	LG Electronics Inc.
Limited Liability Company Ramenka ("Ramenka")	Retail	Food and retailing	Enka İnş. ve San. A.Ş.
Birleşik Oksijen Sanayi Gazlar A.Ş. ("BOS")	Chemicals	Energy	BOC Group
Opet Petrolcülük A.Ş. ("Opet")	Petroleum products	Energy	Öztürk family
Opet Dış Tic ve Nakliyat A.Ş. (Opet Dış Ticaret)	Import	Energy	Öztürk family
Opet Gıda ve İhtiyaç Mad. Tur. San İç ve Dış Ticaret A.Ş. ("Opet Gıda")	Food Distribution	Energy	Öztürk family

KOÇ HOLDİNG A.Ş.

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(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

<u>Joint Venture</u>	<u>Nature of business</u>	<u>Segment</u>	<u>Joint Venture Partner</u>
Opet International Limited (Opet International)	Trading	Energy	Öztürk family
Opet Trade BV ("Opet Trade BV")	Trading	Energy	Öztürk family
Opet Trade Ireland ("Opet Trade Ireland")	Trading	Energy	Öztürk family
Rom Madeni Yağ ve Katkıları San.ve Tic. A.Ş. ("Rom")	Production and Distribution	Energy	Öztürk family
TBS Denizcilik ve Petrol Ürünleri Ticaret A.Ş. ("TBS")	Marine fuel supplier	Energy	Öztürk family
Garanti Balfour Beatty İnşaat Sanayi ve Ticaret A.Ş. ("Garanti Balfour")	Construction	Other	Balfour Beatty Overseas Limited
Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş. ("Koçtaş Yapı Market")	Construction and housing equipment	Other	B & Q Holding BV
Kofisa Trading Company S.A. ("Kofisa Trading")	Foreign trade	Other	Koratrade S.A.
TNT Lojistik ve Dağıtım Hizmetleri A.Ş. ("TNT")	Logistic	Other	TNT Group
Ultra Kablo Televizyon ve Telekomünikasyon San. ve Tic. A.Ş. ("Ultra Kablo")	Media and Communication	Other	Doğan Yayın Holding A.Ş.

All Joint Ventures of Koç Holding, except for Kofisa Trading and KAM Swiss (under liquidation) which are registered in Switzerland, Koçbank Azerbaijan which is registered in Azerbaijan, Koçbank Nederland and Opet Trade BV, which are registered in the Netherlands, Opet Trade Ireland which is registered in Ireland, Opet International which is registered in the U.K. and Ramenka which is registered in the Russian Federation, are registered in Turkey. No geographical segment reporting is prepared as the majority of the Group's main sales, purchases and assets are in Turkey.

The Group went under a significant restructuring process in its finance segment in years 2001 and 2002 where all major financial service subsidiaries, namely, Koçbank, Sticking Custody, KAM Swiss (under liquidation), Koç Lease, Koç Factoring, Koç Menkul, Koç Portföy, Koçbank Nederland and Koçbank Azerbaijan have been combined under KFS. On 12 October 2002, the Group entered into a joint strategic partnership with Unicredito Italiano SPA ("UCI") in KFS (Note 35). As the effective control of UCI over KFS and its subsidiaries commenced on 31 December 2002, the financial results of KFS and its relevant subsidiaries were consolidated by proportionate method from that date on.

On 17 December 2002, the Group acquired 45.33% of the issued capital of Opet and entered a joint strategic partnership with the Öztürk family. The Koç family also acquired 4.67% of Opet in the same deal (Note 31).

KOÇ HOLDİNG A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 2 - BASIS OF PREPARATION

a) Turkish Lira financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including the International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). Koç Holding and its Subsidiaries and Joint Ventures registered in Turkey maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in TL in accordance with the Turkish Commercial Code (the "TCC"), tax legislation, and the Uniform Chart of Accounts issued by the Ministry of Finance, applicable Turkish insurance laws for insurance companies and Banking law and accounting principles promulgated by the Banking Regulation and Supervising Agency for banks and for listed companies; accounting principles issued by the CMB of Turkey ("CMB Principles"). The foreign Subsidiaries and Joint Ventures maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements are based on the statutory records, which are maintained under the historical cost conversion (except for the revaluation of the property plant and equipment, as discussed in Note 15), with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with IFRS (including the restatement of the TL to match the purchasing power at the balance sheet date).

The restatement for the changes in the general purchasing power of the TL at 31 December 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Such indices and conversion factors used to restate the financial statements at 31 December are given below:

Dates	Index	Conversion factors	Cumulative 3-year %
31 December 2003	7,382.1	1.000	181.1
31 December 2002	6,478.8	1.139	227.3
31 December 2001	4,951.7	1.491	307.5

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant conversion factors.
- Comparative financial statements are restated using general inflation indices at the currency purchasing power at the latest balance sheet date.
- All items in the consolidated statements of income are restated by applying the relevant (monthly) conversion factors.
- The effect of inflation on the net monetary asset position of Koç Holding, the Subsidiaries and Joint Ventures is included in the consolidated statements of income as loss on net monetary position in the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 2 - BASIS OF PREPARATION (Continued)

b) Financial statements of Foreign Subsidiaries and Joint Ventures

Financial statements of subsidiaries operating in foreign countries are prepared according to the legislation of the country in which they operate, and adjusted to the IFRS to reflect the proper presentation and content. The assets and liabilities of foreign subsidiaries are translated into TL from the foreign exchange rate at the balance sheet date. The income and expenses of foreign subsidiaries are translated into TL at the average foreign exchange rate and expressed in current purchasing power of TL adjusted by relevant period's conversion factor as at balance sheet date. Exchange differences arising from the retranslation of the opening net assets of foreign undertakings and differences between the average and year-end rates are included in the "translation reserve" under the shareholders' equity.

c) Euro ("EUR") and US Dollar ("USD") translation

EUR and USD amounts shown in the consolidated financial statements have been included solely for the convenience of the reader of the consolidated statements, and are translated from TL, as a matter of arithmetic computation only, at the official EUR and USD bid rates announced by the CBRT on 31 December 2003 of TL1,745,072=EUR1 and TL1,395,835=USD1, respectively. Such translation should not be construed as a representation that the TL amounts have been or could be converted into EUR and USD at these or any other rates.

NOTE 3 - GROUP ACCOUNTING

- a) The consolidated financial statements include the accounts of the parent company, Koç Holding, its Subsidiaries and its Joint Ventures (collectively referred as the "Group") on the basis set out in sections (b) to (h) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records, which are maintained under the historical cost convention (except for the statutory revaluation of property, plant and equipment as discussed in Note 15), with adjustments and reclassifications including restatement for changes in the general purchasing power of the TL, for the purpose of fair presentations in accordance with IFRS and applying uniform accounting policies and presentation.
- b) Subsidiaries are companies over which Koç Holding has power to control the financial and operating policies for the benefit of Koç Holding, either (a) through the power to exercise more than 50% voting rights relating to shares in the companies as a result of ownership interest owned directly and indirectly by itself, and/or as a result of agreements by certain Koç family members and companies owned by them (collectively referred as the "Koç family members") whereby Koç Holding exercises control over the ownership interest of (but does not have the economic benefit of) the shares held by them; or (b) although not having the power to exercise more than 50% of the ownership interest, otherwise has power to exercise control over the financial and operating policies.

KOÇ HOLDİNG A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - GROUP ACCOUNTING (Continued)

The table below sets out all Subsidiaries included in the scope of consolidation and shows their ownership and effective interests as of 31 December 2003:

<u>Subsidiary</u>	<u>Proportion of effective interest (%)</u>	<u>Direct and indirect ownership interest by Koç Holding and its Subsidiaries (%)</u>	<u>Ownership interest shares held by Koç family members (%)</u>	<u>Total ownership interest (%)</u>
Beldesana	79.13	79.13	14.29	93.42
Beldeyama	63.30	79.99	0.01	80.00
Birmot	99.10	99.25	0.75	100.00
Döktaş	51.10	51.10	2.57	53.67
Mako	40.00	40.00	1.00	41.00 (*)
Otokar	44.02	45.26	-	45.26 (*)
Otokoç	99.10	99.25	0.75	100.00
Otomotiv Lastikleri	46.42	46.63	41.42	88.05
Otoyol Pazarlama	40.00	40.00	15.59	55.59
Otoyol	60.00	60.00	7.83	67.83
Tekersan	51.28	62.57	0.11	62.68
Trakmak	39.38	39.38	17.50	56.88
Türk Traktor	62.50	62.50	-	62.50
Koç Allianz Hayat	49.87	51.00	-	51.00
Koç Allianz Sigorta	43.41	43.41	3.68	47.09 (*)
Koç Finans	64.62	100.00	-	100.00
Arçelik	39.14	39.14	13.56	52.70
Ardutch	39.14	100.00	-	100.00
Artesis	25.44	65.00	-	65.00
Beko Deutschland	39.14	100.00	-	100.00
Beko Espana	39.13	100.00	-	100.00
Beko Elektronik	46.47	67.65	4.64	72.29
Fusion	30.21	65.00	-	65.00 (**)
Beko France	39.12	99.94	-	99.94
Beko Polska	39.14	100.00	-	100.00
Beko Ticaret	39.00	64.71	34.29	99.00
Beko UK	19.57	100.00	-	100.00
Bloomberg GmbH	39.14	100.00	-	100.00
Bloomberg mbH	39.14	100.00	-	100.00
Elektra AG	39.14	100.00	-	100.00
Raupach	39.14	100.00	-	100.00
Arctic	37.12	94.85	-	94.85
Sherbrook	23.54	80.00	-	80.00
TDDF	46.10	46.10	24.57	70.67
Demrad	46.10	100.00	-	100.00
DD Heating	23.05	100.00	-	100.00 (**)
Panel	34.57	100.00	-	100.00
Düzey	31.69	32.27	60.89	93.16
Rambutya	26.04	51.00	-	51.00
Migros	51.06	51.06	0.02	51.08 (***)
Ramstore Bulgaria	51.06	100.00	-	100.00
Ramstore Azerbaycan	40.72	79.75	-	79.75
Tat Konserve	47.54	52.87	9.08	61.95
Tat Tohumculuk	17.26	33.00	3.00	36.00 (*)
Aygaz	40.68	40.68	10.50	51.18
Opet Aygaz Bulgaria	29.78	100.00	-	100.00 (**)
Opet Aygaz BV	29.78	100.00	-	100.00 (**)
Bursa Gaz	65.78	87.74	10.63	98.37
Entek	26.64	64.22	-	64.22
Mogaz	38.33	88.03	0.94	88.97
Ayvalık Marina	49.13	96.00	4.00	100.00
Bilkom	82.28	99.94	0.06	100.00
Bozkurt	73.92	83.89	16.11	100.00
İzocam	20.36	20.36	42.21	62.57

KOÇ HOLDİNG A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - GROUP ACCOUNTING (Continued)

<u>Subsidiary</u>	<u>Proportion of effective interest (%)</u>	<u>Direct and indirect ownership interest by Koç Holding and its Subsidiaries (%)</u>	<u>Ownership interest shares held by Koç family members (%)</u>	<u>Total ownership interest (%)</u>
Kav Danışmanlık	18.98	18.98	30.64	49.62 (*)
Koçnet	86.06	100.00	-	100.00
Koç Sistem	41.14	41.14	50.94	92.08
Koçtaş	33.79	43.18	46.34	89.52
Mares	38.35	38.35	36.10	74.45
Ram Dış Ticaret	42.63	83.44	14.66	98.10
Ram Pacific	36.07	84.62	-	84.62
RMK Marine	47.77	66.90	33.10	100.00
Setoto-Avis	36.57	100.00	-	100.00
Setur	47.14	81.07	18.67	99.74
Tek-Art Marina	27.43	29.26	67.26	96.52
Tek-iz	7.92	18.33	34.67	53.00
Talya Tütaş	45.57	45.57	30.12	75.69

(*) The ownership interest in these subsidiaries is less than 50%; however, Koç Holding has power to exercise control over financial and operating policies of these companies.

(**) These subsidiaries were established in 2003 and have been included in the scope of consolidation at 31 December 2003.

(***) The Group has increased its share in Migros to 51.06% (2002: 0.25%) through acquiring 50.81% of the Migros shares from its shareholder Temel Ticaret ve Yatırım A.Ş. (Note 31).

Tunusdan S.A. was sold in 2003 and has been excluded from the scope of consolidation at the date that control ceases.

The balance sheets and statements of income of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Koç Holding and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Koç Holding and its Subsidiaries are eliminated during the consolidation. The cost of, and the dividends arising from, shares held by Koç Holding in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Where necessary, accounting policies for Subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

c) Joint Ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by Koç Holding and one or more other parties. Koç Holding exercises such joint control through the power to exercise voting rights relating to shares in the companies as a result of ownership interest directly and indirectly by itself and/or as a result of written agreements by certain Koç family members and companies, whereby Koç Holding exercises control over the voting rights of (but does not have the economic benefit of) the shares held by them. The Group's interest in Joint Ventures is accounted for by way of proportionate consolidation. According to this method the Group includes its share of the assets, liabilities, income and expenses of each joint venture in the relevant components of the financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - GROUP ACCOUNTING (Continued)

The table below sets out the Joint Ventures and shows their shareholding structure at 31 December 2003:

<u>Joint ventures</u>	<u>Proportion of effective interest (%)</u>	<u>Direct and indirect ownership interest by Koç Holding and its Subsidiaries (%)</u>	<u>Ownership interest shares held by Koç family members (%)</u>	<u>Total ownership interest (%)</u>
Ford Otosan	38.01	38.46	0.67	39.13
Tofaş	37.59	37.59	0.27	37.86
Fiat Finans	37.59	37.59	0.27	37.86
Koç Finansal Hizmetler	30.56	40.58	9.42	50.00
Koçbank	30.41	50.00	-	50.00
Koçbank Azerbaycan	24.45	50.00	-	50.00
Koç Faktoring	30.54	50.00	-	50.00
Koç Lease	30.64	50.00	-	50.00
Koçbank Nederland	30.56	50.00	-	50.00
KAM Swiss	30.56	50.00	-	50.00
Stiching Custody	30.56	50.00	-	50.00
Koç Portföy	30.50	50.00	-	50.00
Koç Menkul	30.52	50.00	-	50.00
Arçelik LG Klima	22.61	50.00	-	50.00
Ramenka	25.53	50.00	-	50.00
BOS	20.90	50.00	-	50.00
Opet	18.87	45.33	4.67	50.00
Opet Dış Ticaret	18.87	50.00	-	50.00
Opet Gıda	18.87	50.00	-	50.00
Opet International	18.87	50.00	-	50.00 (*)
Opet Trade BV	18.87	50.00	-	50.00 (*)
Opet Trade Ireland	18.87	50.00	-	50.00
Rom	18.87	50.00	-	50.00
TBS	9.44	25.00	-	25.00
Garanti Balfour	23.52	33.05	16.12	49.17
Koçtaş Yapı Market	33.79	49.89	0.11	50.00
Kofisa Trading	50.00	50.00	-	50.00
TNT	46.13	49.00	1.00	50.00
Ultra Kablo	26.72	50.00	-	50.00

(*) These Joint Ventures were established during 2003 and have been included in the scope of consolidation at 31 December 2003.

d) Available-for-sale investments, in which the Group, together with Koç family members, have a significant influence with 20% or more, are considered as investment in the associated undertaking and are accounted under the equity method based on the financial statements restated to the equivalent purchasing power at 31 December 2003. In the equity method, the portion of the minority interest of the profit and loss of the investment is presented in the consolidated statement of income. The Group's interest in the associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates. Provisions are recorded for long-term impairment in value (Note 7).

Takosan Otomobil Göstergeleri Sanayii ve Ticaret A.Ş. ("Takosan") is accounted by using the equity method for the years ending 31 December 2003 and 2002 (Note 14).

e) Available-for-sale investments, in which the Group, together with Koç family members, have ownership interests below 20%, or over which the Group do not exercise a significant influence or which are immaterial and that do not have quoted market prices in active markets and whose fair values cannot be reliably measured, are carried at cost, and restated to the equivalent purchasing power at 31 December 2003, less any provision for diminution in value (Note 7).

Available-for-sale investments, in which the Group, together with Koç family members, have ownership interests below 20%, or over which the Group do not exercise a significant influence and that have quoted market prices in active markets and whose fair values can be reliably measured, are carried at fair value in the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 3 - GROUP ACCOUNTING (Continued)

- f) The results of the foreign Subsidiaries and Joint Ventures are translated into TL at the average exchange rate for the year and then restated from the date of the transaction. The assets and liabilities of foreign undertakings of the Group are translated into TL at the closing rate for the year. Exchange differences arising on retranslation of the opening net assets of foreign Subsidiaries and Joint Ventures and differences between the average and year-end rates are included in translation reserves.
- g) The minority shareholders' share in the net assets and operating results for the year for Subsidiaries are separately classified in the consolidated balance sheets and statements of income as "minority interest". Certain Koç family members and companies controlled by them have interests in the share capital of certain Subsidiaries. In the consolidated financial statements their interests are treated as minority interest and are not included in the Group's net assets and profits attributable to shareholders of Koç Holding A.Ş..
- h) All balances and transactions of/with the Joint Ventures in the notes to the consolidated financial statements are presented with the effective interest rates of such Joint Ventures.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Where necessary, accounting policies for Subsidiaries and Joint Ventures have been changed to ensure consistency with the policies adopted by the Group. The significant accounting policies, other than Group accounting which is described in Note 3, followed in the preparation of these consolidated financial statements are summarised below:

a) **Related parties**

For the purpose of these consolidated financial statements, shareholders, key management personnel and Board members, in each case together with their families and themselves and Subsidiaries excluded from the scope of consolidation are considered and expressed as "related parties". A number of transactions are entered into with related parties in the normal course of business. These transactions are priced predominantly at market rates (Note 11).

b) **Investments**

The Group classifies its investments in debt and equity securities as trading, held-to-maturity and available-for-sale.

"*Trading investments*" are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit making exists. Trading securities are initially recognised at cost and subsequently re-measured at fair value based on quoted bid prices trading securities for which or fair values cannot be measured reliably based on prices announced by the CBRT in the Official Gazette. All related realised and unrealised gains and losses are included in operating profit for the Joint Ventures in the banking sector and in financial income for companies in other sectors.

Debt securities with fixed maturity, where management have both the intent and the ability to hold to the maturity excluding the financial assets classified as originated loans and advances to customers classified as "*held-to-maturity investments*".

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as "*available-for-sale*". These are included in non-current assets unless management has the intention of holding these investments for less than 12 months from the balance sheet date, or unless they will need to be sold to raise operating capital, in which case they are included in current assets. The appropriate classification of investments is determined at the time of the purchase and re-evaluated by management on a regular basis.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading investments and available-for-sale investments that have quoted market prices in active markets and whose fair values can be reliably measured are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Available-for-sale investments that do not have quoted prices in active markets are initially recognised at cost and subsequently remeasured at transaction/companies prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power at 31 December 2003

Available-for-sale investments, in which the Group has attributable interests of 20% or less or Subsidiaries which are either immaterial, or where a significant influence is not exercised by Koç Holding, are carried at cost less provision for diminution in value and restated to equivalent purchasing power at 31 December 2003.

Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

c) Repurchase and resale transactions

Securities sold subject to linked repurchase agreements (“repo”) are retained in the consolidated financial statements as held-to-maturity or available-for-sale investments and the counter party liability is included in customer deposits. The portion for the current year of the difference between sale and repurchase price of these agreements is treated as interest expense and accrued over the life of the repurchase agreement.

Securities purchased under agreements to resell (“reverse repurchase agreements”) are recorded as loans to banks in the consolidated financial statements. The difference between the purchase and resale price of these repurchase agreements is treated as interest income and accrued over the life of the reverse repurchase agreement.

d) Trade receivables and provision for doubtful receivables

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables, net of unearned financial income, are measured at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income.

e) Loans and advances to customers originated by the Group and provisions for loan impairment

Loans originated by the Group by providing money directly to the borrower are categorised as loans originated by the Group and are carried at amortised cost, less any provision for loan losses.

i) Loans and advances to customers

All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all the amounts due. The amount of the provision for impaired loans and loans under legal follow-up are the difference between the carrying amount and the recoverable amount. The recoverable amount being the net present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The provision for loan also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the internal credit risk rating of the borrowers and current economic climate in which the borrowers operate. The level of provision is also in line with the applicable Banking Legislation.

The movement in provision is charged against the income for the year. When a loan is deemed uncollectible, it is written off against the related provision for impairment. The loan is written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Subsequent recoveries are credited to the income statement if previously written off. Provisions are reversed, in part or as a whole, if the reason that originated them ceases to exist.

ii) Debt securities

Debt securities issued by the Undersecretariat of Treasury of the Prime Ministry of the Republic of Turkey and originated by the Group at original issuance by transferring the funds directly to the borrower are categorised as loans originated by the Group and are carried at amortised cost using the effective yield method less any provision for impairment.

f) Factoring receivables / Factoring fees and commissions

Receivables from factoring are recorded net of provisions and are carried at amortised cost. The level of the provision is based on management's evaluation of the portfolio including such factors as the volume and character of receivables, past pattern of losses and general economic conditions. The movement in provision made during the year is charged against the income for the year. Receivables that cannot be recovered are written

off and charged against the provision for losses. These receivables are written off after all the necessary legal proceedings have been completed and amount of the loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction of the charge for provision for factoring receivables for the year.

g) Credit finance income/charges

Credit finance income / charges represent imputed finance charges on credit sales and purchases. Such income and charges are recognised on a straight-line basis over the period of credit sales and purchases, and included under financial income and expenses (Note 27).

h) Inventories

Inventories are valued at the lower of cost, restated to equivalent purchasing power at 31 December 2003 or net realizable value. Cost elements included in inventories are materials, labor and an appropriate amount of factory overheads (based on normal operating capacities). The cost of inventories is determined by the moving average, whereas the merchandise stocks is determined by the weighted average and the lubricants inventory is determined by the first-in first-out ("FIFO") method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 12).

i) Investment property

Land and buildings that are held in the production or supply of goods or services or for administrative purposes or for long-term rental yields or for capital appreciation or both rather than for the sale in the ordinary course of business are classified as "*investment property*". Investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses restated to the equivalent purchasing power at 31 December 2003. Investment properties (except for land) are depreciated with the straight-line depreciation method over their useful lives (Note 17).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

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Investment properties are reviewed for impairment losses and where the carrying amount of the investment property, is greater than the estimated recoverable amount, it is written down to its recoverable amount. Recoverable amount of the investment property is the higher of asset net selling price or value in use.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Property, plant and equipment and related depreciation

Property, plant and equipment are carried at cost less accumulated depreciation in each case restated to equivalent purchasing power at 31 December 2003. Depreciation is provided on the restated amounts for property, plant and equipment on a straight-line basis. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

Buildings	6-50 years
Land improvements	4-50 years
Machinery and equipment	4-20 years
Furniture and fixtures	4-20 years
Motor vehicles	4-10 years
Leasehold improvements	Shorter of lease period or useful lives
Other fixed assets	5-10 years

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of asset net selling price or value in use. Recoverable amount of the investment property is the higher of asset net selling price or value in use.

Repairs and maintenance are charged to the statements of income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related assets.

Machinery and equipments are capitalised and amortised when their capacity is fully available for use and their physical situations meet the determined production capacities.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated carrying amounts and are included in the related income and expense accounts, as appropriate (Note 15).

k) Leases

(1) *The Group as the lessee*

Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other current/non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) The Group as the lessor

Finance leases

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

l) Intangible assets including amortization

Intangible assets comprise of expenditures to acquire usage rights, information systems, research and development costs and other identified rights. They are recorded at acquisition cost and restated to the purchasing power at 31 December 2003 and amortised on a straight-line basis over their estimated useful lives for a period not exceeding 10 years from the date of acquisition. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount (Note 16).

m) Goodwill including amortization

Goodwill arising on consolidation, which represents the difference between the acquisition price and the attributable share of Koç Holding and its Subsidiaries and Joint Ventures in the fair value of the underlying net assets of the company acquired, is capitalised and amortised. Goodwill is amortised using the straight-line method over its estimated useful life, generally 5 to 20 years, and is included in intangible assets. The carrying value of goodwill is reviewed annually and adjusted for permanent impairment where it is considered necessary (Notes 16 and 31). The negative goodwill amount that does not exceed the market price of the identifiable non-monetary assets purchased is netted off from the related identifiable amortization or recorded as income on a straight-line basis over their remaining estimated useful lives.

n) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax. When different tax rates apply to different levels of taxable income, an average tax rate is used for measuring deferred tax liabilities and assets (Note 23).

The principal temporary differences arise from the restatement of property, plant and equipment and inventory over their tax bases, unused tax credits, provision for employment termination benefits and carry forward tax losses.

Deferred tax liabilities are recognised for all taxable temporary differences, whereas deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset accordingly.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Employment termination benefits

Reserve of employment termination benefits, as required by Turkish Labour Law, is recognised in these financial statements as they are earned. The total provision represents the present value of the future probable obligation of the Group arising from the retirement of its employees (Note 24).

p) Foreign currency transactions and translation reserve

Transactions in foreign currencies have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from settlement and translation of foreign currency items have been included in the consolidated statement of income as net sales in companies operating in the finance sector and as financial income in other sectors.

r) Provisions

Provisions are recognised when the Group, as of the balance sheet date, has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

s) Revenue recognition

Finance

Banking

Interest income and expenses are recognised in the income statement on an accrual basis. When loans and advances to customers are considered doubtful of collection by management, they are written down to their recoverable amount, and interest income is thereafter recognised based in the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Interest income includes coupons earned on fixed income investment securities and amortised discount and premium on treasury bills and government bonds.

Fee and commission income and expense on banking services are recorded as income or expense at the time of effecting the transactions to which they relate.

Insurance

Life insurance:

Premium income represents premiums on policies written during the year, net of cancellations for the life, health and personal accident branches.

Non-life insurance:

Premium income represents premiums on policies written during the year, net of cancellations.

Other Segments

Revenues are recognised on an accrual basis at the time deliveries or acceptances are made, at the invoiced values for Group companies operating in the automotive, consumer durables, food and retailing, energy and other segments. Net sales represent the invoiced value of goods shipped less sales returns and commission and excluding sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as financial income (Note 27).

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Recognition of revenue and costs relating to construction contracts

Revenue and costs associated with construction contracts are recognised as revenue and expenses respectively by reference to the “*stage of completion*” of the contract activity at the balance sheet date when the outcome of the contract is estimated reliably. Any expected loss on the construction contract is recognised as an expense immediately.

Revenue from construction contracts is recognised on the percentage of completion method measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

u) Insurance reserves

Life mathematical reserves

Mathematical reserves are the difference between the net present values of premiums written in return of the risk covered by the Company and the liabilities to policyholders. In policies where the accumulation premium is written additionally, life insurance provision is the sum of the remainder of collected premiums and accumulated life insurance provision. Mathematical reserves are computed on the basis of actuarial mortality assumptions as approved by the Treasury Department, which are applicable for Turkish Insurance Companies.

Claims and claim provisions

Non-life insurance claims are recorded in the period in which they occur, based on reported claims or on the basis of estimates when not reported. Differences between estimates at the end of successive accounting periods are recognised in claims expenses for the periods in which these differences are identified.

Outstanding claim provision is booked for all claims that are incurred but not paid as of year-end. Full provision is made for outstanding claims, including claim settlements, reported at the year-end. Incurred but not reported (“IBNR”) claims are included under claim provisions.

Unearned premium reserves

Unearned premiums set aside to provide for the period of risk extending beyond the date of the balance sheets, are determined from premiums written during the period, less reinsurance, on the basis that premiums are written over the year for the life branch.

v) Share capital and dividends

Ordinary shares are classified as equity. Pro-rata capital increases to existing shareholders are accounted for at par value as approved. Dividends distributed on ordinary shares are recognised in equity in the period in which they are declared.

y) Research and development costs

Research and development costs are recognised and expensed in the statement of income in the period in which they are incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably (Note 16). Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over five years.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

z) Licence fees

Licence fees paid to Joint Venture partners for certain products are recognised in accordance with the substance of the agreement and expensed over the useful life of the agreement, which is estimated by management to be five years.

aa) Warranties

Warranty costs are recorded at amounts estimated by management based on the relevant past experience on the level of repairs and returns.

ab) Government grants

Turkish Government investment grants in the form of Resource Utilisation Support Premium ("RUSP") are accounted for on an accrual basis for estimated amounts are expected to realise under grant claims filed by the Group. These grants are accounted for as deferred income in the balance sheet and amortised over the depreciation period of the relevant assets on a straight-line basis.

ac) Borrowing costs

Borrowing costs are charged to the statement of income as they are incurred and recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ad) Reporting of cash flows

Cash and cash equivalents are carried in the balance sheet at amortised cost (Note 6).

Analysis of cash and cash equivalents included in the consolidated statements of cash flows for the years ended 31 December is as follows:

	2003	2002
Changes in reserves and provisions:		
Changes in deferred taxes	(157,057)	(167,002)
Changes in provision for diminution in value for unlisted entities	21,384	23,621
Changes in provision for doubtful receivables	(21,242)	48,255
Changes in provision for loan losses	26,205	29,102
Changes in warranty provision	69,528	(17,099)
Changes in provision for employment termination benefits	11,013	14,133
Changes in insurance reserves	78,868	20,105
Changes in impairment for inventories	11,122	10,852
	39,821	(38,033)
Add back net interest income:		
Non-banking interest income	(696,520)	(517,663)
Banking interest income	(758,479)	(1,652,983)
Non-banking interest expenses	550,542	494,036
Banking interest expenses	426,929	1,172,880
	(477,528)	(503,730)
Net changes in the operating assets and liabilities:		
<i>Changes in operating assets and liabilities:</i>		
Inventories	(257,177)	(148,730)
Trade receivables	(248,189)	(345,676)
Other current assets	80,947	553,395
Trade payables	126,538	211,593
Other current liabilities	(19,792)	67,015
Balances with related parties, net	30,911	143,934
Investments	(564,181)	(1,104,270)
	(850,943)	(622,739)
<i>Changes in finance segment current assets and liabilities:</i>		
Cash and cash equivalents with original maturities of more than 3 months	1,972	(59,788)
Reserve deposits with the Central Bank	31,149	16,358
Loans and advances to customers, short-term	193,047	(1,170,077)
Loans and advances to customers, long-term	(219,107)	468,636
Customer deposits	(80,258)	58,345
	(73,197)	(686,526)
	(924,140)	(1,309,265)
Changes in other non-current asset and liabilities:		
Changes in other non-current assets	37,502	101,676
Changes in other non-current liabilities	(7,162)	19,848
	30,340	121,524

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ae) Accounting for derivative financial instruments, embedded derivatives and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. The derivative instruments of the Group mainly consist of foreign exchange forward contracts and currency swap instruments. These derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, "Financial Instruments: Recognition and Measurement", and are therefore treated as derivatives held for trading.

In addition, on the date a derivative contract is entered into, the Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability ("fair value hedge"), or (2) a hedge of a forecasted transaction or of a firm commitment ("cash flow hedge").

Changes in the fair value of derivatives that are designated as being and qualify as cash flow hedges and that are highly effective, are recognised in equity as "cumulative loss on hedging". Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts booked under equity are transferred to the statement of income and classified as revenue or expense in period in which the hedged firm commitment or forecasted transaction affects the statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the statement of income. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

af) Financial instruments and financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by individual Subsidiaries and Joint Ventures under policies, which are approved by their own Board of Directors.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial instruments. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

Funding risk

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

Credit risk

Advances and loans given to customers

Holding the financial instruments can be defined as carrying in the likelihood that the counterparty cannot meet the obligations of the agreement. These risks are monitored by credit ratings and by limiting the aggregate risk to any individual counterparty. It is expected to diversify this risk through funding many companies operating in different sectors.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade receivables

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers who are nationally and internationally dispersed, in the manufacturing and distribution sector and have a variety of end markets in which they sell. The Group's historical experience in collection of account receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

Foreign currency risk

The Group is exposed to foreign currency risk through the impact of rate changes on the translation of foreign currency assets and liabilities to local currency. These risks are monitored by management and limited by analysis of the foreign currency position through obtaining positions within the approved limits.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions are used in the estimation of the fair value of the financial instruments for which it is practicable to estimate fair value:

Monetary assets

The fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate carrying value.

The fair values of certain financial assets carried at cost, including cash and cash equivalents and marketable securities plus the respective accrued interest are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The fair values of loans and advances to customers are also considered to approximate carrying values and the fair value of the loan portfolio is estimated by assessing the risk components of the portfolio.

The carrying values of trade receivables along with the related allowances for uncollectability are estimated to be their fair values.

The fair values of marketable securities, which have been determined by reference to market value, approximate carrying values.

Monetary liabilities

The fair values of customer deposits, funds borrowed and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Trading liabilities, derivatives and foreign exchange instruments have been estimated at their fair values.

Long-term borrowings, which are denominated in foreign currencies at variable rates are translated at year-end exchange rates and accordingly their fair values approximate their carrying values. The carrying values of long-term borrowings in TL along with the related accrued interest are estimated to be their fair values.

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NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ag) Earnings per share

Earnings per share disclosed in the consolidated statement of income are determined by dividing net income by the weighted average number of shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and revaluation surplus (Note 15). For the purpose of earnings per share computations, the weighted average number of shares in existence during the year has been adjusted in respect of bonus share issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year as if the event had occurred at the beginning of the earliest period reported. Bonus shares issued during the year were as follows:

Year	Number of shares		
	Retained earnings	Revaluation surplus	Total
31 December 2003	24,000,658,000	531,625,532,000	555,626,190,000
31 December 2002	20,078,858,000	81,499,146,000	101,578,004,000

There is no difference between basic and diluted earnings per share for any class of shares for any of these years.

ah) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

ai) Legal mergers

Legal mergers represent transactions between subsidiaries of the Group and are not dealt with in accordance with IAS 22 "Business Combinations". Consequently, there is no recognition of any new goodwill or negative goodwill. Similarly, the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in preparing the consolidated financial statements (Note 32).

aj) Comparatives

Where necessary, comparative figures are reclassified to conform to changes in presentation in the current year so that the reclassification will result in a more appropriate presentation of events or transactions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 5 - SEGMENT INFORMATION

a) External revenues

	2003	2002
Automotive	3,739,582	2,293,591
Consumer durable	3,848,593	2,533,110
Food and retailing	2,231,122	2,052,591
Finance	1,388,953	2,313,047
Energy	3,201,551	1,740,680
Other	1,093,877	1,950,973
	15,503,678	12,883,992

b) Operating profit/(loss)

	2003	2002
Automotive	221,197	(84,352)
Consumer durable	353,752	243,984
Food and retailing	45,592	59,152
Finance	169,379	187,659
Energy	108,191	120,578
Other	(65,499)	(72,064)
	832,612	454,957

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 5 - SEGMENT INFORMATION (Continued)

a) Segmental analysis for the year ended 31 December 2003

	<u>Finance</u>										Inter segment profit elimination	Consolidated Total
	Automotive	Consumer Durables	Food and retail	Banking	Insurance	Consumer Finance	Intra segment	Total Finance	Energy	Other		
External revenues	3,739,582	3,848,593	2,231,122	736,477	610,768	41,708	-	1,388,953	3,201,551	1,093,877	-	15,503,678
Intra segment revenues	842,069	548,887	282,021	22,002	9,831	6,662	-	38,495	136,163	43,015	-	1,890,650
Inter segment revenues	79,836	558,604	3,897	19,227	35,750	3	-	54,980	92,278	742,238	-	1,531,833
Combined revenues	4,661,487	4,956,084	2,517,040	777,706	656,349	48,373	-	1,482,428	3,429,992	1,879,130	-	18,926,161
External revenues	3,739,582	3,848,593	2,231,122	736,477	610,768	41,708	-	1,388,953	3,201,551	1,093,877	-	15,503,678
Inter segment revenues	79,836	558,604	3,897	19,227	35,750	3	-	54,980	92,278	742,238	(1,531,833)	-
Revenues	3,819,418	4,407,197	2,235,019	755,704	646,518	41,711	-	1,443,933	3,293,829	1,836,115	(1,531,833)	15,503,678
Cost of sales	(3,278,564)	(3,271,562)	(1,775,701)	(426,929)	(572,457)	(21,081)	37,978	(982,489)	(3,016,071)	(1,609,887)	1,445,791	(12,488,483)
Gross Profit	540,854	1,135,635	459,318	328,775	74,061	20,630	37,978	461,444	277,758	226,228	(86,042)	3,015,195
Administrative expenses	(167,417)	(326,368)	(325,288)	(178,072)	(68,238)	(22,859)	-	(269,169)	(124,292)	(201,498)	103,327	(1,310,705)
Selling & marketing expenses	(167,834)	(417,864)	(110,705)	-	-	-	-	-	(65,441)	(48,860)	-	(810,704)
Research & development expenses	(15,286)	(44,888)	(48)	-	-	-	-	-	(952)	-	-	(61,174)
	190,317	346,515	23,277	-	-	-	-	192,275	87,073	(24,130)	17,285	832,612
Inter segment profit elimination	30,880	7,237	22,315	-	-	-	-	(22,896)	21,118	(41,369)	(17,285)	-
Operating profit/(loss)	221,197	353,752	45,592	-	-	-	-	169,379	108,191	(65,499)	-	832,612

KOÇ HOLDİNG A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 5 - SEGMENT INFORMATION (Continued)

b) Segmental analysis for the year ended 31 December 2002

	Finance						Intra segment	Total Finance	Energy	Other	Inter segment profit elimination	Consolidated Total
	Automotive	Consumer Durables	Food and retail	Banking	Insurance	Consumer Finance						
External revenues	2,293,591	2,533,110	2,052,591	1,605,727	638,625	68,695	-	2,313,047	1,740,680	1,950,973	-	12,883,992
Intra segment revenues	472,885	314,848	235,519	47,256	7,354	10,307	-	64,917	161,924	55,210	-	1,305,303
Inter segment revenues	126,117	1,574,906	18,046	16,786	33,011	3,899	-	53,696	101,147	886,460	-	2,760,372
Combined revenues	2,892,593	4,422,864	2,306,156	1,669,769	678,990	82,901	-	2,431,660	2,003,751	2,892,643	-	16,949,667
External revenues	2,293,591	2,533,110	2,052,591	1,605,727	638,625	68,695	-	2,313,047	1,740,680	1,950,973	-	12,883,992
Inter segment revenues	126,117	1,574,906	18,046	16,786	33,011	3,899	-	53,696	101,147	886,460	(2,760,372)	-
Revenues	2,419,708	4,108,016	2,070,637	1,622,513	671,636	72,594	-	2,366,743	1,841,827	2,837,433	(2,760,372)	12,883,992
Cost of sales	(2,199,903)	(3,133,221)	(1,613,346)	(1,172,880)	(590,641)	(63,746)	71,337	(1,755,930)	(1,592,307)	(2,578,483)	2,710,054	(10,163,136)
Gross Profit	219,805	974,795	457,291	449,633	80,995	8,848	71,337	610,813	249,520	258,950	(50,318)	2,720,856
Administrative expenses	(172,863)	(291,203)	(317,041)	(360,878)	(61,595)	(27,827)	-	(450,300)	(65,809)	(210,171)	103,308	(1,404,079)
Selling & marketing expenses	(143,069)	(399,928)	(99,001)	-	-	-	-	-	(76,508)	(85,031)	-	(803,537)
Research & development expenses	(12,292)	(45,970)	(11)	-	-	-	-	-	-	(10)	-	(58,283)
	(108,419)	237,694	41,238	-	-	-	-	160,513	107,203	(36,262)	52,990	454,957
Inter segment profit elimination	24,067	6,290	17,914	-	-	-	-	27,146	13,375	(35,802)	(52,990)	-
Operating profit/(loss)	(84,352)	243,984	59,152	-	-	-	-	187,659	120,578	(72,064)	-	454,957

KOÇ HOLDİNG A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 5 - SEGMENT INFORMATION (Continued)**d) Segment assets employed**

	2003	2002
<u>Total assets</u>		
Automotive	2,918,149	2,505,426
Consumer durable	3,892,877	3,617,639
Food and retailing	1,675,218	1,512,157
Finance	6,328,054	6,059,499
Energy	1,563,725	1,559,677
Other	4,532,688	4,132,630
<hr/>		
Total	20,910,711	19,387,028
<hr/>		
Less: inter segment elimination	(6,364,576)	(5,716,588)
<hr/>		
Total assets as per consolidated financial statements	14,546,135	13,670,440
<hr/>		
<u>Net assets</u>		
Automotive	1,370,921	1,157,309
Consumer durable	1,836,128	1,738,508
Food and retailing	835,143	793,611
Finance	1,407,607	1,224,714
Energy	1,044,962	853,233
Other	3,634,759	3,123,504
<hr/>		
Total	10,129,520	8,890,879
<hr/>		
Less: inter segment elimination	(6,884,585)	(6,446,780)
<hr/>		
Shareholders' equity	3,244,935	2,444,099
<hr/>		
Minority interest	2,196,064	2,155,181
<hr/>		
Total net assets as per consolidated financial statements	5,440,999	4,599,280
<hr/>		

KOÇ HOLDİNG A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 5 - SEGMENT INFORMATION (Continued)**e) Capital expenditures, depreciation and amortization**

	2003	2002
<u>Capital expenditures</u>		
Automotive	326,632	341,521
Consumer durable	227,162	230,548
Food and retailing	124,552	216,010
Finance	19,981	41,327
Energy	154,315	104,031
Other	24,266	88,140
	876,908	1,021,577

Depreciation and amortization

Automotive	306,353	224,492
Consumer durable	214,685	196,788
Food and retailing	72,083	77,700
Finance	49,773	51,614
Energy	94,523	102,524
Other	34,418	55,105
	771,835	708,223

f) Minority interest

	<u>2003</u>			<u>2002</u>		
	Koç family members	Other	Total	Koç family members	Other	Total
Automotive	174,545	254,047	428,592	186,162	257,266	443,428
Consumer durable	267,136	436,422	703,558	279,430	402,074	681,504
Food and retailing	207,927	204,922	412,849	214,645	194,766	409,411
Finance	36,962	14,930	51,892	35,968	10,945	46,913
Energy	68,748	214,934	283,682	73,421	206,185	279,606
Other	160,990	154,501	315,491	160,116	134,203	294,319
	916,308	1,279,756	2,196,064	949,742	1,205,439	2,155,181

KOÇ HOLDİNG A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 6 - CASH AND CASH EQUIVALENTS

	2003			2002		
	Banking	Other	Total	Banking	Other	Total
Cash in hand	34,085	98,322	132,407	38,727	36,049	74,776
Cheques received	822	36,784	37,606	458	73,578	74,036
Balances with the Central Banks other than reserve requirements	2,594	-	2,594	15,624	-	15,624
Bank						
- Demand deposits	78,050	283,045	361,095	86,765	191,853	278,618
- Time deposits	509,878	412,866	922,744	642,249	370,398	1,012,647
- Reverse repurchase agreements	1,083	11,353	12,436	1,637	12,028	13,665
Interbank money market placements	397,149	-	397,149	338,588	-	338,588
	1,023,661	842,370	1,866,031	1,124,048	683,906	1,807,954

At 31 December 2003, total time deposits with maturities over one year amount to TL 27,922 billion (2002: 29,894 billion).

The interest rates of foreign currency time deposits were between 1.0% - 10.0% per annum ("p.a.") (2002: 1.3% and 11.7% p.a.). The interest rates of TL time deposits were between 18.9% - 29.0% p.a. (2002: 36.0% - 63.0% p.a.).

Reverse repurchase agreements are all short-term with periods of less than three months and the interest rates were between 16.4% - 26.0% p.a. (2002: 34.0% - 48.0% p.a.).

The interest rates of Interbank money market placements for foreign currencies were between 0.4% - 0.6% p.a. (2002: 1.3% - 3.8% p.a.) and between 26.0% - 26.1% p.a. for TL (2002: 50.0% - 55.0% p.a.).

Balances with the Central Banks other than reserve requirements represent funds deposited with the Central Bank of the Republic of Turkey, Azerbaijan and the Netherlands in an interest free demand account in the Central Bank for liquidity requirements.

NOTE 7 - INVESTMENTS

a) Held-for-trading investments

	2003			2002		
	Banking	Other	Total	Banking	Other	Total
Debt securities:						
-Treasury Bills	-	907	907	-	980	980
-Mutual funds	-	658	658	-	-	-
-Other	-	167	167	-	-	-
Total	-	1,732	1,732	-	980	980

KOÇ HOLDİNG A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AT 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 7 - INVESTMENTS (Continued)

Analysis of held-for-trading investments based on the remaining period at balance sheet date of 31 December to the contractual maturity date:

	2003			2002		
	Banking	Other	Total	Banking	Other	Total
Investment share certificates and mutual funds	-	825	825	-	-	-
1-30 days	-	-	-	-	-	-
30-90 days	-	-	-	-	980	980
90-180 days	-	907	907	-	-	-
Total	-	1,732	1,732	-	980	980

Interest rates of treasury bills held for trading at 31 December 2003 are between 26.0% - 27.0% p.a. (2002: 48.0% - 53.0% p.a.). There are no foreign currency denominated held-for-trading investments at 31 December 2003 and 2002.

b) Available-for-sale investments

	2003			2002		
	Banking	Other	Total	Banking	Other	Total
Debt securities:						
- Treasury bills	79,879	258,207	338,086	32,664	211,091	243,755
- Government bonds:						
- TL	6,104	181,403	187,507	23,057	160,318	183,375
- Foreign currency indexed	40,565	-	40,565	7,070	-	7,070
- Eurobonds	2,215	120,585	122,800	16,849	90,769	107,618
- Foreign government bonds	-	48,417	48,417	458	24,381	24,839
- Other	10,717	15,243	25,960	5,286	15,921	21,207
	139,480	623,855	763,335	85,384	502,480	587,864
Equity securities:						
-Listed	-	20,138	20,138	-	11,667	11,667
-Unlisted	187	52,000	52,187	3,989	61,417	65,406
	187	72,138	72,325	3,989	73,084	77,073
Total	139,667	695,993	835,660	89,373	575,564	664,937

There are securities of TL 77,143 billion pledged under repurchase agreements as of 31 December 2003 (2002: TL 390 billion).

Interest rates of treasury bills and government bonds held as available-for-sale at 31 December 2003 are between 25.2% and 55.0% p.a. (2002: 44.0% and 69.0% p.a.). Interest rates of foreign currency available-for-sale investments held at 31 December 2003 are between 3.8% and 13.8% p.a. (2002: 6.5% and 12.4% p.a.).

At 31 December 2003, government bonds, treasury bills and Eurobonds amounting to TL 54,741 billion (2002: TL 86,609 billion), TL 223,155 billion (2002: TL 80,490 billion) and TL 22,196 billion (2002: TL 31,652 billion), respectively represent investments that the subsidiaries in the insurance sector are required to deposit in a blocked account in favour of the Treasury and Foreign Trade Department of the Republic of Turkey, based on year-end net premiums written. As of 31 December 2003, there are no blocked foreign currency bonds and investment funds (2002: TL 11,441 billion and TL 1,274 billion, respectively).

KOÇ HOLDİNG A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 7 - INVESTMENTS (Continued)

Analysis of available-for-sale investments based on the remaining period to the contractual maturity date at 31 December is as follows:

	2003			2002		
	Banking	Other	Total	Banking	Other	Total
Short-term:						
Investment share certificates and mutual funds	10,667	9,564	20,231	-	378	378
1-30 days	10,772	7,386	18,158	5,043	70,187	75,230
30-90 days	16,101	61,470	77,571	23,489	83,649	107,138
90-180 days	2,277	45,174	47,451	19,008	104,958	123,966
180 days-1 year	84,136	286,064	370,200	15,100	102,007	117,107
	123,953	409,658	533,611	62,640	361,179	423,819
Long-term:						
Over 1 year	15,527	214,197	229,724	22,744	141,301	164,045
Equity securities	187	72,138	72,325	3,989	73,084	77,073
	15,714	286,335	302,049	26,733	214,385	241,118
	139,667	695,993	835,660	89,373	575,564	664,937

The principal available-for-sale equity securities at 31 December are as follows:

	2003		2002	
	TL billion	Shareholding (%)	TL billion	Shareholding (%)
Listed entities:				
Çeşme Altinyunus Turizm Tes. A.Ş. ("Çeşme Altinyunus")	13,662	30.00	4,807	30.00
Goodyear Tyre and Rubber Company	5,277	0.85	6,034	0.83
Karsan Otomotiv Sanayi ve Ticaret A.Ş. ("Karsan")	1,198	4.00	816	4.00
Metaş İzmir Metalurji Fabrikaları A.Ş.	1	0.41	10	0.41
	20,138		11,667	

KOÇ HOLDİNG A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 7 - INVESTMENTS (Continued)

	2003		2002	
	TL billion	Shareholding (%)	TL billion	Shareholding (%)
Unlisted entities:				
Tanı Pazarlama ve İletişim A.Ş. ("Tanı Pazarlama")	12,039	99.00	4,418	99.00
Koç Ata Sancak Besi ve Tarım Ürünleri A.Ş. ("Koç Ata Sancak Besi")	7,431	33.02	7,910	49.50
British American Tobacco Export BV	5,288	5.00	5,288	5.00
Koç Bilgi Grubu	4,636	80.00	622	80.00
Hür Emlak İnş. ve Tic. A.Ş.	3,187	50.00	3,187	50.00
Zinerji Enerji San. Ve Tic. A.Ş. (Zinerji) (*)	2,741	85.00	-	-
Samkoçauto Ltd.	2,372	10.00	11,860	10.00
Sanal Merkez Ticaret A.Ş. ("Sanal Merkez")	1,931	99.99	1,931	99.99
GVZ Ses Tanıma Teknolojileri Yazılım ve Hizmet A.Ş.	1,877	85.00	1,877	85.00
Kumsan Döküm Malzemeleri Sanayi ve Tic. A.Ş. ("Kumsan")	1,686	50.24	1,686	50.10
Asia Pasific	1,420	98.25	1,420	98.25
Matay Otomotiv Yan San. ve Tic. A.Ş. ("Matay")	259	10.89	4,405	28.00
Basic Int. Investment Ltd.	-	48.00	6,572	48.00
Comsat İletişim Hizmetleri Tic. A.Ş. (**)	-	-	5,298	24.50
İnternet Rezervasyon Sistemleri A.Ş.(***)	-	-	1,694	78.65
Other	7,320	-	7,238	-
	52,187		65,406	
	72,325		77,073	

(*) Zinerji has been excluded from the scope of the consolidation in 2003 on the grounds of decreased materiality.

(**) Comsat İletişim Hizmetleri Tic. A.Ş. was sold in 2003.

(***) İnternet Rezervasyon Sistemleri A.Ş. legally merged with Setur in 2003 and is included in the scope of consolidation.

Available-for-sale investments, in which Koç Holding and its Subsidiaries and Joint Ventures, together with Koç family members, have attributable interests of 20% or more, which are either immaterial, or where a significant influence is not exercised by Koç Holding, are carried at cost less provision for diminution in value and restated to equivalent purchasing power at 31 December 2003. These companies have neither been accounted for using the equity method nor consolidated line-by-line due to the insignificance of their combined impact on the net worth, financial position and results of Koç Holding.

The difference of TL 8,471 billion in the fair value of the listed available-for-sale investments traded in active markets is booked as income in the consolidated statement of income (2002: loss of TL 20,036 billion).

Unlisted available-for-sale investments do not have a quoted market value and their fair values cannot be reliably measured, so they are stated at cost and restated to the equivalent purchasing power at 31 December 2003 less provision for diminution in value, if any. Provision for diminution in value for unlisted investments amount to TL 57,120 billion (2002: TL 35,736 billion).

KOÇ HOLDİNG A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2003**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 7 - INVESTMENTS (Continued)**c) Held-to-maturity investments**

	2003			2002		
	Banking	Other	Total	Banking	Other	Total
Debt securities:						
-Eurobonds	532,735	42,708	575,443	505,829	22,654	528,483
-Government bonds						
- TL	313,535	45,884	359,419	126,933	-	126,933
- Foreign currency indexed	173,397	-	173,397	145,250	-	145,250
-Treasury bills	23,339	97,542	120,881	-	37,183	37,183
-Foreign government bonds	-	728	728	-	12,134	12,134
-Other	-	-	-	8	-	8
Total	1,043,006	186,862	1,229,868	778,020	71,971	849,991

There are securities of TL 184,104 billion pledged under repurchase agreements as of 31 December 2003 (2002: TL 66,477 billion).

Interest rates of treasury bills and government bonds held-to-maturity investments at 31 December 2003 are between 32.0% and 68.0% p.a. (2002: 44.0% and 63.0%)

Eurobonds are EUR and USD denominated discount and coupon securities issued by the Treasury and Foreign Trade Department of the Republic of Turkey. These bonds earn interest between 9.3% and 12.4% p.a. (2002: 9.0% and 10.9% p.a.).

Analysis of held-to-maturity investments by maturity at 31 December is as follows:

	2003			2002		
	Banking	Other	Total	Banking	Other	Total
Short-term:						
1-30 days	27,191	24,548	51,739	-	815	815
30-90 days	77,561	40,449	118,010	2,801	25,479	28,280
90-180 days	24,986	29,285	54,271	103,756	19,562	123,318
180 days-1 year	184,671	18,757	203,428	6,570	3,460	10,030
	314,409	113,039	427,448	113,127	49,316	162,443
Long-term:						
Over 1 year	728,597	73,823	802,420	664,894	22,654	687,548
	728,597	73,823	802,420	664,894	22,654	687,548
Total	1,043,006	186,862	1,229,868	778,021	71,970	849,991

At 31 December 2003, held-to-maturity investment securities amounting to TL 337,697 billion were pledged to the CBRT for legal requirements and Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası A.Ş. as a guarantee for stock exchange and money market operations (2002: TL 445,932 billion).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

NOTE 8 - RESERVE DEPOSITS WITH THE CENTRAL BANKS

	2003	2002
Foreign currency deposits	177,689	232,627
TL deposits	37,881	14,092
	215,570	246,719

Reserve requirements of CBRT represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits (foreign or domestic) taken at the rates determined by the CBRT whereas between 6.0% and 11.0%, respectively (2002: 6.0% and 11.0%). These funds cannot be used for the financing of the daily operations of the banks.

Reserve requirements of Central Bank of Dutch represents reserve deposits equivalent to 2% of the overnight deposits, deposits with agreed maturity or deposits redeemable at notice up to 2 years, debt securities issued with agreed maturity up to 2 years and money market paper.

Reserve requirements of the Central Bank of Azerbaijan; represent reserve deposits equivalent to 10.0% (2002: 10.0%) of the statutory balances of customer accounts, due to banks and other funds borrowed.

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

	2003			2002		
	Up to 1 year	1 year and over	Total	Up to 1 year	1 year and over	Total
Marketable securities purchased directly from						
Turkish Treasury	122,825	41,742	164,567	34,943	131,295	166,238
Commercial and industrial loans	363,696	393,186	756,882	474,202	139,077	613,279
Export loans	390,623	-	390,623	465,080	25,564	490,644
Investment loans	-	51,195	51,195	133,031	106,804	239,835
Net investment in finance leases	104,903	87,847	192,750	74,898	60,453	135,351
Consumer loans	202,141	87,577	289,718	229,910	9,195	239,105
Factoring receivables	113,662	5,016	118,678	50,160	1,273	51,433
Other	10,562	-	10,562	-	-	-
Total	1,308,412	666,563	1,974,975	1,462,224	473,661	1,935,885
Loans under legal follow-up	231,986	-	231,986	222,051	-	222,051
Other impaired loans	86,615	-	86,615	109,580	-	109,580
Total impaired loans	318,601	-	318,601	331,631	-	331,631
Gross loans and advances to customers	1,627,013	666,563	2,293,576	1,793,855	473,661	2,267,516
Less: Provision for loan losses	(194,420)	-	(194,420)	(168,215)	-	(168,215)
Net loans and advances to customers	1,432,593	666,563	2,099,156	1,625,640	473,661	2,099,301

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NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements in the provision for loan losses during the years are as follows:

	2003	2002
Balance at 1 January	168,215	306,816
Provisions for loan losses during the year	103,232	99,375
Recoveries of amounts previously provided	(52,199)	(16,358)
Write-off during the year as uncollectible	(987)	(38,867)
Effect of restructuring in finance segment (*)	-	(148,462)
Monetary loss	(23,841)	(34,289)
Balance at 31 December	194,420	168,215

(*) Effect of restructuring in finance segment represents the decrease due to the finance segment companies that have become Joint Ventures in 2002 (Note 35).

The loans and advances to customers include net investment in finance leases as shown below:

	2003	2002
Gross investment in finance leases	231,805	169,128
Less: Unearned finance income	(39,055)	(33,777)
Net investment in finance leases	192,750	135,351

The allowance for losses on finance lease receivable included in the provision for loan losses amounts to TL 17,383 billion at 31 December 2003 (2002: TL 9,384 billion).

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	2003	2002
2003	-	91,991
2004	128,056	35,181
2005	60,188	27,693
2006	25,922	14,239
2007 and over	17,638	24
Less: Unearned finance income	(39,054)	(33,777)
	192,750	135,351

The loans and advances to customers include factoring receivables as shown below:

	2003	2002
Domestic transactions	72,456	18,266
Export transactions	46,222	33,167
Gross factoring receivables	118,678	51,433
Factoring receivables under legal follow-up	2,879	3,683
Less: Provision for factoring receivables under legal follow-up	(2,315)	(1,632)
Factoring receivables, net	119,242	53,484

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NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

At 31 December 2003, TL 132,470 billion (2002: TL 126,503 billion) of the consumer loans are given by consumer finance companies. The collaterals obtained for these loans amount to TL 90,594 billion (2002: TL 89,572 billion). The allowance for losses on consumer loans given by consumer finance companies included in the provision for loan losses amounts to TL 7,186 billion at 31 December 2003 (2002: TL 10,466 billion).

Economic sector risk concentrations for loans and advances given to customers are as follows:

	2003	%	2002	%
Textiles	299,374	15	318,949	16
Retail and consumer	296,278	15	113,806	6
Metal processing	172,118	9	161,842	8
Marketable securities purchased directly from the Turkish treasury	164,566	8	166,236	9
Food, beverage and consumer goods	114,544	6	165,181	9
Petrochemical industry	107,229	5	93,017	5
Construction and cement	99,434	5	120,879	6
Financial institutions	70,249	4	188,570	10
Trade	61,801	3	111,213	6
Tourism	51,214	3	50,185	3
Durable goods	23,243	1	71,417	4
Automotive	22,162	1	142,339	7
Other	492,763	25	232,251	11
	1,974,975	100	1,935,885	100

NOTE 10 - TRADE RECEIVABLES

	2003	2002
Trade receivables - net of unearned credit finance income	1,560,934	1,460,851
Notes receivable - net of unearned credit finance income	885,002	721,396
Other	1,582	17,082
Trade receivables	2,447,518	2,199,329
Less: provision for doubtful receivables	(57,598)	(78,840)
Trade receivables, net	2,389,920	2,120,489

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NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

	2003	2002
<u>Due from related parties:</u>		
Ram Sigorta Aracılık Hizmetleri A.Ş. ("Ram Sigorta")	8,978	9,686
Temel Ticaret ve Yatırım A.Ş. ("Temel Ticaret")	797	9
Koç Üniversitesi	575	886
Zinerji	349	-
Tanı Pazarlama	331	4,540
Ark İnşaat San. ve Tic A.Ş. ("Ark İnşaat")	255	142
Karsan	229	145
Vehbi Koç Vakfi	27	22,063
Koç Ata Sancak Besi	6	3,279
Ram Auto Operations	1	2,875
Other	8,155	14,877
	19,703	58,502

Due to related parties:

Ram Sigorta	6,042	7,164
Koç Ata Sancak Besi	3,184	1,822
Koratrade S.A.	2,797	-
Ark İnşaat	1,694	161
Vehbi Koç Vakfi	1,302	60
Takosan	706	395
İdea İnceleme Danışmanlık Eğitim Araştırma Merkezi A.Ş. ("İdea")	611	327
Temel Ticaret	588	2,275
Matay	1	3,243
Other	7,805	17,171
	24,730	32,618

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NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	2003	2002
<u>Service sales:</u>		
Tanı Pazarlama	3,743	2,239
V.K.V.Amerikan Hastanesi (“Amerikan Hastanesi”)	1,769	974
Koç Üniversitesi	1,311	2,018
Demir Export A.Ş.	1,131	1,457
Vehbi Koç Vakfı	907	340
Koç family	590	58
Biletix Bilet Dağıtım Basım A.Ş.	403	899
Other	4,918	8,499
	14,772	16,484

Product sales:

Sanal Merkez	8,314	7,405
Demir Export A.Ş.	8,028	14,096
Koç Üniversitesi	4,700	2,796
Amerikan Hastanesi	986	404
Ark İnşaat	833	95
Karsan	441	1,656
Other	9,940	14,756
	33,242	41,208

Property, plant and equipment sales:

Vehbi Koç Vakfı	3,031	9,091
Koç Üniversitesi	649	837
Koç Ata Sancak Besi	620	955
Tanı Pazarlama	139	1,668
Amerikan Hastanesi	-	166
Other	1,533	254
	5,972	12,971

Total sales to related parties**53,986****70,663**Product purchases:

Takosan	4,450	2,207
Koç Ata Sancak Besi	3,282	677
Kumsan	515	554
Sanal Merkez	463	641
Promena Elektronik Ticaret A.Ş.	437	238
Other	2,812	3,373
	11,959	7,690

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NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	2003	2002
<u>Property, plant and equipment purchases:</u>		
Ark İnşaat	16,477	1,086
Other	1,153	886
	17,630	1,972
<u>Service purchases:</u>		
Ram Sigorta	13,437	5,629
Temel Ticaret	3,626	4,200
Setair Hava Taşımacılığı ve Hizmetleri A.Ş.	2,355	2,835
Vehbi Koç Vakfı	1,441	1,470
İdea	992	2,146
Ramerica International Inc.	690	7
Koç family	644	238
Sanal Merkez	629	360
Koç Bilgi Grubu	83	5,451
Koç Üniversitesi	365	1,239
Koç Ata Sancak Besi	-	4,773
İnternet Rezervasyon Sistemleri A.Ş.	-	1,462
Other	4,107	5,435
	28,369	35,245
Total purchases from related parties	57,958	44,907

Dividend income from equity investments for the year ended 31 December were as follows:

	2003	2002
Magdeburger Sigorta A.Ş	1,455	-
Çeşme Altinyunus	481	141
Matay	95	81
Kumsan	21	106
Goodyear Tire and Rubber Comp.	-	12
Temel Gıda Gmbh	-	27
Ram Man Gıda Tic. A.Ş.	-	299
Other	14	41
	2,066	707

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12 - INVENTORIES

	2003	2002
Finished goods and merchandise (at cost)	517,909	399,363
Raw materials and supplies (at cost)	417,120	345,746
Finished goods and merchandise (at net realizable value)	176,982	169,705
Goods-in-transit	130,650	121,367
Spares, supplies and advances (at cost)	109,764	75,656
Work in progress (at cost)	51,963	46,496
	1,404,388	1,158,333

NOTE 13 - OTHER CURRENT ASSETS

	2003	2002
Prepaid expenses	85,924	108,581
Value added tax ("VAT") receivable	49,557	95,633
Taxes and funds deductible	28,552	22,285
Advances given	18,156	10,975
Other income accruals	14,559	4,731
Derivative financial instruments (Note 30)	13,525	4,193
Receivable from recoverable claims	11,810	6,443
Income accrual from construction work in progress	6,761	6,449
Deferred tax	6,351	7,303
Accrued supplier rebates	5,386	7,215
Credit card receivables	2,760	3,615
Prepaid taxes and funds	1,975	5,059
VAT of exported goods	108	3,734
Receivable from oil price stability fund (*)	32	14,393
Other	36,975	62,769
	282,431	363,378

(*) Receivables from the oil price stability fund is derived from the difference between the ceiling price of Tüpraş A.Ş. and selling price of Liquid Petroleum Gas ("LPG") importing companies based on decision no: 2000/306 of the Council of Ministers.

NOTE 14 - INVESTMENT IN ASSOCIATED UNDERTAKING

The Group's investment in associate is as follows for the year ended 31 December 2003:

		2003		2002
	%	TL billion	%	TL billion
Takosan	28.12	1,765	28.12	1,849

The Group does not have control over the financial and operating policies of its investment in associated undertaking. The loss from the investment in the associated undertaking for the year ended 31 December 2003 amounted to TL 84 billion (2002: TL 2 billion).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

	Opening 1 January 2003	Additions to scope of consolidation	Disposals from scope of consolidation	Additions	Disposals	Foreign currency translation difference	Closing 31 December 2003
Cost							
Land and land improvements	239,323	-	(5)	21,020	(2,693)	(160)	257,485
Buildings	1,501,986	11,362	(28)	72,744	(54,913)	(44,061)	1,487,090
Leasehold improvements	352,907	-	(7)	10,313	(7,997)	-	355,216
Machinery and equipment	5,586,575	3,004	(6,172)	332,552	(163,889)	(13,935)	5,738,135
Motor vehicles	201,607	1,234	(879)	81,986	(30,522)	(3,608)	249,818
Furniture and fixtures	498,168	-	(10)	47,229	(18,037)	(1,356)	525,994
Construction in progress (*)	241,952	3	(5)	275,331	(236,805)	(1,134)	279,342
	8,622,518	15,603	(7,106)	841,175	(514,856)	(64,254)	8,893,080
Accumulated depreciation							
Land and land improvements	(49,373)	-	-	(6,576)	929	75	(54,945)
Buildings	(459,249)	(884)	3	(48,626)	27,853	10,835	(470,068)
Leasehold improvements	(164,407)	-	1	(24,475)	3,584	58	(185,239)
Machinery and equipment	(3,726,426)	(708)	2,795	(506,365)	192,707	12,725	(4,025,272)
Motor vehicles	(105,295)	(255)	539	(72,172)	24,431	2,285	(150,467)
Furniture and fixtures	(401,520)	-	3	(56,276)	20,683	525	(436,585)
	(4,906,270)	(1,847)	3,341	(714,490)	270,187	26,503	(5,322,576)
Net book value							
Land and land improvements	189,950	-	(5)	14,444	(1,764)	(85)	202,540
Buildings	1,042,737	10,478	(25)	24,118	(27,060)	(33,226)	1,017,022
Leasehold improvements	188,500	-	(6)	(14,162)	(4,413)	58	169,977
Machinery and equipment	1,860,149	2,296	(3,377)	(173,813)	28,818	(1,210)	1,712,863
Motor vehicles	96,312	979	(340)	9,814	(6,091)	(1,323)	99,351
Furniture and fixtures	96,648	-	(7)	(9,047)	2,646	(831)	89,409
Construction in progress	241,952	3	(5)	275,331	(236,805)	(1,134)	279,342
	3,716,248	13,756	(3,765)	126,685	(244,669)	(37,751)	3,570,504

(*) Ford Otosan, a joint venture of the Group, has initiated a project to increase the production capacity of its Kocaeli factory from an existing 140,000 vehicles to 200,000 with in 2004. This is a result of the decision of Ford Motor Company to transfer its transit commercial vehicle production line from its Genk factory to the Kocaeli factory. This project, with a total projected cost of USD 78 million, has been commenced in 2002, and Ford Otosan made a capital expenditure of USD 41 million in 2003 (2002: USD 13 million).

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NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2003, there are mortgages amounting to TL 133,121 billion (2002: TL 121,620 billion) on property, plant and equipment.

Since 1984, using an option granted under Turkish tax legislation, the Group has revalued in its statutory books of account, its property, plant and equipment in use for more than one year (excluding land, which cannot be revalued), and the related accumulated depreciation at each year-end, by using the rates and procedures prescribed by the legislation. The resulting increases in the net book values of the assets are included under shareholders' equity as revaluation surplus in the statutory books of account. The Group may use the revaluation surplus for issuance of free capital shares to existing shareholders. However, if the revaluation increment is included in an account other than the revaluation surplus account, the amount is subject to corporation tax.

At 31 December, the historical amounts of revaluation surplus included in share capital and revaluation surplus of Koç Holding (parent company only) are:

	Historical amount of revaluation surplus in share capital	Historical amount of revaluation surplus
31 December 2003	113,280	36,483
31 December 2002	62,664	50,646

In the Group's statutory books of account, depreciation is provided on revalued amounts, except for the net revaluation increment applicable to buildings, and such depreciation is deductible in the computation of income subject to corporation tax.

All entries related to revaluation, which were recorded in the statutory books of account of the Group, have been eliminated in the consolidated financial statements as part of the restatement process as referred to in Note 2.

Leased assets:

Leased assets included in the property, plant and equipment, where the Group is the lessor, are as follows:

	Buildings	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
Cost	80,550	61,724	156,837	13,280	312,391
Accumulated depreciation	(22,677)	(21,072)	(111,006)	(6,468)	(161,223)
Net book amount	57,873	40,652	45,831	6,812	151,168

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NOTE 16 - INTANGIBLE ASSETS

	1 January 2003	Addition to Scope of consolidation	Disposal from scope of consolidation	Additions	Disposals	Foreign currency translation difference	31 December 2003
Cost	429,200	278	(44)	29,874	(18,413)	(345)	440,550
Accumulated amortization	(154,236)	(82)	41	(55,633)	3,934	48	(205,928)
Net book value	274,964	196	(3)	(25,759)	(14,479)	(297)	234,622
Goodwill (Note 31)	253,773			148,381	-	-	402,154
Accumulated amortization	(70,019)			(17,392)	-	-	(87,411)
Net book value	183,754			130,989			314,743
Negative goodwill (Note 31)	(48,766)	-	-	-	-	-	(48,766)
Accumulated amortization	2,712	-	-	5,125	-	-	7,837
Net book value	(46,054)	-	-	5,125	-	-	(40,929)
Total net book value	412,664						508,436

Intangible assets include research and development costs with a net book value of TL 84,767 billion (2002: TL 103,010 billion). Additions to research and development costs mainly relate to the NHDD and New Cargo projects of Ford Otosan, a Joint Venture of the Group.

NOTE 17 - INVESTMENT PROPERTY

	1 January 2003	Additions	Disposals	Foreign currency translation difference	31 December 2003
Cost	76,358	5,859	(4,628)	(11,704)	65,885
Accumulated depreciation	(5,713)	(1,712)	4	1,559	(5,862)
Net book value	70,645	4,147	(4,624)	(10,145)	60,023

Investment property totalling TL 47,103 billion represents designated areas within stores that are let out under rent agreements owned by Migros, a Subsidiary of the Group. The fair value of these investment properties as at 31 December 2003 based on an independent appraiser's report is TL 94,795 billion. The valuation includes land that is under operating lease, as it cannot be separated from the valuation of the investment properties.

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NOTE 18 - CUSTOMER DEPOSITS

	2003			2002		
	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:						
Saving deposits	303,155	1,174,721	1,477,876	248,978	1,795,161	2,044,139
Commercial deposits	157,470	453,879	611,349	170,385	142,810	313,195
	460,625	1,628,600	2,089,225	419,363	1,937,971	2,357,334
TL deposits:						
Saving deposits	30,997	285,343	316,340	24,696	252,600	277,296
Commercial deposits	75,603	28,730	104,333	64,464	71,021	135,485
Funds deposited under repurchase agreements	-	242,554	242,554	-	62,595	62,595
	106,600	556,627	663,227	89,160	386,216	475,376
	567,225	2,185,227	2,752,452	508,523	2,324,187	2,832,710

Saving and commercial deposits at 31 December 2003 include long-term foreign currency and TL time deposits of TL 211,687 billion (2002: TL 172,859 billion); the interest rates for time deposits vary between 1.0%-5.0% p.a. (2002: 2.7%-4.5% p.a.) for foreign currency deposits and 25.3%-33.0% p.a. (2002: 43.6%-51.9% p.a.) for TL deposits and 18.8%-30.0% p.a. (2002: 40.6%-48.7% p.a.) for repurchase commitments.

NOTE 19 - BANK BORROWINGS

	2003	2002
Short-term bank borrowings:		
Short-term bank borrowings	1,241,982	1,462,702
Short-term portion of long-term bank borrowings	604,781	306,990
Total short-term bank borrowings	1,846,763	1,769,692
Long-term bank borrowings:		
Long-term bank borrowings	1,131,077	1,174,292
Total bank borrowings	2,977,840	2,943,984

Effective interest rates of foreign currency borrowings, mainly USD and EUR denominated and TL bank borrowings range between 0.0%-6.7% (2002: 2.2%-13.0%), 3.1%-6.8% (2002: 3.0%-7.3%) and 0.0%-47.0% (2002: 14.0%-75.5%), respectively.

As of 31 December 2003, Koçbank, a Joint Venture of the Group, obtained syndication loans comprised of TL 136,090 billion (USD 100 million) from Sumitomo Mitsui Banking Corporation and TL 136,090 billion (USD 100 million) from ING Bank which bear interest rates of 3.94% and 3.74%, respectively (2002: two syndication loans of USD 100 million and USD 90 million which bears an interest rate of 6 months libor plus 0.80% and 0.75% respectively).

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NOTE 19 - BANK BORROWINGS (Continued)

At 15 December 2000, Koçbank, a Joint Venture of the Group, obtained a long-term facility with an original maturity of December 2005 through structured finance deal (“the Deal”) totalling USD 75 million by securitizing its present and future cross border payment rights. The Bank sold certain present and future payment rights (including but not limited to cash against goods transactions, workers’ transfers, checks, remittances, letter of credit transactions and cash against document transactions) due or to become due to the Bank with a sales price of to K.S.F. Ltd., a Special Purpose Company (the “SPC”) incorporated under the laws of Jersey, Channel Islands pursuant to the Amended and Restated Purchase Agreement dated 15 December 2000, between the SPC, the Bank (as Seller) and Westdeutsche Landesbank Girozentrale (as security agent and cash administrator). The SPC borrowed USD 75 million, secured on a revolving portfolio of payment rights originated by the Bank, from Westdeutsche Landesbank Girozentrale pursuant to the Facility agreement dated 27 November 2000. Off-shore cash reserve account and payment account at Westdeutsche Landesbank Girozentrale are pledged by the SPC in favour of Westdeutsche Landesbank Girozentrale, as security agent. In 2001, the original maturity was shortened to March 2004 pursuant to the terms of the original transaction after discussions with the lending group. At 31 December 2003, the credit obtained through the deal is amounted to TL 14,599 billion (2002: TL 96,932 billion).

Ford Otosan, a Joint Venture of the Group, has foreign currency denominated long-term borrowings under two OPIC-insured private placements amounting to USD 35,803,757 and USD 7,178,958 and borrowing from US Export-Import Bank amounting to USD 3,248,697. These borrowings, which totals to USD 46,231,412, were obtained to finance investment projects. Under the terms of the related loan agreements, Ford Otosan has to comply with certain financial covenants. Ford Otosan met all the financial covenants as of 31 December 2003. Therefore, consequent to the discussions with the related lending organizations, Ford Motor Company and Koç Holding agreed to cease the parent guarantees previously provided to creditors as of 31 December 2003.

The Group has syndication loans comprised of EUR 20,000,000 and USD 4,700,000 from Netherlands Development Finance Company (“FMO”) as of 31 December 2003.

The Group has loans from International Finance Corporation (“IFC”) in the amount of TL 438,543 billion (USD 143,442,051, EUR 106,764,915, GBP 21,000,000) which is being used for production and modernization, research and development, as well as acquisitions and increased working capital requirements (2002: TL 423,595 billion).

Koç Holding received a syndicated loan from foreign banks in 2003 amounting to USD 150,000,000 (2002: None) of which the amount of USD 124,000,000 was transferred to other subsidiaries namely, Beldeyama, Bilkom, Düzey, Koç Ata Sancak Besi, Koç Lease, Koç Yapı Market, Koç Net, Koç Sistem, Ram, Tat Konserve, Setoto-Avis, Setur and Tekersan, under the same conditions, the remaining amount of USD 26,000,000 being for the use of Koç Holding.

The redemption schedule of long-term bank borrowings at 31 December is as follows:

	2003	2002
2004	-	430,754
2005	323,668	240,768
2006	317,911	188,188
2007	312,218	162,618
2008 and over	177,280	151,964
	1,131,077	1,174,292

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NOTE 20 - TRADE PAYABLES

	2003	2002
Trade payables - net of unearned credit finance charges	1,729,954	1,608,551
Notes payable - net of unearned credit finance charges	33,379	26,750
Other payables	3,803	5,297
	1,767,136	1,640,598

NOTE 21 - INSURANCE TECHNICAL RESERVES

	2003	2002
Unearned premiums reserve - net of reinsurers' share	123,139	114,806
Claim provisions - net of reinsurers' share	38,621	33,793
Deferred commission income	16,969	21,385
Insurance technical reserves - current	178,729	169,984
Life mathematical reserves	253,131	188,010
Other reserves	5,002	-
Insurance technical reserves - non-current	258,133	188,010

NOTE 22 - OTHER CURRENT LIABILITIES

	2003	2002
Taxes and funds payable	167,341	161,680
Provision for costs	127,088	112,042
Advances from customers	120,080	124,713
Import transfers and payment orders	89,483	95,820
Warranty provision	79,712	53,894
Payable to personnel	60,499	47,390
Credit card payables	34,038	35,547
Blocked accounts	25,941	25,161
Cheques at clearing	17,805	15,869
Deferred income	15,256	12,247
Leasing obligations	11,921	20,847
Contracted loans (*)	11,060	24,437
Derivative financial instruments (Note 30)	5,946	6,374
Other	75,472	55,885
	841,642	791,906

(*) Loans for which the contracts were signed, but whose respective fund transfers will take place in the following year, are included in the accompanying balance sheet. The principal amount of such loans is included under "Loans and advances to customers" in assets and under "Other current liabilities" in liabilities.

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NOTE 23 - TAXES ON INCOME

	2003	2002
Corporation and income taxes payable:		
Domestic	75,611	85,377
Foreign	5,763	4,905
	81,374	90,282
Deferred tax liabilities:		
Domestic	14,257	157,182
Foreign	5,494	19,626
	19,751	176,808
	101,125	267,090

Domestic

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Corporation tax is payable at a rate of 30% on the total income of the entity after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed. Corporation tax rate on the total income of fiscal year 2004 will be 33%.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 11% (10% effective from 1 January 2004). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% (33% for the fiscal year 2004) on their corporate income. Advance tax is payable by the 16th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable assets held for not less than two years are tax exempt until 31 December 2004, if such gains are added to paid-in capital in the year in which they are sold.

Capital expenditures, with some exceptions, over TL 5 billion (TL 6 billion for 2004) are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an "Investment Incentive Certificate", and the amount of allowance is not subject to withholding tax. Investment allowances utilised within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

Under the Turkish taxation system, tax losses can be carried forward, to be offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 17th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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NOTE 23 - TAXES ON INCOME (Continued)

Foreign

Russian and Kazakh tax legislation is subject to various interpretations and frequent change. In this respect, the taxation of Ramenka and Rambutya can be interpreted differently by the tax authorities of the respective countries and accordingly can be subject to additional tax charges and penalties. The tax authorities of Russia and Kazakhstan have the right to audit tax returns for 3 and 5 years, respectively.

Taxation on income for the year ended 31 December 2003 and 2002 is summarised as follows:

	2003	2002
Current year corporate tax	(311,901)	(275,337)
Deferred tax	161,188	203,380
	(150,713)	(71,957)

Deferred taxes

Koç Holding, its Subsidiaries and Joint Ventures recognize deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for IFRS purposes and their statutory tax financial statements. These temporary differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2004 under the liability method using a principal tax rate of 33% at 31 December 2003. The rate for other temporary differences is 30% (31 December 2002: 33%).

Deferred taxes calculated by using the principal tax rates of the tax authorities of each country the Group operates in as of 31 December 2003, are as follows:

Country	Tax rate (%)
Turkey	30.0 / 33.0
The Netherlands	35.0
Azerbaijan	27.0
Switzerland	54.4
Bulgaria	23.5
Kazakhstan	30.0
Russia	24.0
China	16.0

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NOTE 23 - TAXES ON INCOME (Continued)

The breakdown of cumulative temporary differences and deferred tax assets/liabilities provided at 31 December, using principal tax rates, are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2003	2002	2003	2002
Net difference between carrying value and tax base of property, plant and equipment and intangible assets	1,069,044	1,599,512	(334,821)	(521,495)
Net difference between carrying value and tax base of inventory	51,244	162,868	(15,916)	(52,515)
Deferred acquisition cost	27,028	42,400	(8,919)	(13,992)
Leasing obligations	(9,177)	(26,911)	2,830	8,902
Net investments in finance leases	-	61,385	-	(12,154)
Net difference between carrying value and tax base of debt securities	(16,204)	5,238	5,315	(1,773)
Unused tax credits (Note 29)	(1,622,087)	(1,605,275)	173,419	211,896
Tax losses carried forward	(133,037)	(312,677)	38,732	100,036
Provision for employment termination benefits	(123,345)	(108,881)	36,659	34,967
Provision for loan losses	(37,917)	(65,784)	12,513	21,708
Unearned premium reserve	(17,161)	(61,916)	5,663	20,432
Warranty reserve	(55,613)	(39,760)	17,531	12,709
Effect of unearned financial income/(expense) - net	(64,494)	(45,675)	21,234	15,061
Deferred commission income	(16,969)	(27,166)	5,600	8,965
Other-net	(64,376)	26,186	20,409	(9,555)
	(1,013,064)	(396,456)	(19,751)	(176,808)

Movements in deferred taxes at 31 December can be analysed as follows:

	2003	2002
Balance at 1 January	(176,808)	(286,309)
Addition to the scope of consolidation	-	(18,733)
Effect of legal merger	-	356
Disposal from the scope of consolidation	9	1,560
Effect of restructuring in finance segment (*)	-	(68,359)
Monetary gain	(4,140)	(8,703)
Charge for the year	161,188	203,380
Balance at 31 December	(19,751)	(176,808)

(*) Effect of restructuring in finance segment represents the decrease due to the finance segment companies that have become joint ventures in 2002 (Note 35).

In accordance with law regarding the amendments to be brought to the Tax Procedure Law, Income Law and Corporation Tax Law which was published by the Official Gazette dated 30 December 2003 ("Law No. 5024"), income and corporation tax payers that determine their income on the basis of balance sheet are required to apply inflation adjustment to their statutory financial statements with effect from 1 January 2004. Taxpayers are required to apply inflation adjustment to the opening balance sheet at 31 December 2003.

In accordance with the Tax Procedure Law General Communiqué No. 328, taxpayers are required to prepare and declare their advance tax declarations for the period of March and June 2004 together with the opening balance sheet at 31 December 2003.

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NOTE 23 - TAXES ON INCOME (Continued)

Furthermore, as stated in Law No.5024, the tax payers already required to adjust their balance sheets at 31 December 2003 pursuant to the regulations enacted by the CMB pertaining to adjust financial statements during high inflation periods are not object to readjust their balance sheets in accordance with the adjustment procedures as set out in Law No. 5024. However, the accumulated depreciation shown on inflation-adjusted financial statements at 31 December 2003 shall be recorded in the statutory inflation adjusted opening balance sheet based on the depreciation periods as declared by Tax Procedure Law.

In the preparation of the balance sheets at 31 December 2003, the Group gave a decision to use the 31 December 2003 balance sheet prepared in accordance with the regulation enacted by the CMB pertaining to adjust financial statements during high inflation periods in some of its listed companies as allowed by Law No. 5024; for other Group companies adjustment procedures have been applied as set out in Law No. 5024.

Therefore, at 31 December 2003 the taxable and temporary differences arising from the inflation adjustments in the prior periods have been partially reversed. As a result, deferred tax liabilities arising from these temporary differences, have been reversed and reflected to the consolidated statement of income.

NOTE 24 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

	2003	2002
Reserve for employment termination benefits:		
- Domestic	126,597	109,304
- Foreign	236	6,516
	126,833	115,820

Under the Turkish Labour Law, Koç Holding and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of TL 1,389,950,000 (2002: TL 1,260,150,000 in terms of the purchasing power of TL at 31 December 2002) for each year of service.

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Koç Holding and its Subsidiaries and Joint Ventures registered in Turkey arising from the retirement of employees.

The principal actuarial assumption is that the maximum liability for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 1,485,430,000 (2002: TL 1,323,950,000), which is effective from 1 January 2004, has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

	2003	2002
Discount rate	6%	6%
Turnover rate to estimate the probability of retirement	1-16%	2-19%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

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NOTE 24 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS (Continued)

Movements in the provision for employment termination benefits during the year are as follows:

	2003	2002
Balance at 1 January	115,820	101,008
Decrease during the year	33,784	40,749
Monetary gain	(22,771)	(25,937)
Balance at 31 December	126,833	115,820

The number of personnel of the Group at 31 December 2003 is 53,985 (2002: 50,019).

NOTE 25 - SHARE CAPITAL

Koç Holding adopted the registered share capital system available to companies registered with the CMB and set a limit on its registered share capital representing registered type shares with a nominal value of TL 1,000. Koç Holding's historical authorised and paid-in share capital at 31 December was as follows:

	2003	2002
Limit on registered share capital (historical)	1,000,000	250,000
Historical authorised and paid-in share capital	789,750	203,156

Companies in Turkey may exceed the limit on registered share capital in the event of issuance of free capital shares to existing shareholders.

At 31 December, the shareholding structure of Koç Holding is as follows:

	Share %	2003	Share %	2002
Temel Ticaret ve Yatırım A.Ş.	43.27	341,724	36.06	73,254
Suna Kıraç	6.23	49,201	7.02	14,268
Semahat Arsel	6.09	48,095	6.86	13,944
Rahmi M. Koç	5.40	42,647	6.08	12,360
Mustafa Koç	3.00	23,693	1.09	2,223
Ali Koç	3.00	23,693	1.09	2,223
Ömer Koç	2.98	23,535	1.07	2,166
İpek Kıraç	0.70	5,528	0.79	1,606
Nazar Dayanıklı ve Dayanıksız				
Sınai Mallar Paz. A.Ş.	0.35	2,764	0.39	793
R.M.K. Mahdumları	0.11	869	0.12	241
Zer Madencilik Dayanıklı Mallar Yatırım ve Paz. A.Ş.	0.01	79	-	-
Sevgi Gönül	-	-	6.88	13,959
Total Koç family and companies owned by Koç family members	71.14	561,828	67.45	137,037
Vehbi Koç Vakfı	7.17	56,625	8.08	16,420
Koç Holding Emeklilik Vakfı	1.97	15,558	2.22	4,519
Quoted	19.72	155,739	22.25	45,180
	100.00	789,750	100.00	203,156

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NOTE 25 - SHARE CAPITAL (Continued)

“Adjustment to share capital” represents the restatement effect of cash contributions to share capital at year-end equivalent purchasing power. It also includes the difference of TL 106,932 billion between the fair value of the acquired minority interest from Koç Yatırım Sanayi Mamülleri Pazarlama A.Ş. and the nominal value of shares issued by Koç Holding in 1997, and the difference of TL 383,232 billion between the fair and nominal value of the shares issued for the acquisition of Migros shares by 50.81%, which are all presented as the inflation adjustment to share capital.

The Articles of Association ("the Articles") of Koç Holding set out the following privileges for A-type shares:

1. In accordance with Article 11, A-type shareholders receive pre-emptive rights not used by B-type shareholders.
2. In accordance with Article 25, A-type shareholders have two voting rights for each share owned at the General Assembly meeting (except for meetings with an agenda to change the Articles).

The Articles of Koç Holding established 100 usufruct shares, which were granted to Vehbi Koç. These are bearer shares and can be transferred to others.

The holders of usufruct shares are entitled to receive 3% of the distributable profits remaining after legal reserves and taxes minus 5% of the paid capital. However, this cannot be higher than 10% of the amount obtained after deducting legal reserves, taxes and first dividend from distributable profit. Usufruct shares do not have any interest in the capital of Koç Holding and do not have any voting rights associated with them. In the event of liquidation, usufruct shareholders are not entitled to receive any portion of the liquidation proceeds.

The analysis of shares by type is as follows:

<u>Group</u>	<u>Unit of shares</u>	<u>TL billion</u>	<u>Nature of shares</u>
A	211,922,206,014	211,922	Registered
B	53,592,000	54	Registered
B	577,774,201,986	577,774	Bearer
		789,750	

NOTE 26 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements, other than legal reserve requirements, are available for distribution subject to the legal reserve requirement referred to below.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group’s paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Dividend distributions are made by Koç Holding in TL, in accordance with its Articles, after deducting taxes and setting aside the legal reserves as discussed above. In accordance with the Articles, dividends are paid to "Koç Holding Foundation for Pensions and Assistance" up to 2% but not less than 1% of the distributable profits remaining after deducting taxes, legal reserves and the first dividend. The holders of the usufruct shares are currently entitled to receive dividends out of distributable profits as explained in Note 25.

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NOTE 26 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

Composition of prior periods' earnings and dividends (per Statutory Financial Statements of Koç Holding, Subsidiaries and Joint Ventures) at 31 December (not adjusted for inflation):

	2003	2002
Legal reserves	16,449	14,635
Undistributed general reserve	181,326	154,636
	197,775	169,271
Historical amounts of dividends distributed during the year from previous periods' net income per statutory financial statements	-	-

Quoted companies are subject to dividend requirements regulated by the CMB as follows:

In accordance with Communiqué XI/25 section 15/399, the accumulated deficit that may arise as the balancing figure in the financial statements as a result of the first-time application of inflation accounting should be netted off in the calculation of the distributable profit. In addition, the net-off of such accumulated deficit against current year income and retained earnings, if any, legal and extraordinary reserves and adjustment to share capital can be made according to the related Communiqué.

In accordance with Communiqué XI/25, effective from 1 January 2004, companies are obliged to distribute at least 20% of their distributable profit arising from 2003 activity, which is calculated based on the financial statements prepared in accordance with IFRS. Based on the decision of the General Assembly, the distribution of a minimum of 20% of the distributable profit can be made as cash or as bonus share or as a combination of a certain percentage of cash and bonus shares.

NOTE 27 - FINANCIAL INCOME - NET

	2003	2002
Interest income	241,543	297,878
Interest expense	(159,161)	(305,133)
Foreign exchange gain/(loss), net	59,788	(46,126)
Credit finance income, net	35,457	100,415
Other	(31,649)	(23,407)
Financial income - net	145,978	23,627

NOTE 28 - FOREIGN CURRENCY POSITION

Assets and liabilities denominated in foreign currency held by the Group before consolidation adjustments in equivalent billions of TL at 31 December are as follows:

	2003	2002
Assets	4,983,099	5,146,491
Liabilities	(5,350,740)	(6,011,083)
Net balance sheet position	(367,641)	(864,592)
Off-balance sheet derivative instruments net position	20,087	9,393

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NOTE 28 - FOREIGN CURRENCY POSITION (Continued)

	2003			Total
	USD	EUR	Other	
Cash and cash equivalents	648,144	374,897	51,353	1,074,394
Investments				
- available-for-sale	148,060	59,708	9,923	217,691
- held-to-maturity	161,098	162,873	1,086	325,057
Reserve deposits with Central Banks	141,262	36,227	200	177,689
Loans and advances to customers	642,744	194,244	64,053	901,041
Trade receivable	162,163	512,903	256,149	931,215
Due from related parties	18,839	117,589	42,666	179,094
Inventories	999	3,525	23,869	28,393
Other current assets	34,475	21,238	27,299	83,012
	1,957,784	1,483,204	476,598	3,917,586
Loans and advances to customers	76,175	119,722	160,377	356,274
Investments				
- available-for-sale	58,333	5,445	-	63,778
- held-to-maturity	358,859	65,652	-	424,511
Property, plant and equipment	-	-	207,405	207,405
Other non-current assets	-	105	13,440	13,545
	493,367	190,924	381,222	1,065,513
Total foreign currency denominated assets	2,451,151	1,674,128	857,820	4,983,099
Customer deposits	1,413,649	659,573	52,581	2,125,803
Bank borrowings	750,653	376,064	114,205	1,240,922
Bonds issued	817	-	-	817
Insurance technical reserves	18,506	6,794	50	25,350
Trade payables	11,169	236,338	105,930	353,437
Due to related parties	92,227	128,653	21,134	242,014
Other current liabilities	74,148	37,472	27,370	138,990
	2,361,169	1,444,894	321,270	4,127,333
Customer deposits	39,600	7,622	178	47,400
Bank borrowings	494,366	542,693	81,814	1,118,873
Insurance technical reserves	34,999	1,906	-	36,905
Other non-current liabilities	5,928	952	13,349	20,229
	574,893	553,173	95,341	1,223,407
Total foreign currency denominated liabilities	2,936,062	1,998,067	416,611	5,350,740
Net foreign currency position	(484,911)	(323,939)	441,209	(367,641)

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NOTE 28 - FOREIGN CURRENCY POSITION (Continued)

	2002			Total
	USD	EUR	Other	
Cash and cash equivalents	1,008,428	267,149	26,736	1,302,313
Investments				
- available-for-sale	57,795	61,257	968	120,020
- held-to-maturity	68,350	553	3,520	72,423
Reserve deposits with Central Banks	186,980	45,647	-	232,627
Loans and advances to customers	557,728	161,823	40,529	760,080
Trade receivable	81,996	482,560	144,973	709,529
Due from related parties	38,834	269,543	26,423	334,800
Inventories	1,366	25,548	16,915	43,829
Other current assets	38,227	38,598	61,008	137,833
	2,039,704	1,352,678	321,072	3,713,454
Loans and advances to customers	433,898	83,299	-	517,197
Investments				
- available-for-sale	13,584	6,563	-	20,147
- held-to-maturity	527,035	86,412	-	613,447
Property, plant and equipment	-	-	233,887	233,887
Other non-current assets	-	12,357	36,002	48,359
	974,517	188,631	269,889	1,433,037
Total foreign currency denominated assets	3,014,221	1,541,309	590,961	5,146,491
Customer deposits	1,725,908	511,100	66,109	2,303,117
Bank borrowings	751,948	316,947	45,086	1,113,981
Bonds issued	3,458	2,120	-	5,578
Insurance technical reserves	48,751	8,279	-	57,030
Trade payables	98,446	247,467	60,076	405,989
Due to related parties	99,656	138,766	106	238,528
Other current liabilities	318,655	94,308	44,096	457,059
	3,046,822	1,318,987	215,473	4,581,282
Customer deposits	107,798	31,923	4,129	143,850
Bank borrowings	596,972	510,458	73,310	1,180,740
Insurance technical reserves	26,350	802	-	27,152
Other non-current liabilities	48,523	8,088	21,448	78,059
	779,643	551,271	98,887	1,429,801
Total foreign currency denominated liabilities	3,826,465	1,870,258	314,360	6,011,083
Net foreign currency position	(812,244)	(328,949)	276,601	(864,592)

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NOTE 29 - GOVERNMENT GRANTS

Certain Subsidiaries have obtained investment incentive certificates from the Turkish Government Authorities in connection with certain major capital expenditures, which entitle the companies, among other things, to:

- i) a 100% exemption from customs duty on machinery and equipment to be imported,
- ii) investment allowance of 100% and 200% on approved capital expenditures,
- iii) incentive premiums varying between 17% and 26% on the cost of the local content of the facilities,
- iv) resource utilisation support premium (RUSP - an investment grant in the form of cost reimbursement) varying from 25% to 40% on a portion of the total approved capital expenditures.

The investment allowance indicated in (ii) above is deductible from current or future taxable profit for the purposes of corporation tax, and is exempt from both corporation and minimum tax, but is subject to income tax of 19.8%. The total amount of investment incentive allowance for the year ended 31 December 2003 is TL 1,622,087 billion (2002: TL 1,605,275 billion) (Note 23).

As permitted by Turkish tax legislation, RUSP is recognised in the statutory accounts as income upon its receipt. The consolidated financial statements are adjusted and restated to account for RUSP on an accrual basis for estimated amounts to be received under grant claims filed, and to reflect it as deferred income to be amortised over the depreciation period of the related assets on a straight-line basis.

The accrued RUSP receivables are included in other receivables and current assets in the consolidated balance sheets, while the recognised portions of deferred income are included in other income in the consolidated statements of income.

NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingencies, from which the management does not anticipate any significant losses or liabilities are summarised below:

	2003	2002
<u>Guarantees given:</u>		
Letters of guarantee	999,832	841,730
Guarantee notes	32,859	30,198
<u>Guarantees taken:</u>		
Letters of guarantee	991,814	507,208
Guarantee notes	13,251	25,793
Marketable securities given as guarantee	7,808	628

Commitments - given:

(a) Commitments - Banking

In the banking segment, normal course of banking activities requires to undertake various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements, including letters of guarantee, acceptance credits, letters of credit and off-balance sheet derivative instruments. The Group does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities at 31 December:

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NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Credit related commitments:

The following table shows the outstanding credit related commitments of the Group:

	2003	2002
Letters of guarantee		
- Foreign currency	402,234	534,553
- TL	395,155	429,900
Letters of credit	305,505	439,055
Acceptance credits	44,703	55,701
Other commitments and contingencies	66,862	60,810
	1,214,459	1,520,019
Less: provision for losses on credit related commitments	(14,590)	(15,619)
	1,199,869	1,504,400

The economic sector risk concentrations for outstanding credit related commitments of the Group is as follows:

	2003	%	2002	%
Construction and cement	167,366	14	169,684	6
Textiles	145,080	12	236,456	12
Financial institutions	144,565	12	151,742	12
Petrochemical industry	129,697	11	150,609	4
Metal processing	116,786	10	194,856	15
Food, beverage and consumer goods	58,989	5	73,107	5
Trade	46,983	4	76,602	6
Durable goods	24,789	2	75,176	11
Automotive	22,062	2	82,122	9
Tourism	17,364	1	18,683	1
Other	340,778	27	290,982	19
	1,214,459	100	1,520,019	100

Derivative financial instruments:

<u>At 31 December 2003</u>	Contract amount	<u>Fair values</u>	
		Assets	/ (Liabilities)
Foreign exchange derivatives			
Currency forwards	378,779	10,035	(2,058)
Currency swaps	419,467	3,483	(2,656)
Security forwards	1,970	-	(38)
Total trading derivative financial instruments	800,216	13,518	(4,752)
Interest rate cap and floor arrangements	23,316	7	(262)
Option agreement (*)	681	-	(932)
Total	824,213	13,525	(5,946)

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NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

31 December 2002

Foreign exchange derivatives

Currency forwards	268,565	2,269	(4,937)
Currency swaps	300,947	1,881	(1,394)

Total trading derivative financial instruments **569,512** **4,150** **(6,331)**

Interest rate derivatives

Interest rate cap and floor arrangements	29,076	43	(43)
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Total **598,588** **4,193** **(6,374)**

(*) At 31 December 2003, option agreement represents a commitment of KFS, a Joint Venture of the Group, to buy and an option for IFC to sell by 16 November 2005, the 20% share capital of Koçbank Azerbaijan Ltd. (Nominal value of USD 1 million at 31 December 2003) presently owned by IFC. According to the clauses of the agreement KFS management estimated the fair value of the option, calculated as the difference between the expected cash out and the fair value of the 20% share of Koçbank Azerbaijan Ltd. to be negative TL 932 billion.

(b) Commitments - Other

- i) Ford Otosan, a Joint Venture of the Group, management believes that there is an effective cash flow hedge between the foreign currency denominated payables (a non-derivative hedging instrument) with regard to engineering expenses and anticipated future sales (hedged item) of the new light commercial vehicle ("V227 or Transit Connect"). The hedge relationship is considered effective since its inception when the business principles for V227 between Ford Otosan and Ford Motor Company were formally discussed and agreed. The anticipated sales of 203,000 units of Transit Connect to Ford of Europe to fully offset engineering payables is considered highly probable as at 31 December 2003 within the next three years and the relationship is properly documented. Accordingly, unrealised foreign exchanges losses on foreign currency denominated engineering payables from inception to 31 December 2003 amounting to TL 24,454 billion were booked under the shareholders' equity as "cumulative loss on hedging". In 2003, TL 7,103 billion of the reserve is transferred to the statement of income and classified under financial expense.
- ii) The long-term loan from ABN Amro Bank B.V. amounting to EUR 61,112 thousand (2002: EUR 66,667 thousand) was obtained to finance the investment to manufacture Doblo light commercial vehicles of Tofaş, a Joint Venture of the Group. According to the manufacturing agreement signed between Fiat (the customer of the majority of Doblo production) and Tofaş, the repayment obligations related to such loan is guaranteed by Fiat through future purchases of Doblo until the end of 2008. Accordingly, the Group's exposure to foreign exchange rate and interest rate fluctuations is undertaken by Fiat. The portion of the foreign exchange losses in excess of the inflation index amounting to TL 5,933 billion on the bank loan that is determined to be an effective hedge is accounted under shareholders' equity as "cumulative loss on hedging".
- iii) Ford Otosan, a Joint Venture of the Group, entered into two collar agreements in 2000, which are outstanding as of 31 December 2003 to hedge the interest rate risk arising from borrowings amounting to EUR 27,938,592. The collar agreements have fixed floor and ceiling rates. Accordingly, at the dates defined in the agreements, if the EURIBOR rate is below the floor rate Ford Otosan compensates the difference between the floor rate and the actual rate to the counter bank. Contrarily, if the EURIBOR rate is above the ceiling rate, the counter bank compensates the difference to Ford Otosan.

Details of the collar agreement, which is valid as of 31 December 2003, is as follows:

Agreement	EURIBOR Floor rate	EURIBOR Ceiling rate	Amount	Due date
Citibank	5.2%	6.0%	EUR 27,938,592	28 August 2008

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NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

- iv) According to the decision of the Board of Directors meeting of Koç Holding dated 11 November 2002, the signing of the “Project Funds Agreement” for the USD 50,000,000 syndicated loan of Beko Elektronik, a Subsidiary of the Group, from IFC and banks is agreed. It is also agreed to give “confort letter” confirming that Koç Group shares at Beko Elektronik will not be below 51% until this loan is fully paid.
- v) In connection with the investment incentives, the Group was committed to realize export sales amounting to USD 331,075,820 at 31 December 2003 (2002: USD 229,807,080).
- vi) At 31 December 2003 and 2002, the Group has mortgaged its land and buildings in the amount of EUR 50,689,376 and USD 67,500,000 to secure its long-term debt obtained from banks.
- vii) Ford Otosan, a Joint Venture of the Group, entered a loan agreement with Akbank T.A.Ş. in 2003. During the term of this agreement, the Company is required to ensure that its export proceeds up to an amount of EUR 123,120,000 for each calendar year, except for the last year, will be processed through a deposit account at Akbank T.A.Ş. For 2008, the last year of the agreement, the transaction commitment in this deposit account at Akbank is EUR 82,080,000.
- viii) All assets of Ramenka, a Joint Venture of the Group, amounting to TL 252,880 billion (cash and due from banks TL 15,837 billion, trade receivables TL 5,781 billion, inventories TL 18,467 billion, other current assets TL 15,914 billion, property, plant and equipment TL 184,499 billion and other long-term assets TL 12,382 billion), are pledged as security for the IFC loan agreement amounting to USD 30 million.
- ix) As at 31 December 2003, Company has a commitment for the investment construction of Ramenka, a Joint Venture of the Group, amounting TL 66,492 billion. As at 31 December 2002, there was any commitment.
- x) All assets of Rambutya, a Subsidiary of the Group, amounting to TL 34,549 billion (Cash and due from banks TL 3,534 billion, trade receivables TL 225 billion, inventories TL 3,243 billion, property, plant and equipment TL 27,547 billion), are pledged as security for the IFC loan agreement signed on 30 July 1999 amounting to USD 11 million.
- xi) Historically, future contracts were entered into to manage the exposure of product inventories for fluctuations in the base fuel price, which is determined with reference to Brent crude oil as a benchmark. In general, Opet’s, a Joint Venture of the Group, policy was to hedge 100% of the inventories on hand at any specific time. The Group commenced to perform futures transactions in 1999. At 31 December 2003, the settlement dates of open futures contracts ranged between two months as some with prior year. If the open futures contracts had been realised as of 31 December 2003, Opet would recognise a loss of USD 2,360,195, which would offset the reduced revenues arising from the lower selling prices for inventory.
- xii) Koç Lease, a Joint Venture of the Group, recorded provision of TL 2,792 billion against potential tax risks in the form of possible tax duties and penalties in the financial statements for the year ended 31 December 2003. Koç Lease management assessed this provision upon consultation with their tax advisers as the possible outcome of the tax investigation by the Ministry of Finance on the statutory records of the Koç Lease for the year ended 31 December 2000.

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NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

	2003	2002
Mortgages given	239,033	181,149
Commitments with respect to export incentive certificates	540,600	442,106
Commitments with respect to investment incentive certificates	87,970	90,708
Commitments given with respect to other gains	86,821	-
Other	2,604	2,114
	957,028	716,077

Commitments taken:

	2003	2002
Mortgages taken	114,895	130,914

NOTE 31 - MAJOR ACQUISITIONS

Major acquisitions made by the Group in 2003 and 2002 resulting in goodwill are as follows:

2003

Temel Ticaret ve Yatırım A.Ş., the main shareholder of Koç Holding, has increased its share in Koç Holding by 7.21% through transferring its 50.81% share in Migros Türk T.A.Ş. with a nominal value of TL 27,984,941,580,000 to Koç Holding as a capital increase. The increase of TL 414,199 billion in Koç Holding's share capital represents the fair value of those shares. As a result of this transaction, the Group has acquired the net assets of Migros Türk T.A.Ş. with a fair value of TL 265,818 billion resulting in goodwill amounting to TL 148,381 billion.

2002

- i) On 17 December 2002, the Group acquired 45.33% of the issued share capital of Opet for a purchase of TL 191,108 billion resulting in goodwill amounting to TL 148,412 billion.
- ii) 30% of the issued share capital of Bilkom was acquired with effect from 16 May 2002 for a cash consideration of TL 3,204 billion resulting in goodwill amounting to TL 3,715 billion.
- iii) On 5 February 2002, the Group acquired 100% of the issued share capital of Beko Deutschland for a purchase consideration of TL 4,176 billion resulting in goodwill amounting to TL 3,818 billion.
- iv) 50% of the issued share capital of Beko Espana was acquired with effect from 5 February 2002 for a cash consideration of TL 1,146 billion resulting in goodwill amounting to TL 850 billion.
- v) 100% of the issued share capital of the Elektra Bregenz Product and Elektra AG was acquired with effect from 31 December 2002 for a cash consideration of TL 4,652 billion resulting in goodwill amounting to TL 1,795 billion.

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NOTE 31 - MAJOR ACQUISITIONS (Continued)

Details of total net assets acquired during the years and resulting goodwill are as follows:

	2003	2002
Purchase consideration:		
- Cash paid	-	204,286
- Fair value of shares issued	414,199	-
Total purchase consideration	414,199	204,286
- Inventories	60,706	101,077
- Current assets	144,515	48,390
- Property, plant and equipment	297,202	107,640
- Other non-current assets	33,213	12,324
- Current liabilities	(201,246)	(166,471)
- Non-current liabilities	(68,572)	(57,264)
Less: Fair value of net assets acquired	265,818	45,696
Resulting goodwill (Note 16)	148,381	158,590

Major acquisitions made by the Group in 2003 and 2002 resulting in negative goodwill are as follows:

2003

There is no purchase resulting in a negative goodwill in the year 2003.

2002

- i) 100% of the issued share capital of Bloomberg GmbH was acquired with effect from 3 June 2002 for a cash consideration of TL 9,302 billion resulting in negative goodwill amounting to TL 28,211 billion.
- ii) On 3 June 2002, the Group acquired 100% of the issued share capital of Bloomberg mbH for a purchase consideration of TL 11,369 billion resulting in negative goodwill amounting to TL 18,319 billion.
- iii) 50% of the issued share capital of Beko France was acquired with effect from 1 February 2002 for a cash consideration of TL 2,686 billion resulting in negative goodwill amounting to TL 1,118 billion.
- iv) 91,14% of the issued share capital of Arctic was acquired with effect from 18 November 2002 for a cash consideration of TL 35,777 billion resulting in negative goodwill amounting to TL 1,118 billion.

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NOTE 31 - MAJOR ACQUISITIONS (Continued)

	2003	2002
Purchase consideration:		
- Cash paid	-	59,134
- Fair value of shares issued	-	-
Total purchase consideration	-	59,134
Receivables	-	72,814
Inventories	-	36,953
Other current assets	-	26,771
Property, plant and equipment	-	87,002
Other non-current assets	-	775
Trade payables	-	(63,221)
Current liabilities	-	(26,797)
Deferred tax liabilities	-	(4,762)
Non current liabilities	-	(21,635)
Less: Fair value of net assets acquired	-	107,900
Resulting negative goodwill (Note 16)	-	(48,766)

NOTE 32 - LEGAL MERGERS

Legal mergers made by the Group in 2003 and 2002 were as follows:

2003:

- i) In the Extraordinary General Assembly Meeting of Koç Holding at 25 June 2003, based on the authorization of the CMB no. 32/759 dated 19 June 2003, the Domestic Trade Department of the Ministry of Trade and Industry no. 5241 dated 23 June 2003, Board of Competition no. 220 dated 23 May 2003 and Treasury Department of the Turkish Republic Foreign Capital Department no. 31597 dated 23 May 2003, it was decided to legally merge its subsidiaries Tat Konserve, Maret, Pastavilla and SEK Süt under the umbrella of Tat Konserve in accordance with article 451 of the Corporate Tax Law.
- ii) As of 31 December 2003, İnternet Rezervasyon Sistemleri A.Ş. has legally merged with Setur.

2002:

- i) At 31 October 2002, Otokar, whose shares are publicly traded on Istanbul Stock Exchange, merged legally with Istanbul Fruehauf Taşıt Araçları San. ve Tic. A.Ş.

The subsidiaries of Koç Holding merged legally in accordance with the article 451 of Turkish Trade Law and articles 37 and 39 of Corporate Tax Law.

All companies disclose above were Subsidiaries of the Group at the time of legal merger.

Legal mergers were not dealt with in accordance with the IAS 22 ("Business Combinations") since they were transactions among enterprises under common control. There is no recognition of any new goodwill or negative goodwill and similarly, the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in the preparation of the consolidated financial statements.

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NOTE 33 - MINORITY INTEREST

Changes in minority interest during the year are as follows:

	2003	2002
Balance at 1 January	2,155,181	1,908,245
Increase in share capital	90,460	1,364,767
Increase/(decrease) in minority interest due to Subsidiaries and Joint Ventures added to the scope of consolidation	2,834	(3,308)
(Decrease)/increase in minority interest due to subsidiaries excluded from the scope of consolidation	(15,992)	185
Currency translation differences	(14,195)	52,188
Cumulative loss on hedging	961	-
Effect of legal mergers (Note 32)	2,096	671
Effect of restructuring in finance segment (*)	-	(1,225,563)
Effect of restructuring in other segments (**)	(262,721)	-
Payments of dividends	(173,875)	(119,815)
Net income attributable to minority interest	411,315	177,811
Balance at 31 December	2,196,064	2,155,181

(*) Effect of restructuring in finance segment represents the decrease in minority interest due to the finance segment subsidiaries that have become joint ventures in 2002 (Note 35).

(**) TL 268,716 billion of the effect of restructuring in other segments represents the decrease in minority interest due to the acquisition of Migros shares by Koç Holding (Note 31).

NOTE 34 - INTEREST IN JOINT VENTURES

Aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities and net income related to Joint Ventures, which are proportionately consolidated as explained under Note 3 to these consolidated financial statements, are as follows on a combined basis:

	2003	2002
Current assets	1,001,496	3,949,552
Non-current assets	1,337,751	3,508,224
Total assets	2,339,247	7,457,776
Current liabilities	638,927	4,700,413
Non-current liabilities	291,308	866,295
Total liabilities and shareholders' equity	2,339,242	7,457,776
Revenues	3,362,082	3,625,329
Operating profit	79,485	100,276
Net income	148,286	89,922

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NOTE 35 - RESTRUCTURING IN FINANCE SEGMENT

On 16 March 2001, Koç Finansal Hizmetler A.Ş. (“KFS”) was established for the purpose of combining all financial service companies of the Group, namely, Koçbank A.Ş., Koç Finansal Kiralama A.Ş., Koç Factoring Hizmetleri A.Ş., Koç Yatırım Menkul Değerler A.Ş., Koç Portföy Yönetimi A.Ş., Koçbank Nederland N.V. and Koçbank Azerbaijan Ltd. under a single entity. During 2002, all these financial service companies have been structured under KFS as a result of the direct sale or the exchange of shares. In this process the Group subsidiaries, which previously owned shares in these financial service companies exchanged their participating shares for KFS shares based on their statutory nominal values. As a result of this process, the Group has given up approximately 10% of its interest in these financial services companies.

This transaction is accounted for as an “exchange/ barter” of shares where no profit or loss had arisen in the statutory accounts of the Group in 31 December 2002. However, the transaction resulted in a dilution loss of TL 64,219 billion (excluding minority interest) for the year ended 31 December 2002, based on the book values in the consolidated financial statements, which have been prepared in accordance with IFRS. The loss mentioned is reclassified under “other expenses” in the consolidated income statement.

NOTE 36 - SUBSEQUENT EVENTS

- a) On 23 January 2004, Koç Holding obtained a syndication loan amounting to USD 100 million. The syndication loan will be used for the all financial needs of the Group companies. Koç Holding is liable to pay a one-off commission fee at 2.22% on the syndication loan, which has a maturity of 2 years with semi-annual interest payments at the rate of LIBOR+1.75%.
- b) On 29 January 2004, Beko Elektronik, a Subsidiary of the Group, has signed an asset purchase agreement for the acquisition of the patent, brand, research and development activities and related machinery, German stocks and European sales companies and service after sales organization of Grunding AG by establishing a 50% and 50% partnership with a UK based consumer electronics company, Alba Plc. According to the agreement, the Company, on its part, will pay EUR 23 million for patent, brand and research development and service organization, and an additional amount that will be determined and added after due diligence work for German stocks and European sales companies where the total consideration will not exceed EUR 40 million. EUR 20 million of the payment will be from Beko Elektronik’s own sources and remaining EUR 20 million from bank loans. The deal is currently is being reviewed by the European Union and Turkish Competition Board and expected to be finalised in April 2004.
- c) In the General Assembly Meeting of Marmaris Altinyunus Turistik Tesisler A.Ş. at 26 December 2003 it was decided to merge Marmaris Altinyunus Turistik Tesisler A.Ş. with Tütaş Türk Turizm A.Ş. under Marmaris Altinyunus Turistik Tesisler A.Ş. according to Turkish Commercial Code 451 and Corporate Tax Laws 37-39. The merger will be realised over the 31 December 2003 balance sheets by the acquisition of all assets and liabilities of Tütaş Türk Turizm A.Ş. by Marmaris Altinyunus Turistik Tesisler A.Ş. In the determination of amount of shares arising from the acquisition to be given to Tütaş Türk Turizm A.Ş. shareholders one of the real estate valuation firms in the list of the CMB will be utilised. In the determination of the merger rates one of the methods from a) Equity Method b) Adjusted Net Asset c) Discounted Cash Flows will be used. It is decided to authorize the expert report prepared by the appointed experts of the courts and the Board of Directors to obtain necessary permission.

The merger mentioned above did not take place as of the date of these consolidated financial statements.

- d) In January 2004, the Group has sold all of its Garanti Balfour shares to a third party.
- e) Negotiations and the due diligence has been initiated with Michelin, the foreign partner of Tekersan, for the sale of the Group’s shares in Tekersan.
- f) Koç Holding has agreed to initiate a public offering for 25% of the shares of its subsidiary, Türk Traktör.

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NOTE 36 - SUBSEQUENT EVENTS (Continued)

- g) The Group has decided to buy TL 75,000 million nominal valued shares of Tariş Alkollü İçkiler A.Ş., that has a nominal capital of TL 150,000 million, and to participate in the capital increase of Tariş Alkollü İçkiler A.Ş. from 150,000 million to 7,000,000 million in proportion to its shares.
- h) On 25 February 2004, Ford Otosan, a Joint Venture of the Group, has completed the sale of its land in Kadıköy – İstanbul at a price of USD 28 million. The net book value of the land, land improvements, buildings and other assets attached to the land subject to sale, amounted to TL 6,939 million as at 31 December 2003. At the Board of Directors meeting held on 10 February 2004 Ford Otosan will use the net proceeds of the sale amounting to approximately TL 30,000 billion in capital increase in accordance with temporary article 28 of the Corporate Tax Law No: 5422.
- i) At 26 February 2004, Aygaz, a Subsidiary of the Group, acquired 50.00% of BOS for EUR 15,250,000 and increased its total share to 97.43%.
- j) In February 2004, Entek, a Subsidiary of the Group, acquired 84.78% of Türk Edison A.Ş. (“Türk Edison”). Türk Edison operates a 60-MW power plant in Gebze. In 2004, the Company has entered into a guarantee agreement with a Turkish bank amounting to USD 52 million in the financial restructuring of Türk Edison’s liabilities. In connection with the restructuring Türk Edison has transferred its liabilities of EUR 42 million to Entek and furthermore Entek has paid EUR 10.7 million to Stirpex B.V. as the share price to acquire the shares of Türk Edison.

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