

Koç Holding 9M08 Earnings Presentation

Good afternoon ladies and gentlemen,

I am Funda Güngör, Head of Investor Relations at Koç Holding. I would like to welcome you all to this webcast where we will share Koç Holding's 9 month consolidated financial results with you. Here with me today are Mr. Tamer Haşimoğlu, the President of Strategic Planning at Koç Holding and Mr. Ahmet Ashaboğlu, our CFO.

Following this presentation, we will have some time for the Q&A session. There will be a replay facility of the webcast on our website after the call, together with this call's transcript, a copy of the earnings presentation, our investor bulletin and the convenience translation of the summary balance sheet and income statement for your convenience.

As always our presentation does contain forward-looking statements and our assumptions are based on the environment as we see it today, and this is obviously subject to change.

I will now leave the floor to Mr. Tamer Haşimoğlu, President of Strategic Planning.

Tamer Haşimoğlu, President of Strategic Planning:

Good afternoon ladies and gentlemen. Welcome once again.

The world is going through a very difficult period. The ongoing turbulence in the major economies has inevitably been impacting the emerging economies, and the Turkish economy has been no exception. We have experienced a sharp sell-off in the capital markets, the growth forecasts are being lowered, the cost of capital is increasing, capital flows and foreign trade activity are revised downwards. The outlook is quite gloomy. However, despite strong external shocks, we still expect Turkish economy to post a positive growth both in 2008 and in 2009.

The good news is that due to the previous boost and bust cycles in the Turkish economy, we, as the Turkish businessmen, became highly experienced in risk and crisis management. Despite many challenges that we have faced in 2008, the latest crisis proved one more time that Turkish economy has become more resilient to external shocks than ever.

Reaching a normalized state will take a considerable time and effort, but it will happen eventually. We believe that all the reasons which made Turkish markets attractive for investors will prevail in the medium to long term.

Moving on to Koç Holding, figures show that, despite the ongoing global financial turmoil, Koç Holding continued with its robust financial and operational performance in the first nine months of the year. The strategic plan that we have implemented during the last couple of years in line with the fast changing dynamics of the Turkish and global markets has enabled us to reach an optimal portfolio structure that significantly improved our resilience against the volatility in domestic interest rates and foreign currency. We were able to divest our non-core businesses at the right time with attractive valuations, which enabled us to enter the financial turbulence with a strong net cash position and sound fx position at the Koç Holding level for which Ahmet Bey will provide further details later on during the presentation.

As you all know we have started to concentrate on a less number of sectors where we can maximize our competitive advantages, focusing more on efficiency, margin growth and shareholder value. Historically, we were a group which mainly focused on consumer driven sectors, making us more sensitive to the volatility in the growth dynamics. The re-shaping of our portfolio through higher emphasis on the energy business and a more balanced composition among our industrial and services businesses, led to a portfolio structure that enables us to avoid cyclicalities in consumer demand and minimize the risk against market volatility.

Our year to date results speak for themselves in terms of our performance so far despite all this turbulence. Of course, the fourth quarter of 2008 and next year will be challenging for our markets and our companies. However, thanks to our early restructuring and robust risk management systems, we believe we will be able to weather these challenges with a relatively stronger position.

As most of you would know, we generally provide guidance and future expectations in our presentations for the upcoming periods and I am sure all of you are wondering what we expect for the next year. Each year, we finalize our budget for the following year around November. Obviously, this is a year which has been quite unique in terms of the level of uncertainties. Therefore, specific to this year, we have asked our companies to submit their budget expectations in December to allow for a little more insight on the developments in the financial markets.

So, we will not be able to provide you specific guidelines for the end of 2008 and 2009 for Koç Holding as we first need to consolidate the expectations of our underlying companies.

However, overall, our base macroeconomic assumptions include:

- A relatively weak market during the first half of 2009, followed with some recovery in the third quarter and further activity in the last three months of the year.
- We expect the economy to grow 2.7% in 2008 and 2.0% in 2009
- CPI inflation is expected to close the year at around 11.4% this year and at around 8% in 2009
- Despite challenges in the financing of the current account deficit due to potential problems in FDI flows as well as the rollover of some private corporate debt, we expect the deficit to be more manageable due to declining oil and commodity prices, which has significant weight in the outflows.

Now let's move on to our figures and share the strong results in further detail. I would like to leave the floor to Mr. Ahmet Ashaboğlu, our CFO, to walk you through our nine month results.

Ahmet Ashaboğlu, CFO:

Thank you Tamer Bey. Good afternoon once again.

I will skip Slides 2 and 3 for your review. These slides summarize our results, the details of which will be provided later in the presentation. So let's start directly from Slide 4.

Our revenues from ongoing operations for the 9 month period increased by 30% in YTL terms and by 43% in USD terms YoY, reaching YTL 44 billion which is equal to about USD 36 billion.

Looking at the segmental breakdown, you can see that the energy segment continues to be the main contributor to our revenues with 63%, followed by automotive and consumer durables, each of which contributed 12% and finance with 10%.

As you can see we also have a reporting line classified under the 'Other' segment, which contains our non-core businesses. You will recall that one of the main objectives of our restructuring strategy was to reduce the share of non-core activities in our portfolio that no longer fit to our strategic targets either in terms of growth or profitability prospects. The revenue contribution from the Other segment, which was as high as 15% back in 2001 came down to 3% as of the first 9 months of this year. And let me also remind you that all of this growth is organic and excludes the discontinued operations.

Moving on to slide 5, our EBITDA increased by 71% in YTL terms and 87% in USD terms YoY, reaching YTL 5.5 billion and USD 4.5 billion. The EBITDA figure includes the capital gains derived from the asset sales both in 2008 and 2007 and when adjusted for the one-off capital gains, the normalized increase in our EBITDA is about 23% YoY.

Let me take a moment here to give you the details of the capital gains, which you can actually find in the footnotes to our financial statements.

The total capital gains recorded for the 9 month period is about YTL 1.65 billion and includes the sale of our subsidiaries, Migros, Koç Allianz, both life and non-life, and our foundry company Demrad.

- The capital gains we recorded from the sale of Migros were YTL 1.1 billion, as also reported in our 2Q08 financials.
- Koç Allianz non-life generated about YTL 314 million;
- Koç Allianz life generated about YTL 187 million, and
- Demrad generated about YTL 4 million to Koç Holding in capital gains

Looking into the segment contribution to EBITDA, energy is the foremost contributor with about 35%, followed by finance with 14%, automotive with 10% and durables with 9%. The contribution from the other segment is 32% but 30% of this is attributable to the one-off items, therefore the net contribution from the other segment is only 2%.

On slide 6 we continue to provide further details on the EBITDA figure.

The EBITDA contribution from all segments increased with the exception of the durables group. The highest increase was registered by the automotive segment with 33%, followed by the energy segment with 32%.

EBITDA margin increased in the automotive and finance segments.

Slide 7 gives the details of the operating profit, which includes the capital gains derived from the sale of our subsidiaries, the details of which I provided earlier.

Our operating profit increased by 83% in YTL terms and doubled in USD terms YoY, reaching about YTL 4.9 billion which is equivalent to about USD 4 billion. When adjusted for the one-off items, the YoY increase in our operating profit is 26%.

In terms of the segmental breakdown, the highest contribution comes from the energy sector with 34%, followed by finance with 14%, automotive with 9% and durables with 8%.

The contribution from the other segment is 35%, but again 34% of which is attributable to the one-off items; so the net contribution from the other segment is 1%.

Moving on to slide 8, contribution to operating profit from all segments increased with the exception of the durables group. The highest increase was registered by the energy segment with 36%, followed by the automotive segment with 35%. Operating margin increased in the automotive and finance segments.

Now moving on to slide 9 and a much eagerly anticipated topic, we will provide information on the Koç Holding solo cash position as well as some information on our consolidated debt and fx position. Starting with the solo position first, you might recall that Koç Holding has moved to a net cash position following the completion of the Migros sale and this gave us strong resilience against fx and interest rate volatility.

As of 9M08, at the Holding level, we have a total cash position of around USD 2 billion and debt position of around USD 1 billion; therefore a net cash position of around USD 1 billion. In addition to this, we have a long FX position of around USD 550 million.

Since the close of the third quarter, we have made a prepayment of about USD 300 million, which obviously did not affect our net cash position; it only affected the debt position. As to the remaining USD 700 million of debt left after this prepayment, we have a repayment of about USD 400 million in January 2009, which we will make by using our existing cash position. We will then have only USD 300 million of debt left which will be paid in equal installments of around USD 75 million per year between 2010-2013.

Now moving on to the consolidated balance sheet, when you look at our overall consolidated debt and short-FX position figures from our financials there are certain points that you need to take in to consideration:

- 1- Debt figures also take into account the finance sector which might be misleading in terms of the calculation of the real leverage.
- 2- As of September 2008, the net debt position, excluding finance, at the consolidated level was US\$4.5bn.
- 3- Our consolidated negative FX position was around US\$4.2bn at the end of September. However, the interpretation of this number needs a little further analysis.
 - a. In order to fully gauge the P&L impact of the open fx position to our net income after minority interest, one should consolidate the underlying companies' fx positions at the effective ownership rate instead of a full consolidation, as applied in the financial statements. In this case, the effective open fx position decreases to around US\$ 2.5 billion.
 - b. Even if you were to take the consolidated figures in full, when we look at the breakdown of our underlying companies which have open fx positions, you might see that around 93% of the position comes from the energy, mainly Tüpraş, and automotive companies, mainly Tofaş. As you already know, due to the nature of the energy business and the underlying agreements in automotive, there is a natural hedge mechanism in both sectors. The mechanism works with a lag so you might see short-term volatility in the bottom-line at the end-of certain periods but the hedging mechanism comes into force mainly in the following quarter. Additionally, there are companies at the consolidated level which have long positions such as Koç Holding and Arçelik.

Now let's move on to our profitability ratios.

As you can see on page 10, our consolidated EBITDA margin increased from 9.6% in 9M07 to 12.6% in 9M08. When we exclude the one-off items, the normalized EBITDA margin is 8.8%, which eased down slightly from last year's normalized figure of 9.3%. EBITDA margin excluding finance was 12%, up from 8.7% in 9M07. The normalized EBITDA excluding finance was 7.8%. We also see a slight downward move from last year's normalized 8.4% figure here. The operating profit margin was 11.2%, up from 7.9% in 9M07. Again, the normalized 9M08 operating margin of 7.4% was slightly lower than last year's normalized 7.6%.

Finally, on slide 11, we show our net income margin and return on average equity. The net income margin increased by 1.1 points, from 4.6% last year to 5.7% in 9M08. Return on average equity showed a healthy increase from 34.8% last year to 38.7% this year, up by 3.9 points.

It is important to note these margin improvements were attained despite:

- 1- the distraction coming from the significant increase in the revenues of the energy segment, which are clearly tied to energy prices,
- 2- the integration process we have recently finalized in those companies which we have acquired during the last two years, and
- 3- high raw material prices and an appreciated YTL, throughout the subject period, which made Turkish exports relatively less competitive.

Although we expect the short-term to be challenging and volatile, following the normalization of the markets, we expect to fully benefit from our new and robust portfolio structure.

This concludes my presentation. I would now like to open the floor for questions.

Q&A session

Question: Alper Paksoy, EFG Securities

I have a few questions on the leverage at various levels and debt service for 2009. On one of the presentation pages, in January 2009 the \$400 million debt repayment number, would that include the interest service? And I assume you just described that, sorry I missed it. The debt position at Koç Holding level is \$1 billion but the redemption described seems to be for a total of \$700 million. Could you just tell me where the missing \$300 million is? What am I missing in those numbers? And I would have another question about the debt again. We all know that from your disclosures Tüpraş and Arçelik shares were pledged in addition to some other shares as collateral for various loans but unfortunately the market caps of those companies have drastically declined in recent months along with other listed companies. Has Koç Holding faced or can it face a margin call because of these collaterals? Thanks a lot.

Answer: Ahmet Ashaboğlu, CFO

Hi, let me take up those questions. This is Ahmet Ashaboğlu. First of all, related to the debt position of Koç Holding solo, as I have explained, as of the end of 3Q of this year, our debt position was \$ 1 billion. But this is the close of the quarter, so in the past month and a half, we have done a voluntary prepayment of about \$300 million so therefore the current debt position of Koç Holding is about \$700 million. The net cash position of Koç Holding which I have mentioned in my presentation has not changed because the debt position as well as the cash position were decreased by the same amount. So the net cash position remains at around \$1 billion.

Moving on to the question vis-à-vis the collateral, there are two different financings in place that we need to look at separately. The Tüpraş shares were pledged for the debt at the SPV, the Enerji Yatırımları company level. As much as there have been deteriorations in the valuation of the collateral, it did not reach any level close to a margin call or similar to have margin call and we do not foresee that level to be touched because we are significantly away from it. As to the question at the Koç Holding financing level, especially because we have decreased the collateralized loan by about \$300 million as I just explained to you, again, we are quite comfortable with the collateral we have in place vis-à-vis the outstanding debt.

Question: Alper Paksoy, EFG Securities

Thanks a lot. Can you also make clear that the redemption schedule for Koç Holding in January, does it include the interest payments as well?

Answer: Ahmet Ashaboğlu, CFO

Yes, the January payment of \$400 million that I have mentioned does include, and let me rephrase this; the interest portion of it is insignificant because of the flexibility that we have on these loans. We have been doing interest period fixing on them on a monthly basis. So we have been paying interest all along and benefiting from the decreasing LIBOR rates by fixing these interest periods in small terms. So therefore the interest payment that we will need to make in January is an insignificant number.

Question: Vedat Mizrahi, Deutsche Securities

I have a question on the debt levels and the repayments. The \$400 million that you are planning to pay in January 2009; does this include the \$250 million that is payable by Aygaz? If not what are you planning to do with that debt obligation? And also today there were news on Reuters that Koç Holding was putting together a \$600 million loan that will refinance an existing facility with a group of 10 or 11 banks but there were no further details. Can you also comment on that? Thank you.

Answer: Ahmet Ashaboğlu, CFO

Ok. The two questions are related. First of all, the numbers that I have given you for the repayment that we will make in January are Koç Holding solo, so it does not include Aygaz's \$250 million outstanding debt. But what we will do is, we are discussing with some of our banks for a potential facility that we may obtain in January and the use of this facility will be for our group companies' financing needs. And it will include, potentially, for Aygaz a portion as well, the amount of which will be smaller than the \$250 million that Aygaz currently has because Aygaz is planning on repaying a portion of that.

Question: Alper Paksoy, EFG Securities

In that presentation there was no information about the Enerji Yatırımları A.Ş. net debt position. Maybe it is because it is the same. Would you confirm that it is still \$1.3 billion as of the end of September and could you also give us any numbers on Enerji Yatırımları A.Ş.' debt service to be realized in 2009 including interest expenses again. Thanks a lot.

Answer: Ahmet Ashaboğlu, CFO

The outstanding financial debt of Enerji Yatırımları A.Ş. remains the same; it is \$1.36 billion and the debt service of Enerji Yatırımları A.Ş. for 2009 including interest and capital payments is about \$247 million.

Question: Vedat Mizrahi, Deutsche Securities

Hi again. My next question is regarding Tüpraş. Unfortunately this week there were, maybe unsubstantiated, market talks regarding Koç Holding was planning to merge the Enerji Yatırımları SPV with Tüpraş. In my analysis I don't see reason for such an action but I would be glad if you can comment on such a possibility.

Answer: Tamer Haşimoğlu, President of Strategic Planning

You may recall there were such rumors right after we have acquired Tüpraş and we formed the SPV and we declined that possibility at that time. Now the same question comes to us once more and actually several times these days but we don't have any such plans right now and we don't see that to happen in the foreseeable future.

Question: Alper Paksoy, EFG Securities

I understand you have just confirmed that you are planning to rollover some of the debt and you expect it to be concluded by 2009 latest. As far as we can see from the disclosures, at Koç Holding level, there is a substantial amount of cash available. Why Koç Holding felt the need to make such a rollover, and is the size given by the new channel, \$600 million, is that correct? And I would have another question. At the beginning of the conference, I think the industrial net debt position of Koç Holding you mentioned was about \$4.5 billion. Does that include any adjustment such as, Tofaş, for example has some financial debt because of its consumer receivables, or Tüpraş has some liabilities to the energy regulator because of the strategic oil inventories? Are there any such adjustments to the net debt level or is it just a simple calculation of cash and financial debt positions of individual companies, of course after the consolidation process? Thanks a lot.

Answer: Ahmet Ashaboğlu, CFO

Ok, let me start with the first question. Again, this potential financing that we may organize is not for Koç Holding. It will be for the use of some of our group companies. So it will not be on the balance sheet of Koç Holding but it will be organized by Koç Holding and subsequently on-lent to some of our group companies. And we, in theory, as Koç Holding could, extend loans to our own companies but we'd like to reserve that for potential, really more deterioration of the marketplace, for almost like a doomsday scenario. The good news is that Koç Holding is very capable of stepping in if it came down to it but we have no plans to do so as we are quite confident that we will be able to raise financing for our group companies, the amount of which is still in discussion and therefore I can't comment on that.

Moving on to your next question about the fx position, on Koç Holding consolidated level, the number is \$4.2 billion, not \$4.5, and this does not include any stock of Tüpraş or any of our other companies that may have. It does not include the pay-or-take arrangements that Tofaş has. All of those, as I tried to explain in the conference call, are what we call natural hedges and the number, again \$4.2 billion, does not reflect any of that. Did I actually answer your question or were you more interested on the net debt position, not fx position?

Question: Alper Paksoy, EFG Securities

The explanation on the fx position has been quite helpful but I would also like to hear the calculation and the methodology for the net debt as well.

Answer: Ahmet Ashaboğlu, CFO

Ok, the net debt of \$4.5 billion includes only financial debt and financial assets.

Question: Alper Paksoy, EFG Securities
Ok, so it's a simple calculation.

Answer: Ahmet Ashabođlu, CFO

It is a simple calculation but it does exclude, of course, the finance companies so this is a net debt excluding our finance companies, which are not relevant in that calculation as you would appreciate.