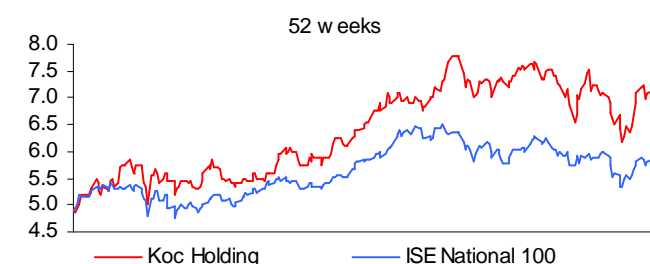


Company Report – Financial Holding / Conglomerate – Turkey – March 23, 2011

Koc Holding Initiated with Buy

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| TRY mn | 2010 | 2011e | 2012e | 2013e |
|-----------------------|----------|----------|----------|----------|
| Net sales | 53,812.4 | 60,385.7 | 65,924.9 | 69,449.5 |
| EBITDA | 5,232.7 | 5,650.8 | 6,231.8 | 6,614.0 |
| EBIT | 4,264.7 | 4,634.9 | 5,116.2 | 5,409.8 |
| Net result after min. | 1,734.5 | 1,786.4 | 1,957.3 | 2,221.7 |
| EPS (TRY) | 0.72 | 0.74 | 0.81 | 0.92 |
| CEPS (TRY) | 1.16 | 1.18 | 1.29 | 1.44 |
| BVPS (TRY) | 5.21 | 5.75 | 6.43 | 7.25 |
| Div./share (TRY) | 0.40 | 0.23 | 0.22 | 0.24 |
| EV/EBITDA (x) | 6.0 | 5.3 | 4.5 | 3.9 |
| P/E (x) | 10.5 | 9.6 | 8.8 | 7.7 |
| P/CE (x) | 6.5 | 6.0 | 5.5 | 4.9 |
| Dividend Yield | 5.3% | 3.2% | 3.1% | 3.4% |



| Performance | 12M | 6M | 3M | 1M |
|-------------|-------|-------|--------|-------|
| in TRY | 47.1% | 9.5% | -2.5% | 1.4% |
| in EUR | 36.8% | -4.0% | -10.9% | -1.5% |

| | | | | | |
|---|-----------------|--------------|----------|--------------|--------------------------|
| Share price (TRY) | 7.12 | Reuters | KCHOL.IS | Free float | 22.4% |
| Number of shares (mn) | 2,415.1 | Bloomberg | KCHOL.TI | Shareholders | Koc Family (68.5%) |
| Market capitalization (TRY mn / EUR mn) | 17,196 / 7,688 | Div. Ex-date | 05/05/10 | | Vehbi Koc Found. (7.15%) |
| Enterprise value (TRY mn / EUR mn) | 29,969 / 13,399 | Target price | 8.8 | Homepage: | www.koc.com.tr |

Package deal with plenty of growth potential

- **Koc Holding is the largest conglomerate in Turkey in terms of market capitalization (5% of the total ISE), total combined revenue (7% of total GDP) and total export volume (10% of total exports from Turkey). Koc Holding mainly operates in four core businesses, financial services, energy, automotive and consumer durables.**
- **We initiate our coverage of Koc Holding with a Buy recommendation and a 12-month target price of TRY 8.80, which offers 24% upside potential. We value Koc Holding with a sum of the parts valuation, applying a 10% conglomerate discount to our 12-month target NAV, in line with the last year's average discount. Koc Holding trades at a 13% discount to current NAV (avg. 11% in the last year) and a 5% discount to listed NAV (avg. 6% in the last year).**
- **Koc is a good proxy for the ISE-100 with a well diversified portfolio. Only 3% of total NAV is comprised of unlisted assets, while the financial services segment has almost the same weight in Koc Holding's portfolio as in the ISE-100. Koc Holding's 26% NAV is comprised of energy assets, which differentiates it from the ISE-100 index, which has a lower exposure to energy stocks. Approximately one-fourth of Koc Holding's revenue comes from exports and international sales, mainly to European countries.**
- **Koc Holding has a net cash position of USD 798mn at the holding level, which supports the company in taking new M&A actions. Koc is interested in the upcoming privatizations of power generation plants in the energy sector. Koc is also seeking new investment and partnership opportunities in its core businesses.**
- **Upsides include (i) the acquisition of any asset in the upcoming privatizations of electricity power plants; (ii) positive surprises in the Turkish economy; and (iii) higher than expected consumer demand.**
- **Downsides include (i) deterioration of consumer confidence; (ii) further increases in interest rates; (iii) a slowdown in major export markets (mainly Europe).**

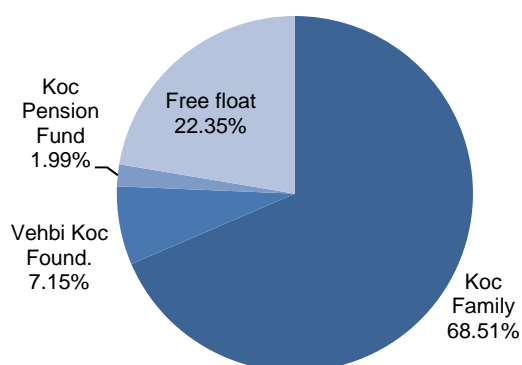
Company Report – Koc Holding

Company Description

Koc Holding is the largest conglomerate in Turkey in terms of market capitalization (5% of the total ISE), total combined revenue (7% of total GDP) and total export volume (10% of total exports from Turkey). Koc Holding mainly operates in four core businesses, financial services, energy, automotive and consumer durables. 14 subsidiaries of Koc Holding are traded on the ISE. Koc Holdings has partnerships with multinational players, such as UniCredit Group, Ford Motor Co., Fiat Auto SPA, LG Electronics (air conditioning), CNH Global NV, AES Mont Blank Holdings B.V., B&Q, Kagome Sumitomo and Kaneka Seeds. Koc Holding companies are also active abroad, especially in Europe. Koc Holding generates approximately 25% of revenues from exports and international sales.

The Koc family is the company's main shareholder, with 68.51% of total shares. The Vehbi Koc Foundation and Koc Pension Fund hold 7.15% and 1.99% stakes in the company, respectively. 22.35% of shares are traded on the ISE.

Shareholder Structure



Source: The company

SWOT Analysis

| Strengths | Weaknesses |
|--|--|
| <ul style="list-style-type: none">* Koc is the largest group in Turkey in terms of market capitalization, revenue and export volume* It has a well diversified portfolio* Koc is one of the largest players in terms of market shares in its core businesses* Large distribution network and customer database* Strong cash position and cash generation ability | <ul style="list-style-type: none">* Dependent on economic recovery in consumer related businesses. |
| Opportunities | Threats |
| <ul style="list-style-type: none">* Low penetration in core businesses* Possible M&A actions in core businesses* Positive surprises in Turkish economy | <ul style="list-style-type: none">* Slow down in Turkish economy and export markets, especially European market* Any failure of energy investments* Deterioration of consumer confidence |

Source: Erste Group Research

Valuation

12-month target share price of TRY 8.80 offers 24% upside potential

We value Koc Holding with a sum of the parts valuation method. We use our 12-month target price estimates for Yapi Kredi Bank (Buy), Tupras (Hold) and Arcelik (Buy), which are under our coverage. The Yapi Kredi Bank, Tupras and Arcelik stakes constitute 36%, 17% and 12% shares, respectively, in our target NAV for Koc Holding. We use current market capitalizations for other listed subsidiaries and apply a 14.9% CoE to their current Mcaps to find their contributions to the 12-month target NAV. We value unlisted subsidiaries by using a 1x Book Value multiple. Then, we calculated the 12-month target NAV by adding the holding level net cash to the total value of participations.

Company Report – Koc Holding

KOC HOLDING NAV TABLE (TRYmn)

As of March 21, 2011

| Segment/ Companies | KCHOL's stake (%) | Current Value (TRYmn) | Current NAV (TRYmn) | Weight | Valuation Method | Target Value (TRYmn) * | Target NAV (TRYmn) | Weight |
|----------------------------------|-------------------|-----------------------|---------------------|-------------|--|------------------------|--------------------|-------------|
| Financial Services | | 16,527 | 6,215 | 31% | | 22,556 | 8,481 | 36% |
| Koc Financial Services | 37.6% | 16,393 | 6,155 | 31% | | 22,402 | 8,412 | 36% |
| <i>Yapi Kredi Bank-YKBNK</i> | <i>81.8%</i> | <i>20,040</i> | | | <i>Market/Target Value (TRY6.3/shr)</i> | <i>27,386</i> | | |
| Koc Finans | 44.5% | 134 | 60 | 0% | 1x Book Value | 154 | 69 | 0% |
| Automotive | | 11,372 | 4,461 | 23% | | 13,068 | 5,126 | 22% |
| Ford Otosan-FROTO | 38.5% | 4,930 | 1,896 | 10% | Market Value | 5,665 | 2,179 | 9% |
| Tofas Fabrika-TOASO | 37.6% | 4,100 | 1,541 | 8% | Market Value | 4,711 | 1,771 | 8% |
| Turk Traktor-TTRAK | 37.7% | 1,580 | 596 | 3% | Market Value | 1,815 | 685 | 3% |
| Otokar-OTKAR | 44.7% | 602 | 269 | 1% | Market Value | 692 | 309 | 1% |
| Otokoc | 99.1% | 160 | 159 | 1% | 1x Book Value | 184 | 182 | 1% |
| Energy | | 8,391 | 5,373 | 27% | | 8,510 | 5,325 | 23% |
| Enerji Yatirimlari | 75.0% | 5,709 | 4,282 | 22% | | 5,428 | 4,071 | 17% |
| <i>Tupras-TUPRS</i> | <i>51.0%</i> | <i>11,194</i> | | | <i>Market/Target Value (TRY42.5/shr)</i> | <i>10,643</i> | | |
| Aygaz-AYGAZ | 40.7% | 2,682 | 1,091 | 6% | Market Value | 3,082 | 1,254 | 5% |
| Consumer durables | | 5,010 | 1,983 | 10% | | 6,840 | 2,718 | 12% |
| Arcelik-ARCLK | 40.5% | 4,879 | 1,976 | 10% | Market/Target Value (TRY9.9/shr) | 6,690 | 2,710 | 12% |
| Arcelik LG Klima | 5.0% | 131 | 7 | 0% | 1x Book Value | 151 | 8 | 0% |
| Food & Retailing | | 669 | 275 | 1% | | 769 | 316 | 1% |
| Tat Konserve-TATKS | 43.7% | 454 | 198 | 1% | Market Value | 522 | 228 | 1% |
| Koctas Yapi Market | 37.1% | 168 | 62 | 0% | 1x Book Value | 193 | 72 | 0% |
| Duzey | 31.2% | 47 | 15 | 0% | 1x Book Value | 54 | 17 | 0% |
| Tourism | | 300 | 97 | 0% | | 345 | 111 | 0% |
| Altinyunus Cesme-AYCES | 30.0% | 199 | 60 | 0% | Market Value | 228 | 68 | 0% |
| Mares Altinyunus-MAALT | 36.8% | 101 | 37 | 0% | Market Value | 117 | 43 | 0% |
| Others | | 1,962 | 185 | 1% | | 2,255 | 213 | 1% |
| Listed companies total | | 41,629 | 18,102 | 91% | | 51,352 | 21,730 | 92% |
| Unlisted companies total | | 2,602 | 487 | 3% | | 2,990 | 560 | 2% |
| Net cash (Holding only) | | | 1,227 | 6% | | | 1,227 | 5% |
| Total NAV | | | 19,816 | 100% | | | 23,516 | 100% |
| Market Value of KCHOL | | | 17,196 | | | | 17,196 | |
| Premium/(Discount) to NAV | | | -13% | | | | -27% | |
| 12-month conglomerate discount | | | | | | | 10% | |
| Target Mcap | | | | | | | 21,165 | |
| Target share price (TRY) | | | | | | | 8.80 | |
| Current share price (TRY) | | | | | | | 7.12 | |
| Upside/(Downside) | | | | | | | 23.6% | |

(*) We applied 14.9% cost of equity to current values in order to find 12-month target value.

Source: Company data, Erste Group Research

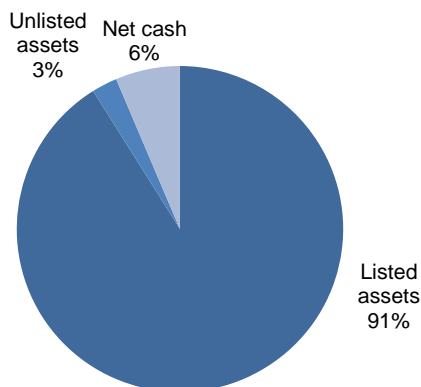
Calculation of CoE

| | |
|-----------------------|--------------|
| Risk free rate | 7.0% |
| Equity risk premium | 7.6% |
| Beta | 1.0 |
| Cost of equity | 14.9% |

Source: Erste Group Research

Company Report – Koc Holding

Current NAV breakdown

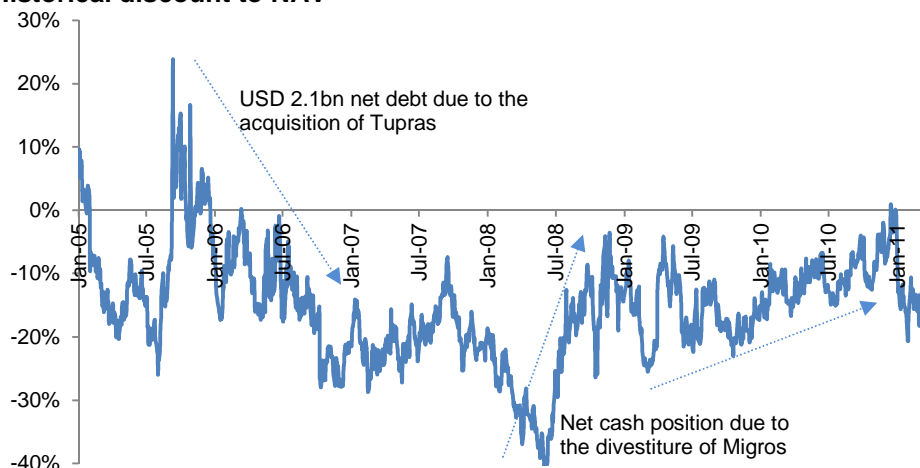


Source: Erste Group Research

10% conglomerate discount applied to target NAV

We applied a 10% conglomerate discount to our 12-month target NAV, in line with the average discount rate in the last year. Koc Holding shares currently trade at a 13% discount to the current NAV. The average discount to NAV was 11% in the last year. Taking an average discount over a longer time horizon is not meaningful for the valuation, due to the company's changing portfolio and participation stakes, as well as some unusual factors that impact the share price.

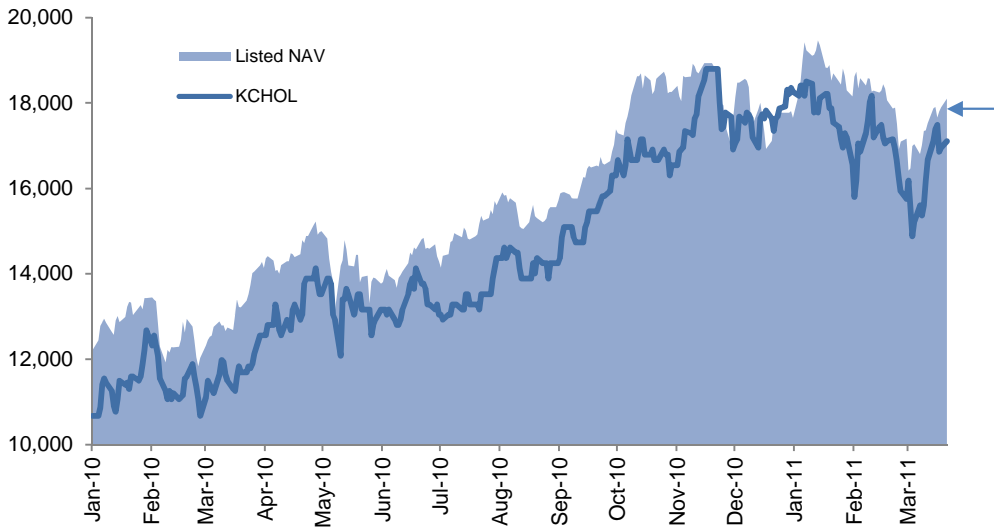
Historical discount to NAV



Source: ISE, Erste Group Research

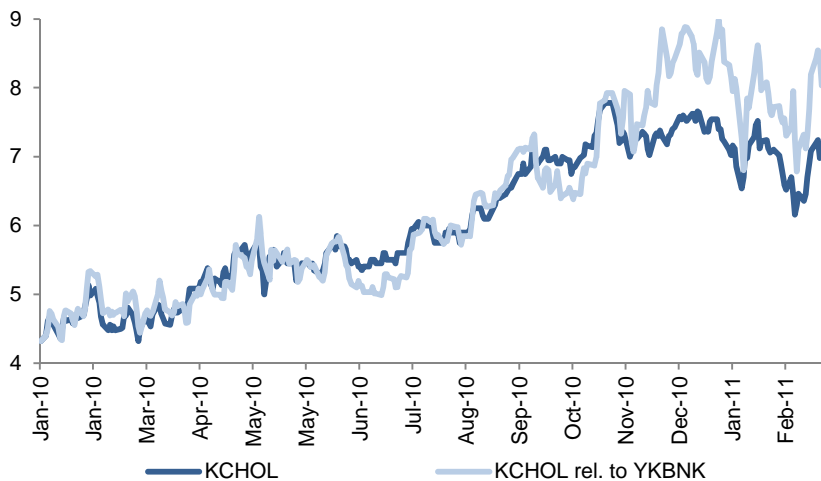
Company Report – Koc Holding

KCHOL & listed NAV (TRYmn)



Source: Erste Group Research

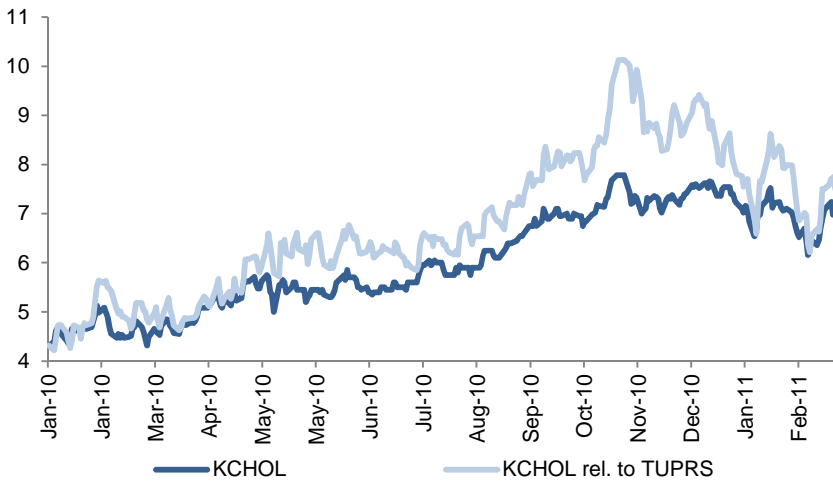
KCHOL & YKBNK relative performance



Source: Erste Group Research

Koc Holding shares have outperformed Yapi Kredi shares by 8% in the last month and 14% in the last 12 months. On the other hand, Koc Holding shares underperformed Tupras shares by 10% in the last month and outperformed by 1% in the last 12 months.

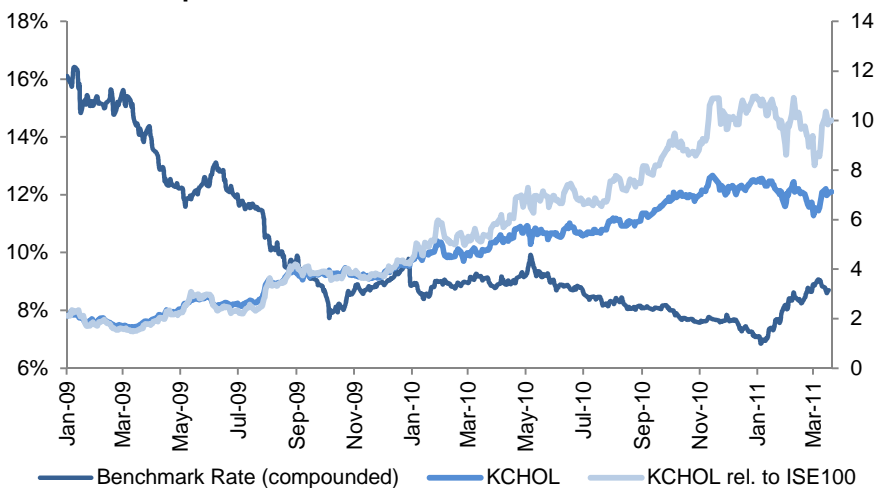
KCHOL & TUPRS relative performance



Source: Erste Group Research

KCHOL share price correlation with the interest rate and the ISE index correlation with the interest rate have been parallel in the last year. Interest rates declined to below 10% in August 2009, from over 15% in December 2008. Besides strong domestic demand, stabilization of interest rates at around 8% throughout 2010 have led Koc Holding’s share price to increase significantly.

KCHOL share price & benchmark bond rate

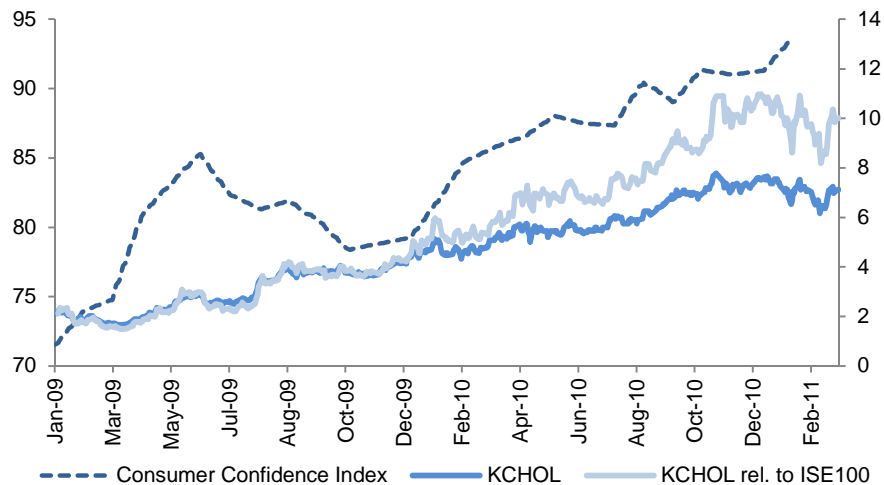


Source: ISE, Erste Group Research

The improvement in consumer confidence bodes well for the performance of the share. Koc Holding share price was observed to be slightly more correlated with the consumer confidence index in the last year when compared to the ISE-100. Consumer confidence and other consumption indicators point to strong domestic demand in the first quarter of 2011.

Company Report – Koc Holding

KCHOL share price & consumer confidence index



Source: CBT, Erste Group Research

Company Overview

Koc Holding's core business segments are defensive sectors, such as finance and energy, as well as consumer-driven sectors, such as automotive and consumer durables.

Restructured portfolio, well diversified now

Koc Holding has restructured its portfolio since 2005, divesting some businesses and making acquisitions in its core businesses. The company acquired Yapi Kredi Bank and Tupras in 2005 in order to increase its exposure to the finance and energy sectors. Koc Holding divested from the retail segment by selling Migros in 2008. The company reduced its sensitivity to interest rates and consumer sentiment following the restructuring portfolio in 2005; one fourth of operating profit now comes from the auto and consumer durables segments, vs. almost 70% before restructuring. The company is focusing on efficiency and growth by operating in a few core businesses.

Strong market position in core businesses

Koc Holding's strategy is to have strong market positions in core businesses and to invest in businesses that have low penetration rates and high growth potential. Yapi Kredi Bank is the fourth largest private bank and the market leader in outstanding credit cards in Turkey. Tupras is the only refiner in Turkey, with a 65% market share. Koc is the market leader in the Turkish automotive and consumer durables markets. Koc Holding is targeting non-core businesses to be self-sufficient.

Net cash position of USD 798mn

Thanks to the divestiture of Migros in 2008, Koc Holding now has a net cash position of USD 798mn (as of December 2010), which is planned to be used in potential M&A actions. The company is focusing on efficiency in the finance segment and is interested in inorganic growth opportunities in the banking sector, including possible block sales in Halkbank. Koc Holding is also following upcoming privatizations of electricity generation plants in Turkey and seeking potential partnerships in core businesses.

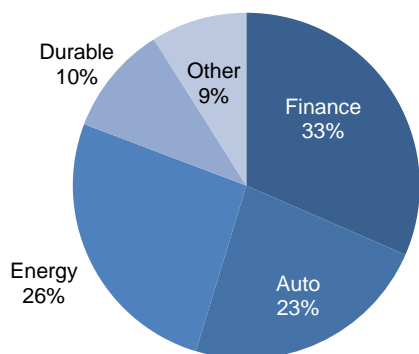
Interested in M&A opportunities

The company is interested in privatizations of power plants (expected in 2011). Koc Holding, through its subsidiary Arcelik, aims to acquire a consumer durables brand or production facility in the MENA region or Asia to increase its exposure to emerging markets, and thereby improve profitability.

Koc Holding believes that the low interest rate environment is sustainable in the long term, which mainly supports the consumer durables and automotive sectors. Koc Holding expects the Turkish economy to grow approximately 5% in 2011 (vs. our GDP growth expectation of 5.5%).

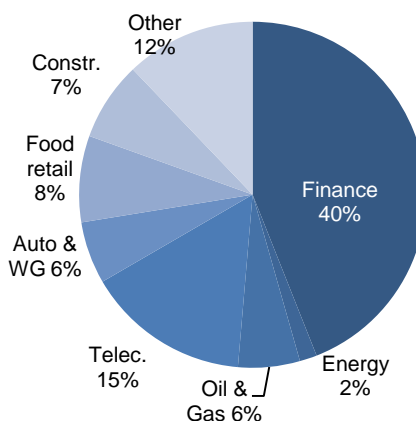
Company Report – Koc Holding

Current NAV sector breakdown



Source: The company, Erste Group Research

ISE-100* sector breakdown



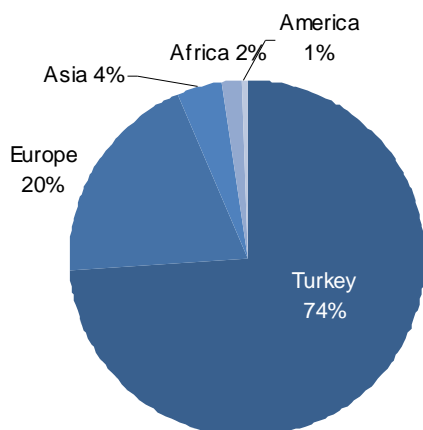
Source: Erste Group Research
(*) excluding conglomerates

Good proxy for ISE-100

Koc Holding's current NAV breakdown is a good proxy for the ISE-100. Only 3% of total NAV is constituted by unlisted assets and the financial services segment has almost the same weight in Koc Holding's portfolio as in the ISE-100. Koc Holding's exposure to the energy sector (with a 26% weight in current NAV) is a positive differentiation from the ISE, as the energy sector is one of the most attractive sectors.

Approximately one-fourth of Koc Holding's revenue comes from exports and international sales, mainly to European countries. 39% of Koc Holding's consolidated revenue is TRY-denominated and the remaining part comprises FX-denominated or FX-linked revenues.

Sales breakdown by region



Source: The company

Holding level cash flows

As of December 2010, Koc Holding had net cash of USD 798mn (TRY 1.2bn), which is mainly retained for acquisitions and cash dividend payments. The company paid a cash dividend of TRY 310mn (2% dividend yield) in 2010, for the first time. The company also decided to distribute TRY 550 mn cash dividend on April 14, from its 2010 net profit (3.3% dividend yield and 32% payout). The company is able to distribute a cash dividend thanks to its high cash position; however, we expect the company to distribute 30% of its net profit in the future. On the other hand, the holding collects approximately USD 250mn in dividends annually from its participations, except Tupras. Annually, Tupras is expected to pay approximately USD 200mn annually to EAS to be used for redemptions of the SPV's (Koc Holding holds 75% stake in the SPV) loan until 2015. From 2016, there will be additional cash inflow (dividend) from Tupras to Koc Holding. Ford Otosan and Turk Traktor are cash-cow businesses for the holding company.

Core Business Segments

1- Financial Services

(31% of current NAV, 9% of 2010 revenues, 32% of 2010 EBITDA)

Koc Holding's listed participant in financial services segment

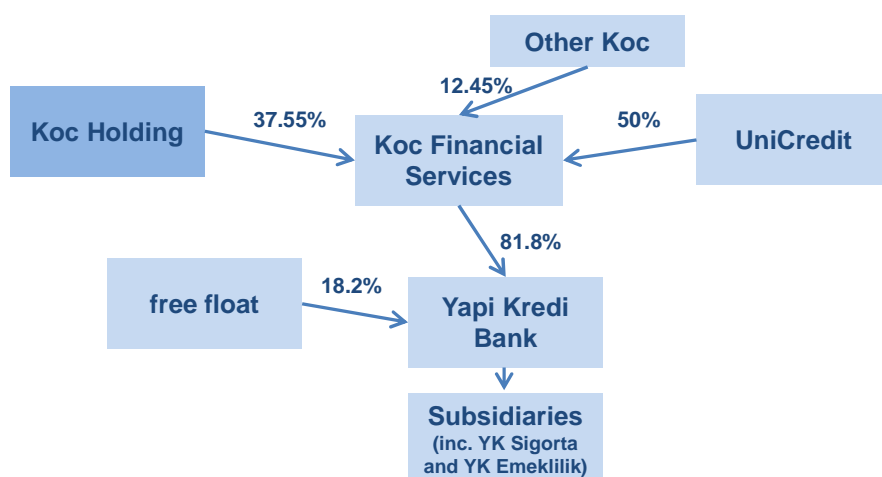
| Company Name | Bloomberg Code | Recommendation | Current Price (TRY) | Target Price (TRY) | Upside Potential | 3M avg. daily trad. vol. (TRYmn) | Share performance | | | |
|--------------|----------------|----------------|---------------------|--------------------|------------------|----------------------------------|-------------------|-----|-----|-----|
| | | | | | | | 12M | 6M | 3M | 1M |
| YKB | YKBNK TI | Buy | 4.61 | 6.30 | 36.7% | 88.6 | 31% | -4% | -5% | -7% |

Source: ISE, Erste Group Research

Koc Financial Services (KFS) is a 50/50 joint venture between Koc Group and UniCredit Group. KFS is the main shareholder of Yapi Kredi Bank (YKB), with an 81.8% stake. The remaining 18.2% of Yapi Kredi Bank shares are floated on the ISE. YKB aims to open new 60 branches (7% y/y growth) and gain market share, with targeted 21% growth in deposits, 25% in loans and 19% in total assets in 2011.

Koc Holding also has a 44.5% stake in Koc Finans. Koc Finans is a consumer finance company and is the market leader in the consumer finance sector in Turkey, with a 23% market share in consumer loans. Koc Finans provides consumer loans for the automotive, consumer durables and mortgage markets.

Koc Financial Services & Yapi Kredi Bank ownership structure



Source: The company, Erste Group Research

Yapi Kredi Bank succeeded in growing in loans and deposits at a greater rate than that of the Turkish banking sector in 2010. The Koc Group expects to grow by 25% in loans (vs. its 23% growth expectation for the sector) and 21% in deposits (vs. its 17% growth expectation for the sector) in 2011. The group is focusing on efficiency improvements and raising its exposure to retail and SME in the banking business. The group also aims to increase fee & commission income in the banking business, in order to minimize the effect of net margin contraction.

The Koc Group is interested in inorganic growth opportunities in the banking sector, including possible block sales in Halkbank, which is an SME-focused bank.

Turkish banking sector

Delivering strong growth and profitability with solid capitalization

We think that the Turkish banking sector will deliver stronger growth and higher profitability than regional peers, with solid capitalization, thanks to:

- (i) the continuation of the low interest rate environment,
- (ii) the rising leverage ratios in the Turkish banking sector and,
- (iii) the expansion of the funding duration of Turkish banks.

Effects on banking sector profitability in 2011

| Positives | Negatives |
|--------------------------------------|---|
| * Growth potential | * Anticipated NIM contraction of 44bp y/y |
| * Operational expenses under control | * Limited contribution from non-performing loan (NPL) collection |
| * Recovery in net fee income | * Further increase in reserve requirement rates by the central bank of Turkey |

Source: Erste Group Research

While the first two factors are likely to sustain the growth in the Turkish banking sector, especially in the retail segment, alongside the still low leverage of the Turkish people, the latter two factors are expected to help Turkish banks defend their profitability through less pressure on the net interest margin (NIM) and better balance sheet formation.

Based on these three factors, our investment theme suggests that banks...

- **with low loans/deposits ratio** – growth potential
- **with the ability to reduce their exposure to security portfolio** – NIM defensiveness
- **with focused on high margin businesses like SME and credit cards** – NIM defensiveness
- **with already large distribution network** – growth potential
- **that are less leveraged** – growth potential with supporting profitability
- **with a stronger ability to control their OPEX** – supporting profitability
- **that are able to derive higher fee income** – supporting profitability

... are likely to come a step further among our covered companies.

Yapi Kredi Bank

Benefiting from operational efficiency improvement

Yapi Kredi Bank (YKB) is owned by Koc Financial Services (KFS – the 50/50 joint venture between UniCredit and Koc Group). KFS now holds an 81.8% stake in YKB, with the remainder of the shares listed on the ISE. The bank operates through its 868 branches and employs slightly over 14k staff. With around TRY 85bn in assets, YKB is Turkey's fourth largest private bank in terms of asset size. The bank commands market shares of 9.8% and 8.5% in loans and deposits, respectively.

Main positive aspect is growing operational efficiency

YKB does not fully fit into our investment theme, but its rising operational efficiency is expected to result in a brighter profitability outlook. The bank has not fully enjoyed its past branch expansion yet; thus, any gains on that front will stimulate profitability going forward.

While the lower need for branch expansion will be helpful for controlling OPEX, the rising exposure to retail and SME will support fee income growth. Besides that, YKB has high exposure to non-cash loans and enjoys one of the highest margins in the sector in this segment. This, combined with its strong position in credit cards and project finance segment, put YKB in a strong position in fee collection.

The loans/deposits ratio stands as the highest among Tier-I banks at 100%. YKB also does not have great exposure to the security portfolio (22% of total assets), which can be shifted towards loans easily (the long-term FX side is massive). Therefore, we expect YKB's NIM to contract by 58bp y/y in 2011, above the level expected for the banking sector average. We think that the past branch expansion will even help with higher deposit collection performance.

Valuation

YKB shares trade with 2011e P/E and P/BV multiples of 9.23x and 1.59x, respectively, broadly in line with the Tier-I banks' averages of 9.38x and 1.57x. However, we forecast 2011e RoE for YKB at 18.8%, above the Tier-I average of 17.6%, offsetting the relatively expensive multiples. Although YKB does not fully fit into our investment theme, due to its high loans/deposits ratio and low exposure to the security portfolio, we expect improving financial strength and the growth potential stemming from past branch expansion to result in a massive 60% y/y growth in net operational income.

Yapi Kredi Bank – Key Financials and Ratios, BRSA bank-only

| Income Statement | | | | | Growth Trend, y/y | | | |
|--|--------------|--------------|--------------|--------------|-------------------|------------|------------|------------|
| TRYmn | 2009 | 2010 | 2011e | 2012e | 2009 | 2010 | 2011e | 2012e |
| I. Net Interest Income | 3,478 | 3,200 | 3,573 | 4,176 | 43% | -8% | 12% | 17% |
| II. Net Fee Income | 1,436 | 1,596 | 1,969 | 2,281 | 14% | 11% | 23% | 16% |
| III. Provisions | 1,565 | 1,083 | 893 | 1,054 | 175% | -31% | -18% | 18% |
| Loan Loss Provisions | 1,267 | 969 | 734 | 858 | 235% | -24% | -24% | 17% |
| Other | 298 | 114 | 159 | 196 | 56% | -62% | 39% | 24% |
| IV. OPEX | 2,313 | 2,489 | 2,680 | 2,897 | -2% | 8% | 8% | 8% |
| HR | 887 | 990 | 1,073 | 1,153 | 1% | 12% | 8% | 7% |
| Non-HR | 1,426 | 1,499 | 1,606 | 1,743 | -4% | 5% | 7% | 9% |
| V. Net Operating Income (I+II-III-IV) | 1,036 | 1,224 | 1,969 | 2,507 | 35% | 18% | 61% | 27% |
| VI. Net Trading Gain/Loss | 340 | -67 | -47 | 24 | n.a. | n.a. | n.a. | n.a. |
| VII. Other Income | 195 | 1,207 | 547 | 423 | -47% | 519% | -55% | -23% |
| VIII. Dividend Income | 143 | 155 | 197 | 238 | -31% | 9% | 27% | 20% |
| IX. Pre-Tax Income | 1,714 | 2,520 | 2,667 | 3,192 | 28% | 47% | 6% | 20% |
| X. Net Profit | 1,355 | 2,060 | 2,133 | 2,554 | 30% | 52% | 4% | 20% |

| Balance Sheet | | | | | Growth Trend, y/y | | | |
|---------------------------|---------------|---------------|---------------|----------------|-------------------|--------------|--------------|--------------|
| TRYmn | 2009 | 2010 | 2011e | 2012e | 2009 | 2010 | 2011e | 2012e |
| Loans | 37,858 | 52,615 | 65,311 | 80,691 | -2.1% | 39.0% | 24.1% | 23.5% |
| LC | 24,725 | 34,575 | 44,129 | 55,115 | -2.3% | 39.8% | 27.6% | 24.9% |
| FC, \$mn | 8,830 | 11,733 | 13,600 | 15,640 | 0.5% | 32.9% | 15.9% | 15.0% |
| Security Portfolio | 14,113 | 18,346 | 19,433 | 22,050 | 7.1% | 30.0% | 5.9% | 13.5% |
| Assets | 64,560 | 84,776 | 98,915 | 118,253 | 1.3% | 31.3% | 16.7% | 19.6% |
| Deposits | 40,833 | 52,725 | 64,366 | 78,119 | -2.1% | 29.1% | 22.1% | 21.4% |
| LC | 22,999 | 32,345 | 40,548 | 49,671 | -6.9% | 40.6% | 25.4% | 22.5% |
| FC, \$mn | 11,991 | 13,254 | 15,293 | 17,396 | 7.3% | 10.5% | 15.4% | 13.8% |
| Equity | 8,267 | 10,318 | 12,382 | 14,383 | 20.6% | 24.8% | 20.0% | 16.2% |

| Key Financial Ratios | 12-Month Moving Average Trend | | | |
|------------------------|-------------------------------|-------|--------|--------|
| | 2009 | 2010 | 2011e | 2012e |
| Spread | 4.2% | 3.4% | 2.7% | 2.6% |
| NIM | 5.96% | 4.80% | 4.27% | 4.12% |
| NPL Ratio | 6.4% | 3.4% | 3.2% | 3.0% |
| NPL Provisioning Ratio | 84.4% | 77.1% | 75.0% | 75.0% |
| Cost-of-Risk Ratio | 3.2% | 2.1% | 1.2% | 1.1% |
| RoE | 17.7% | 22.0% | 18.8% | 19.1% |
| CAR | 17.8% | 16.1% | 17.1% | 16.6% |
| Tier-I Ratio | 12.6% | 12.2% | 12.1% | 11.7% |
| Loans-to-Deposits | 92.7% | 99.8% | 101.5% | 103.3% |

Source: Company Data and Erste Group Research

Yapi Kredi Sigorta

YKB holds a valuable ~94% stake in Yapi Kredi Sigorta (YKS), which is a major multi-line property insurance company in Turkey. According to 2010 gross premium generation figures, YKS generated TRY 758mn in premiums in 2010, for a market share of 6.58%, ranking fifth in the sector. According to the latest sector data, as of the end of 2009, YKS had 729 agents (most of them are exclusive) and 32 brokers, with respective market shares of 3.3% and 3.7%. Besides that, YKS utilizes the branch network of YKB (867 nationwide branches) and has the highest bancassurance figure in our coverage universe, with 22% of total gross premium figures coming from YKB branches. The company serves its clientele with 873 employees (YE09 figures). According to the figures reported to the Turkish Treasury, there are 332 direct sales people working at YKS and their contribution to total gross premium generation stands at 22%, significantly higher than the sector average of 7%.

| | 2009 Gross | | 2010 Gross | | y/y Growth |
|-------------------------|--------------------|---------------|--------------------|---------------|--------------|
| | Premium Generation | Market Share | Premium Generation | Market Share | |
| 1 Axa | 1,277 | 12.0% | 1,519 | 12.7% | 18.9% |
| 2 Anadolu | 1,243 | 11.7% | 1,420 | 11.9% | 14.2% |
| 3 Allianz | 931 | 8.8% | 996 | 8.3% | 7.0% |
| 4 Ak Sigorta | 851 | 8.0% | 886 | 7.4% | 4.1% |
| 5 Yapi Kredi | 608 | 5.7% | 758 | 6.3% | 24.7% |
| 6 Gunes | 727 | 6.8% | 737 | 6.2% | 1.4% |
| 7 Groupama | 727 | 6.8% | 694 | 5.8% | -4.5% |
| 8 Ergo | 676 | 6.4% | 694 | 5.8% | 2.7% |
| 9 Eureka | 539 | 5.1% | 618 | 5.2% | 14.7% |
| 10 Mapfre Genel Sigorta | 361 | 3.4% | 412 | 3.4% | 14.0% |
| Top-10 Companies | 7,940 | 74.8% | 8,734 | 73.1% | 10.0% |
| 11 Fiba | 306 | 2.9% | 319 | 2.7% | 4.2% |
| 12 Aviva | 275 | 2.6% | 282 | 2.4% | 2.6% |
| 13 Ray | 254 | 2.4% | 252 | 2.1% | -0.6% |
| 14 Zurich | 216 | 2.0% | 231 | 1.9% | 7.0% |
| 15 HDI | 175 | 1.7% | 224 | 1.9% | 27.5% |
| 16 Ankara | 196 | 1.8% | 216 | 1.8% | 10.0% |
| 17 Chartis Sigorta | 174 | 1.6% | 174 | 1.5% | -0.5% |
| 18 Ziraat Sigorta | 0 | 0.0% | 173 | 1.4% | 0.0% |
| 19 Halk | 113 | 1.1% | 156 | 1.3% | 37.4% |
| 20 Mapfre Genel Yasam | 120 | 1.1% | 145 | 1.2% | 20.9% |
| Top-20 Companies | 9,769 | 92.0% | 10,904 | 91.3% | 11.6% |
| The Rest | 844 | 8.0% | 1,044 | 8.7% | 23.6% |
| Sector | 10,614 | 100.0% | 11,948 | 100.0% | 12.6% |

Source: TSRSB (The Association of the Insurance and Reinsurance Companies of Turkey)

Fairly valued. We valued YKS through GGM and EERM. We have assigned equal weights to both models. As we do not expect an immediate move in terms of M&A activity, we have not applied a deal multiple approach. The mcap of the company stands at TRY 356mn, once we remove Yapi Kredi Emeklilik's TRY 720mn anticipated contribution. This corresponds to TRY 54mn per 1pp market share. This is a low figure compared to past deals, but fair enough, given the current business environment.

Yapi Kredi Emeklilik

YKS has a highly valuable almost 100% stake in Yapi Kredi Emeklilik (YKE). YKE operates in the life insurance and private pension businesses. The company manages TRY 1,890mn in private pension business and has a life insurance fund of TRY 478mn, amounting to a total AUM of TRY 2.4bn.

We value YKE at TRY 720mn, using the Price/AUM multiple of Anadolu Hayat ve Emeklilik, which is 0.36x, according to our estimates. Once we apply the figure to YKE's AUM, we reach TRY 850mn for YKE. Then we apply a 15% discount and end up with a TRY 720mn value for YKE.

| | 2009 Gross | | 2010 Gross | | y/y Growth |
|-------------------------------|--------------------|---------------|--------------------|---------------|---------------|
| | Premium Generation | Market Share | Premium Generation | Market Share | |
| 1 Ziraat Hayat ve Emeklilik | 0 | 0.0% | 602 | 27.6% | 0.0% |
| 2 Anadolu Hayat Emeklilik | 500 | 27.4% | 357 | 16.4% | -28.5% |
| 3 Garanti Emeklilik | 181 | 9.9% | 234 | 10.7% | 29.3% |
| 4 Halk Hayat ve Emeklilik | 78 | 4.3% | 141 | 6.5% | 81.5% |
| 5 AvivaSA | 120 | 6.6% | 124 | 5.7% | 3.8% |
| 6 Yapı Kredi Emeklilik | 92 | 5.1% | 110 | 5.0% | 18.9% |
| 7 Finans Emeklilik ve Hayat | 49 | 2.7% | 85 | 3.9% | 75.4% |
| 8 Vakıf Emeklilik | 64 | 3.5% | 83 | 3.8% | 29.5% |
| 9 Allianz Hayat ve Emeklilik | 77 | 4.2% | 74 | 3.4% | -3.9% |
| 10 Deniz Emeklilik ve Hayat | 42 | 2.3% | 60 | 2.8% | 45.2% |
| Top-10 Companies | 1,203 | 66.0% | 1,872 | 85.8% | 55.6% |
| 11 Axa Hayat | 70 | 3.8% | 56 | 2.6% | -19.1% |
| 12 American Life Hayat | 59 | 3.3% | 52 | 2.4% | -12.2% |
| 13 Groupama Emeklilik | 355 | 19.5% | 39 | 1.8% | -89.1% |
| 14 Cardif Hayat | 44 | 2.4% | 35 | 1.6% | -19.2% |
| 15 Ergo Emeklilik ve Hayat | 23 | 1.3% | 26 | 1.2% | 12.1% |
| 16 Civ Hayat | 13 | 0.7% | 23 | 1.0% | 77.6% |
| 17 Ing Emeklilik | 0 | 0.0% | 20 | 0.9% | 0.0% |
| 18 Fortis Emeklilik ve Hayat | 19 | 1.1% | 18 | 0.8% | -8.6% |
| 19 Aegon Emeklilik ve Hayat | 7 | 0.4% | 14 | 0.7% | 98.2% |
| 20 Mapfre Genel Yasam | 12 | 0.7% | 13 | 0.6% | 8.5% |
| Top-20 Companies | 1,805 | 99.0% | 2,168 | 99.4% | 20.1% |
| The Rest | 17 | 1.0% | 14 | 0.6% | -22.4% |
| Sector | 1,822 | 100.0% | 2,181 | 100.0% | 19.7% |

Source: TSRSB (The Association of the Insurance and Reinsurance Companies of Turkey)

The private pension system already reached break-even in terms of profitability in 2008, mainly thanks to a significant deceleration in the growth of operational expenses. In 2009 and 2010, the private pension system enjoyed technical profits. We expect the profitability of the system to improve going forward, thanks to expansion in the fund size. Being a major player in this sector, and backed by YKB's wide distribution network, we expect YKE's profitability to grow faster than the overall economic activity and contribute positively to KFS' revenue base.

2- Energy

(27% of current NAV, 58% of 2010 revenues, 30% of 2010 EBITDA)

Koc Holding's listed participants in energy segment

| Company Name | Bloomberg Code | Recommendation | Current Price (TRY) | Target Price (TRY) | Upside Potential | 3M avg. daily trad. vol. (TRY mn) | Share performance | | | |
|--------------|----------------|----------------|---------------------|--------------------|------------------|-----------------------------------|-------------------|-----|-----|-----|
| | | | | | | | 12M | 6M | 3M | 1M |
| Tupras | TUPRS TI | Hold | 44.70 | 42.50 | -4.9% | 27.0 | 52% | 20% | 15% | 11% |
| Aygaz | AYGAZ TI | N.R. | 8.94 | - | - | 3.2 | 49% | 29% | 9% | 5% |

Source: ISE, Erste Group Research

The energy business makes the greatest contribution to Koc Holding's consolidated figures in terms of revenues and EBITDA. Koc Holding became a major player in energy by acquiring a 51% stake in Tupras for USD 4.1bn in 2005. Tupras is Turkey's sole refiner, commanding 65% of total domestic demand.

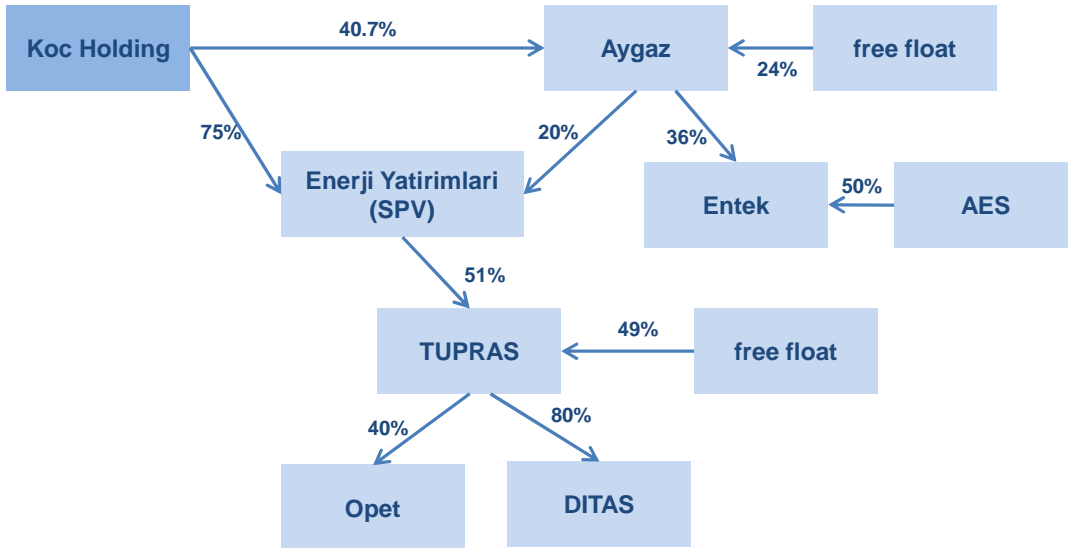
Koc Holding aims to increase its current 303 MW electricity generation capacity to 3,000 MW in the coming five years through privatizations of generation plants in Turkey and new greenfield investments, through its unlisted subsidiary Entek.

Koc Holding's subsidiary Aygaz is interested in the privatization of IGDAS, which is expected in 1H11. Aygaz is the largest LPG distributor in Turkey, with a market share of 28%. Koc Group is also active in fuel oil distribution with its subsidiary Opet, the third biggest fuel oil distributor in the Turkish market, with a 17% market share.

Company Report – Koc Holding

Aygaz sold a 50% stake in Entek (a power generation company) to US-based AES, in order to seek investment opportunities together in power generation business in Turkey, including privatizations of power plants.

Koc Group energy companies ownership structure



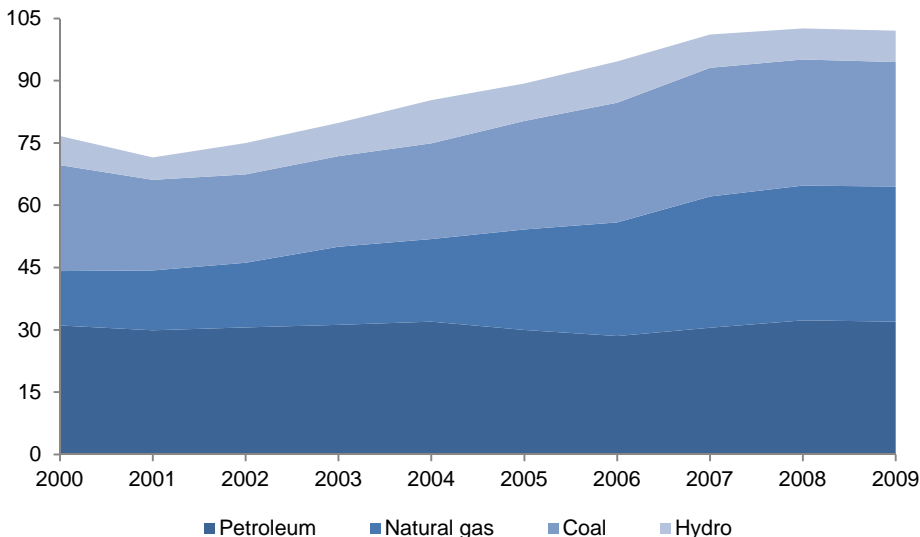
Source: The company, Erste Group Research

Turkish energy sector

Turkish energy market offers significant growth opportunity

The Turkish energy market offers a significant growth opportunity, due to (i) increasing electricity demand in Turkey, on the back of high population growth and an increase in income per capita; (ii) market liberalization, with ongoing privatizations in the electricity sector; and (iii) the strategic position of Turkey as the main hub in an energy corridor.

Turkey's energy demand by sources (equivalent to petroleum, mn tons)



Source: PETDER (Oil Industry Association)

The share of petroleum products in total energy demand has decreased in the last decade. However, petroleum products still constitute nearly 30% of total energy demand in Turkey.

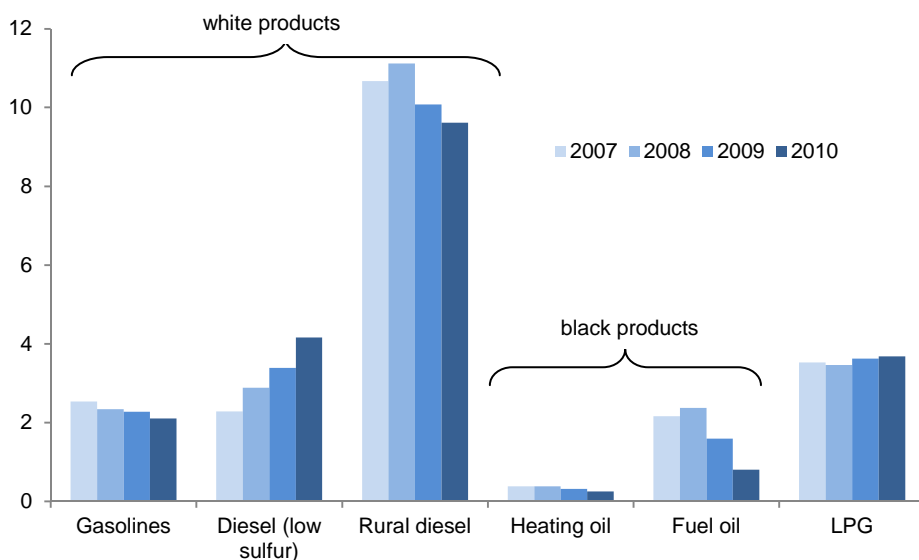
Turkish oil market

Turkey's role as a transit country for oil and gas supplies from some of the world's largest hydrocarbon producers (in the Middle East, the Caspian region and Russia) to Europe is becoming increasingly important.

Turkey is net importer of crude oil and diesel

Total consumption of fuel in the domestic market was 17.0mn tons (down 4%) in 2010. White products (gasoline and diesel) demand was 15.9mn tons (up 1%), while black products (fuel oil and central heating fuel) demand was 1.1mn tons (down 44%) in Turkey in 2010. As own production is not nearly sufficient to cover growing oil consumption, Turkey is a net importer of crude oil, usually procuring more than 90% of its requirement from foreign sources. For refined products, the quantities of refined products provided by Turkish refineries do not match the countries' demand for those products. In the case of diesel and LPG, there is a shortfall that is offset by imports, while surplus quantities of gasoline and fuel oil are exported. According to 2009 figures, Turkey was a net importer of 9.15mn tons of diesel and 2.9mn tons of LPG, while it was a net exporter of 1.6mn tons of gasoline and 0.4mn tons of fuel oil.

Turkey's petroleum product consumption



Source: PETDER

Enormous growth potential

The enormous growth potential of the Turkish oil market becomes very clear when comparing passenger vehicles per 1000 people in the EU and other western countries to Turkey; Turkey has less than 120 cars per 1000 inhabitants, while the EU average is above 400.

High taxation

Compared to other OECD countries, taxes on petroleum products in Turkey are high. They are subject to both a fixed Special Consumption Tax (SCT) and an 18% value added tax (VAT). The proportion of taxes in pump prices of diesel and gasoline usually ranges between 50% and 75%. As a consequence of the high taxation in Turkey, retail prices compare unfavorably with other markets, those in Europe in particular.

Tupras (refinery)

Koc Holding acquired a 51% stake in Tupras through an SPV (Enerji Yatirimlari) for USD 4.1bn in 2005. The transaction value implies USD 8bn for all shares of Tupras (current Mcap is USD 6.6bn). Enerji Yatirimlari holds a 51% stake in Tupras. The remaining 49% of shares in Tupras are floated on the ISE. The Privatization Administration holds one privileged share in Tupras. Koc Holding controls 75% of Enerji Yatirimlari, while Aygaz (in which Koc Holding has a 40.7% stake) owns 20%, Opet 3% and Shell the remaining 2%.

Company Report – Koc Holding

Turkey's sole refiner

Tupras is Turkey's sole refiner, operating four refineries (in Izmit, Izmir, Kirikkale and Batman) in Turkey, with a total capacity of 28.1mn tons per year. Tupras supplies 65% of total domestic demand. Capacity utilization increased by 9.2pp y/y to 69.6% in crude oil in 2010. The company expects the CUR to rise towards 80% in 2011, on the back of growing fuel demand.

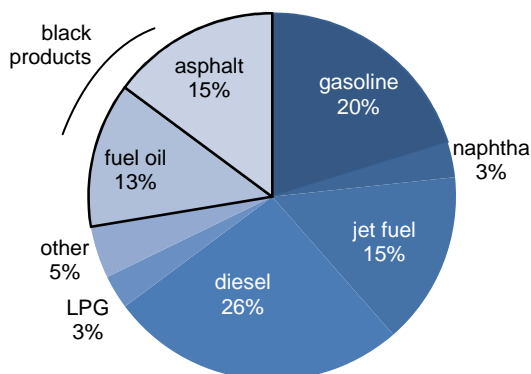
Tupras took a step towards vertical integration in 2006 when it acquired a 40% stake in distribution company Opet, the country's third largest fuel retailer, with a market share exceeding 17%. Additionally, Tupras has a 79.98% stake in shipping company DITAS, which provides most of the refiner's marine transportation needs.

The most significant investment and the company's strategic focus is a USD 1.8bn residuum upgrading project at the Izmit refinery, which will allow Tupras to convert unwanted fuel oil into higher-priced white products. The project is planned to be completed by 2014. On the other hand, Tupras has to pay at least USD 430mn in dividends per year for the SPV (Enerji Yatirimlari) holding the 51% stake in Tupras' shares to make repayments on loans maturing in 2015.

72% white products yield

The white product yield (production) declined by 2.1pp y/y to 71.7% in 2010. Tupras aims to shift its production towards white products, which promise better profitability. We think that a permanent increase of the white product yield is only possible when the residuum upgrading unit becomes operational, converting fuel oil into higher-priced white products.

Tupras' product yields



Source: Tupras (2010)

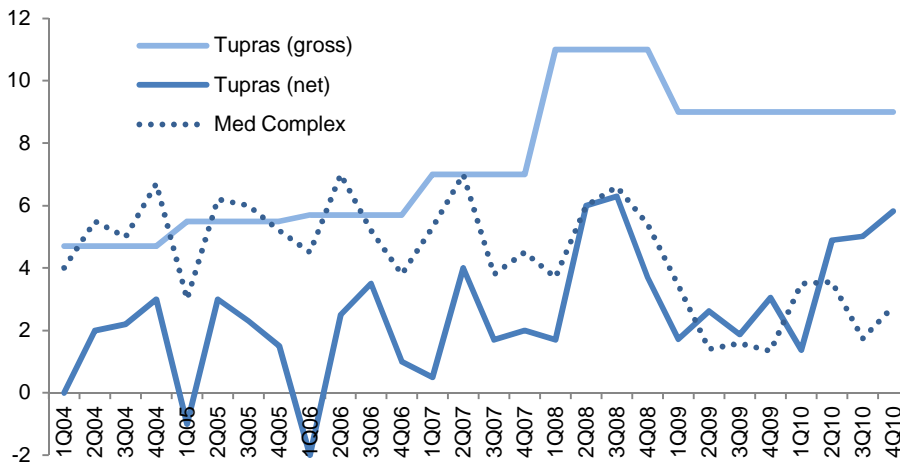
Higher oil prices, higher revenues

On the top line, higher oil prices should have a positive effect for Tupras. However, profitability margins are expected to be slimmer than in 2010, as we believe that such an upward movement in commodity prices, induced by supply shocks (the political situation in Libya), will have a negative impact on refining margins. Inventory gains present a considerable upside risk to our 2011 estimates for Tupras and tax incentives relating to the residuum upgrading unit help bottom line forecasts.

Refining margins

The refining margin is the most important indicator of a refiner's profitability. In the case of Tupras, we compare its gross as well as net margins to the Mediterranean Ural complex refining margin, as supplied by Reuters. The net margin includes all costs, while the gross margin does not. Its position as the only refiner in Turkey, with access to various crude sources, puts Tupras at an advantage compared to other refiners in the region and allows the company to routinely surpass the benchmark Med complex refining margin with its own gross refining margin.

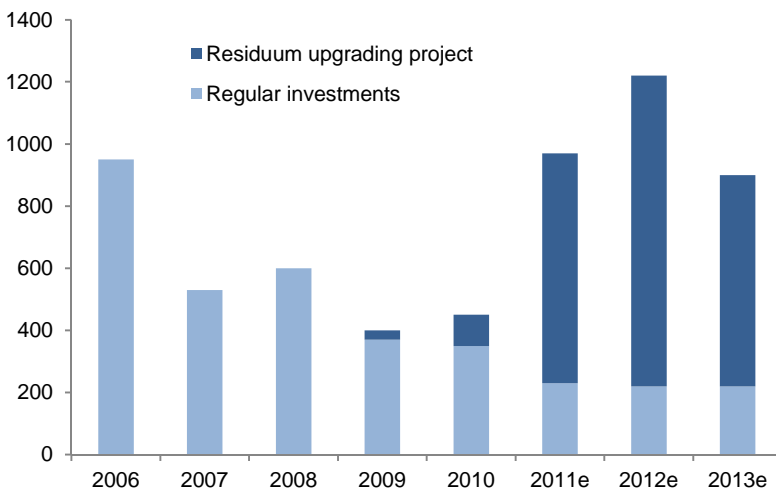
Tupras' refining margins vs. benchmark (USD/bbl)



Source: Tupras, Reuters

Between 2006 and the end of 2010, Tupras invested approximately USD 1.4bn in its refineries, completing large-scale projects, such as diesel desulphurization, gasoline specification improvement and fuel oil upgrading.

Tupras' investments (TRY mn)



Source: Tupras, Erste Group Research

Residuum upgrade project

Going forward, the most significant investment and the company's strategic focus is a USD 1.8bn residuum upgrading project at the Izmit refinery, making it one of the most complex in Europe and further adapting Tupras' product output to the demand in the domestic market. The benefit is an increased output of white products from upgrading unwanted fuel oil (a black product) and taking advantage of the widening price gap between white and black products (with the former being the higher priced). Two thirds of the project will be financed using debt, the rest is equity. Tupras expects the residuum upgrade complex to add a significant EBITDA contribution to the group's profitability when the unit becomes operational in mid-2014.

Investment incentives

Tupras receives investment incentive certificates for the residuum upgrading unit. The incentives include a VAT and customs duties exemption for the investment assets to be purchased, a corporate tax discount, as well as a social insurance payment contribution. Recently, the investment incentive award from the Undersecretariat of the Treasury, which entitles the Residuum Upgrading Project to various tax discounts, was increased, as the total value of the project for the calculation of incentives was lifted from the original TRY 2.3bn to TRY 3.9bn. We have included tax savings on investments, particularly for 2011-13, when we expect the largest part of expenditures, and anticipate corporate tax savings from mid-2014, when we expect the unit to become operational.

Tupras has to pay at least USD 430mn in dividends per year

Tupras is obliged to pay out all of its distributable profits to its shareholders to finance loan repayments on the parent SPV Enerji Yatirimlari’s debt (it financed the acquisition of the 51% stake in 2006). Therefore, regardless of economic conditions, Tupras will continue to keep the payout ratio high until the loans have matured in 2015. The SPV requires between USD 210mn and USD 220mn to cover its loan repayments, which translates into a total of at least USD 430mn that Tupras will have to pay out in the following five years.

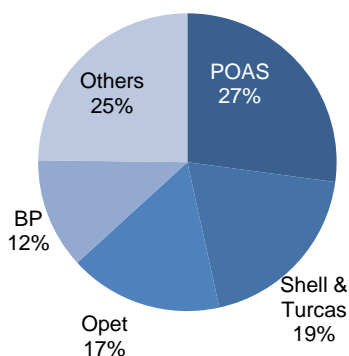
Opet (fuel oil distribution)

In contrast to the refining market, the retail business in Turkey remains fragmented. However, the top five distributors have control of more than 80% of the market. In recent years, OMV and Lukoil have entered the market, with the former having taken control of Petrol Ofisi and the Russian oil giant acquiring Akpet fully. Opet is considered the fastest growing company in the industry, while the major competitors have seen their market share decrease in the past two years. Currently, there are approximately 14,500 fuel stations in Turkey.

Tupras acquired a 40% stake in Opet from Aygaz for USD 380mn at the end of 2006, in order to expand its business vertically. Opet engages in retail and wholesale fuel distribution, the production and marketing of lubricants and the sales of jet fuel. Opet is the third biggest fuel oil distributor in the Turkish market, with a 17% market share.

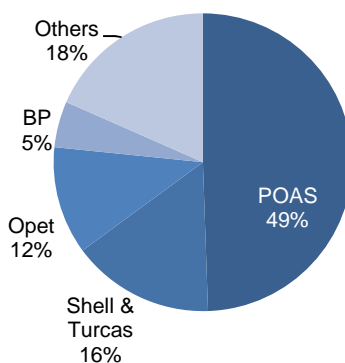
The number of fuel retail stations for Opet came down from 1,324 in 2009 to 1,224 in 2010, after the contract renewals in September 2010. This was solely due to the Sunpet brand (low throughput) losing 132 stations, while 32 stations were added under the Opet brand.

Fuel distribution market (white products)



Source: PETDER (2010)

Fuel distribution market (black products)



Source: PETDER (2010)

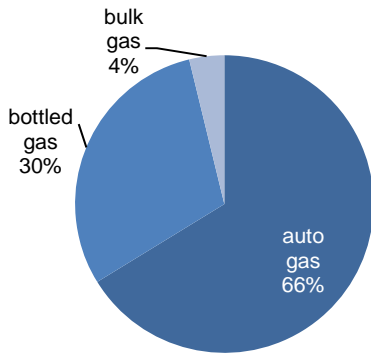
Turkish LPG market

In 2009, LPG consumption was 234.2mn tons worldwide. The top five consumer countries (China, the US, India, Japan and Mexico) demand half of the total world consumption. The five biggest producers of LPG in the world are the US, Saudi Arabia, China, Russia and Canada.

Turkish LPG market is second biggest in Europe

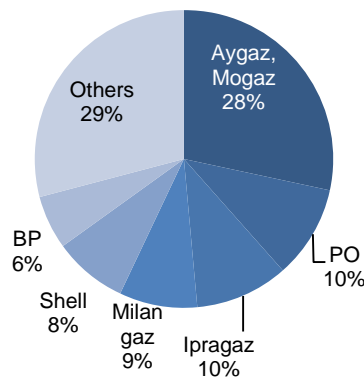
Turkey’s annual consumption of LPG is about 3.7mn tons (1.5% of total consumption in the world). The Turkish LPG market is the second biggest market in Europe, following Russia. In 2010, 16% of total demand of LPG in Turkey was supplied by the production of Tupras; the remainder was met by imports. Aygaz is the biggest importer, realizing almost half of total LPG imports.

LPG consumption in Turkey by segment



Source: PETDER (1H10)

LPG distribution market in Turkey



Source: PETDER (1H10)

Koc Group is largest LPG distributor in Turkey

The LPG distribution market in Turkey is very fragmented, with more than 70 active distributors. However, the top five distributors control 60% of the market and the second top five distributors command 20% of the total market. The Koc Group (Aygaz and Mogaz together) is the largest LPG distributor in Turkey, with a market share of 28.4%, as of 2010.

Aygaz (LPG distribution)

Koc Holding has a 40.7% stake in Aygaz. 25% of total shares are owned by LPGDC (Liquid Petroleum Gas Development Company). 24.27% of total shares are floated on the ISE.

Aygaz has a strong distribution and transportation network, with more than 2k cylinder dealers, 1,226 auto gas stations and more than 5k service trucks and 224 tanker trucks. Aygaz also has the largest LPG storage capacity in Turkey, with its LPG fixed storage capacity of 170k m3 (30% of total fixed storage in Turkey) and moving storage capacity of 50k m3 (60% of total moving storage in Turkey).

Aygaz is interested in the privatization of IGDAS (Istanbul Natural Gas Distribution Company), which is expected in 1H11.

On the other hand, Aygaz also has a 20% stake in Enerji Yatirimlari, which holds 51% of Tupras. Aygaz recently sold a 49.62% stake in Entek to US-based power generation company AES Mont Blanc Holding for USD 136.5mn. The transaction value implies a value of USD 275mn for the entire company (1.66x book value). Aygaz currently owns a 36% stake in Entek. Both Aygaz and AES have equal voting power in Entek.

Entek (power generation)

Entek is a power generation company with 303 MW installed capacity. Half of Entek’s generation is sold through bilateral agreements; the remaining half is sold on the spot market.

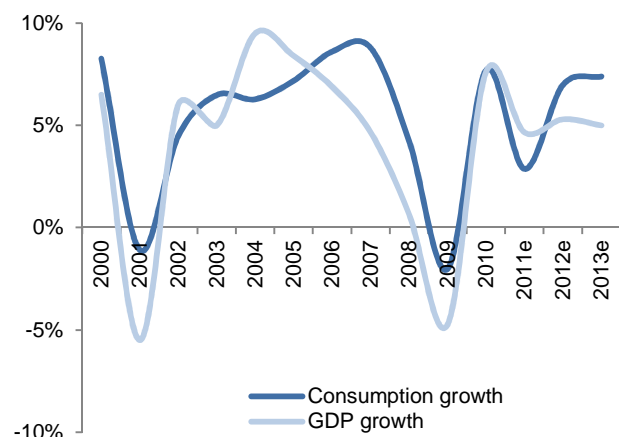
The Koc Group and AES together aim to increase the installed capacity of Entek to 3,000 MW within the next five years through privatization of power plants and new greenfield investments in Turkey.

Turkish electricity market

Growing electricity demand

Annual per capita electricity consumption in Turkey is about 2.2 KWh, which is well below the OECD countries' average annual consumption of 8.5 KWh per capita. Electricity consumption in Turkey increased 7.7% to 209 TWh in 2010. In the last decade, average electricity consumption growth has been 5.0%, vs. 3.7% GDP growth in the same period.

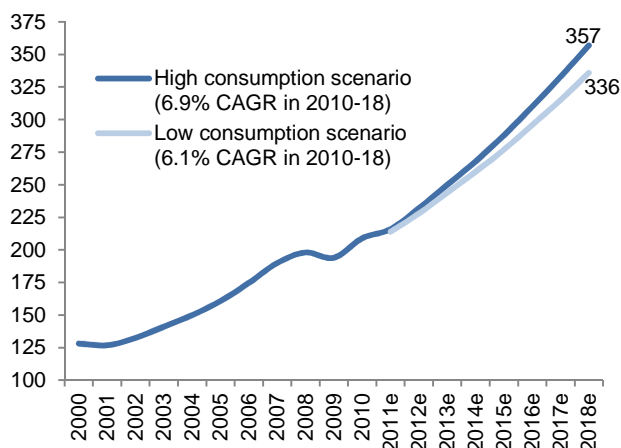
Electricity consumption growth & GDP growth



Source: TEIAS (Turkish Electricity Transmission Company), Erste Group Research

Electricity demand in Turkey is projected by TEIAS (Turkish Electricity Transmission Company) to increase to 357 TWh in 2018, with a CAGR of 6.9%, which is also higher than our 5% CAGR expectation for GDP for the same period. Industrial use constitutes almost half of total electricity consumption and one third of total demand comes from residential units.

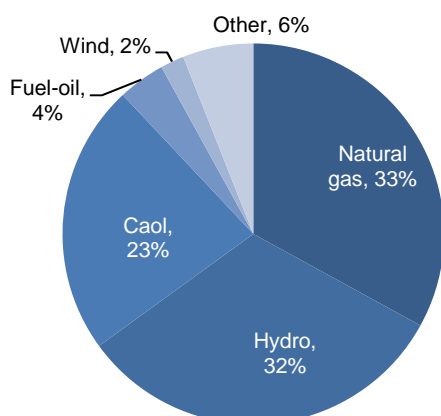
Electricity consumption in Turkey (TWh)



Source: TEIAS

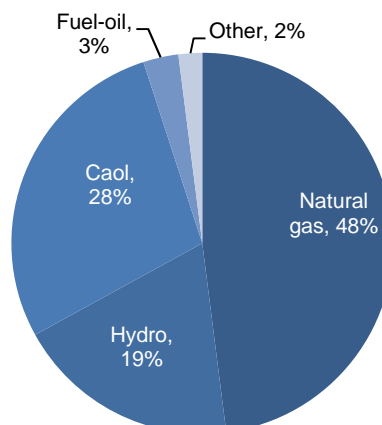
Installed capacity in Turkey has increased from 27,264 MW in 2000 to 48,588 MW in 2010, with a CAGR of 5.9%, due mainly to the increase in the capacity of natural gas plants. As of 2010, total electricity generation was 210 TWh, vs. total consumption of 209 TWh in Turkey. Given the high growth in electricity demand in Turkey, new projects to increase the installed capacity are crucial for the sector in the coming years.

Installed capacity in Turkey by fuel type



Source: TEIAS (2009)

Power generation in Turkey by fuel type



Source: TEIAS (2009)

Privatization of generation assets expected to begin this year

The Privatization Administration (PA) is planning to sell power generation assets in its portfolio. 45 power plants with total capacity of 16,161 MW (1/3 of total capacity in Turkey) will be privatized starting from 2011. Initially, four different thermal power plants are planned to be privatized, followed by the privatization of nine generation asset portfolios. The Privatization Administration recently released the tender documents for the privatization of Hamitabat power plant.

Privatisation of Generation Assets

| Power plant / Portfolio | Type | Installed capacity (MW) |
|-------------------------|--------------------------------|-------------------------|
| Hamitabat | Natural gas | 1,120 |
| Soma A-B | Lignite&coal | 1,034 |
| Can | Lignite&coal | 320 |
| Seyitomer | Lignite&coal | 600 |
| Portfolio 1 | Lignite&coal | 2,795 |
| Portfolio 2 | Natural gas-Fuel oil | 1,981 |
| Portfolio 3 | Lignite&coal-Natural gas | 1,302 |
| Portfolio 4 | Natural gas-Hydro-Lignite&coal | 2,118 |
| Portfolio 5 | Lignite&coal-Hydro | 2,050 |
| Portfolio 6 | Hydro | 1,017 |
| Portfolio 7 | Hydro | 838 |
| Portfolio 8 | Hydro | 630 |
| Portfolio 9 | Hydro | 356 |
| TOTAL | | 16,161 |

Source: PA, EUAS (Electricity Generation Company)

3- Automotive

(23% of current NAV, 14% of 2010 revenues, 13% of 2010 EBITDA)

Koc Holding's listed participants in automotive segment

| Company Name | Bloomberg Code | Current Price (TRY) | Free float | 3M avg. daily trad. vol. (TRYmn) | Share performance | | | |
|--------------|----------------|---------------------|------------|----------------------------------|-------------------|-----|-----|-----|
| | | | | | 12M | 6M | 3M | 1M |
| Ford Otosan | FROTO TI | 14.05 | 18.0% | 7.0 | 52% | 16% | 8% | 5% |
| Tofas | TOASO TI | 8.20 | 24.0% | 9.4 | 59% | 20% | 3% | 0% |
| Turk Traktor | TTRAK TI | 29.60 | 24.0% | 7.0 | 233% | 75% | 35% | 10% |
| Otokar | OTKAR TI | 24.48 | 27.0% | 2.1 | 44% | 58% | 19% | 2% |

Source: ISE, Erste Group Research

Koc Holding is the major player in the Turkish auto industry. It has a 52% market share in production, a 50% share in Turkey's motor vehicle exports and a 31% share in the domestic market. Koc Holding expects the automotive market in Turkey to contract 0-5% in 2011. Koc Holding is not planning any capacity increase in the auto business in the short term. All Koc companies in the auto segment have attractive dividend policies.

On the cost side, Koc Group's automotive companies are more secured than its consumer durables business and other competitors in terms of commodity price increases, due to its (i) purchases of a large amount of input with yearly contracts, (ii) carried out via its global partner network.

Turkish automotive market

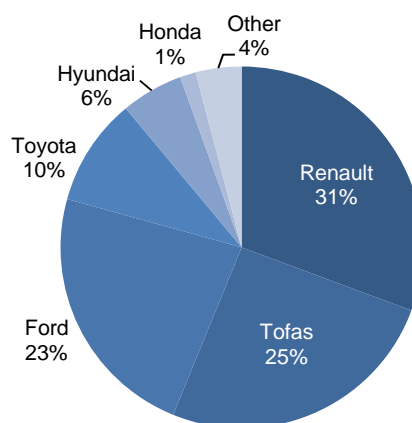
A number of international automotive manufacturers, either via partnerships with local groups or purely foreign investments, have production facilities in Turkey. These include Renault, Fiat, Ford, Toyota, Honda and Hyundai. Additionally, almost all automotive brands are available to Turkish consumers.

Market Shares (2010)

Domestic auto market (PC+LCV)



Turkish auto exports (PC+LCV)



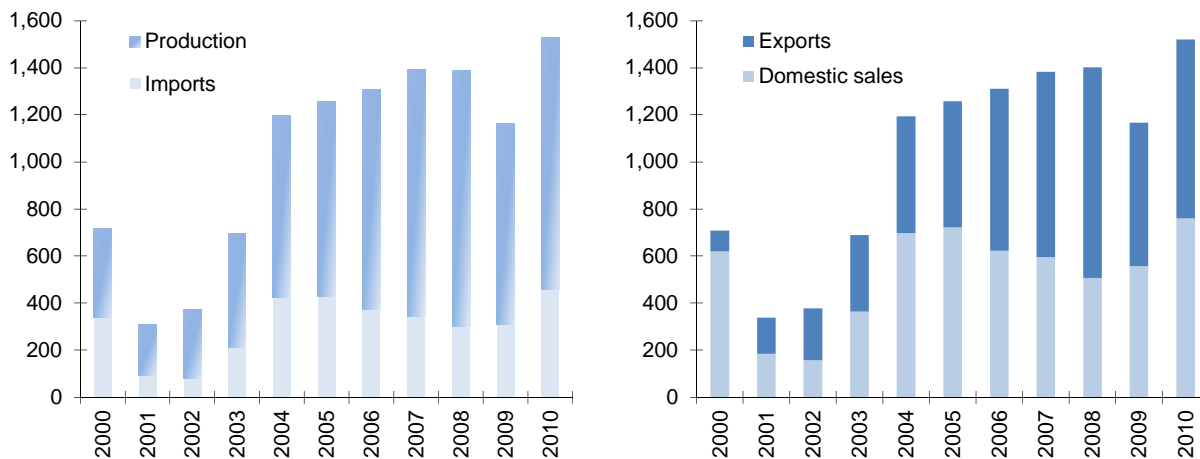
Source: Automotive Distributors' Association, Erste Group Research

Note: Tofas includes Alfa Romeo, Fiat, Lancia, Ferrari and Maserati and VW includes Dogus Otomotiv's sales (brands of Volkswagen, Audi, Seat, Skoda, Porsche, Bentley and Lamborghini).

There are 15 passenger car (PC) and commercial vehicle (CV) producers in Turkey. 54 PC and LCV (light commercial vehicle) companies sell their vehicles in the Turkish domestic market.

About 25% of total vehicle production in Turkey is sold on the domestic market and the remaining 75% of total production is exported, mainly to Europe. Turkey is the second largest exporter of vehicles to the European market, following Japan.

Auto (PC+LCV) production, imports, exports and domestic sales ('000 units)

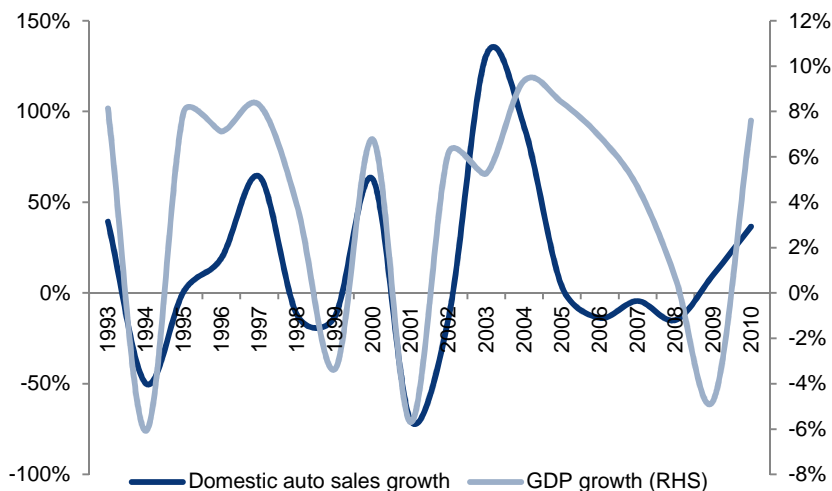


Source: Automotive Distributors' Association, Erste Group Research

Highly cyclical industry

Automobile sales show similar patterns to GDP growth, although the contraction is much more severe in times of crisis. In 2001, for example, when Turkey faced a major banking crisis, total auto sales contracted by some 70%, while the GDP contraction was 6%. Very low sales figures in 2001, 2002 and partly in 2003 had then created massive pent-up demand. Along with normalization in the economy starting from 2004, this pent-up demand started to be met and local sales reached an all-time high figure of 722k in 2005. The declining sales trend since then changed in 2009, with tax breaks imposed for six and a half months. Accordingly, total sales rose by 10% to 557k in 2009. The low interest rate environment and strong Turkish lira supported auto demand in 2010, the other strong year for the automotive sector, with 37% growth in domestic demand.

Domestic auto sales growth vs. GDP growth



Source: Automotive Distributors' Association, Turkstat, Erste Group Research

- The strong EUR vs. the TRY supports export revenues, while creating pressure on domestic demand and producers' operating margins on domestic sales.
- Low interest rates support domestic demand, which is also supported by economic growth.
- Sales campaigns in some periods (i.e. December before year-end) and tax incentives (i.e. the reduced special consumption tax in 2009) bring forward domestic demand.

Enormous growth potential

The Turkish automotive sector offers solid long-term growth prospects, on the back of low car ownership rates. Car ownership in Turkey is 117 per 1,000 people, vs. the European average of 480 per 1,000 people. However, Turkey's lower GDP per capita, young population (38% of the population is under 18 and unable to drive) and high taxes on automobiles justify the low penetration rate.

High tax burden limits long-term growth prospects in domestic market

On top of 18% VAT, Turkish passenger car consumers pay a special consumption tax (SCT) varying between 37% and 84%, depending on engine size. This corresponds to a total tax burden of 62% (38% of the total bill), making passenger cars more expensive in Turkey than in European countries. On the other hand, the SCT on light commercial vehicles is lower, varying from 4% to 10%, depending on the use of the vehicle.

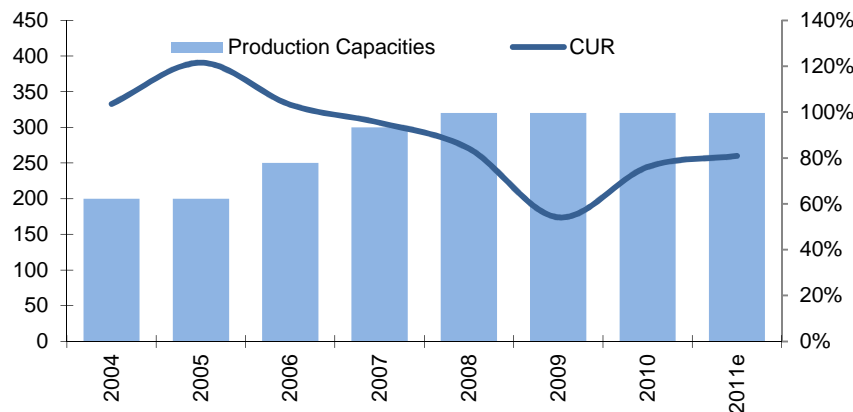
Domestic auto sales started year with strong demand

According to the Automotive Distributors' Association, Turkey's domestic auto sales jumped 102% y/y to 103k in the first two months of 2011. Passenger car sales were up 110% y/y to 68.9k, while LCV sales rose 86% y/y to 34.5k units. Accordingly, Tofas increased its market share significantly in both the LCV and PC segments (by 11pp and 2pp y/y, respectively) in 2M11.

Ford Otosan (commercial vehicle)

Ford Otosan is one of Turkey's leading automotive companies, manufacturing light commercial vehicles (LCV) and heavy trucks, as well as powertrains. It is a JV between Ford Motor Company and Koc Group, each with an equal 41% stake in the company. The remaining shares are floated on the ISE. Ford Otosan has two plants, the Kocaeli Plant and the Inonu Plant. The former has annual capacity of 320k LCVs, whereas the latter has annual capacity of 10k heavy trucks and 55k powertrains. The company generates around 60% of its revenue from export markets, with the remaining 40% generated in the domestic market. On top of manufacturing LCVs and trucks, Ford Otosan imports and distributes Ford brand automobiles to the domestic market. Ford Otosan's network consists of 116 sales and 194 after-sales service points and a total of 211 dealers.

Ford Otosan's production capacity ('000 units) and CUR (%)



Source: The Company, Erste Group Research

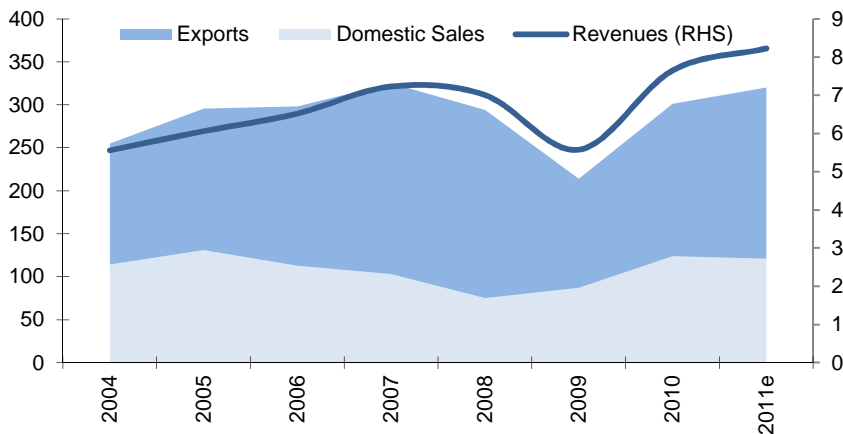
Expecting 6% growth in unit sales

Ford Otosan expects the domestic automotive market to stay at the same level as last year and aims to sell 121k vehicles in the domestic market (down 2% y/y) and export 199k vehicles (12% y/y growth) in 2011. The company expects export growth to come from an increase in commercial vehicle demand from Europe. As an LCV producer, Ford Otosan should be one of the beneficiaries. The company projects to increase its production by 10% to 266k vehicles in 2011, from 242k vehicles in 2010. Accordingly, the company's CUR would be increased by 6pp to 80% in 2011. Although higher commodity prices (especially for steel) are likely to create pressure on margins, we think that the improvement in capacity utilization could compensate for the negative impact of higher steel prices on profit margins.

Model renovations

Ford Otosan manufactures two major commercial vehicle models, the Transit (launched in 2001) and Transit Connect (launched in 2002). Although they have gone through several incarnations, they have approached the end of their economic lives and are hence losing competitiveness. Ford Otosan has already started to invest in model renovations. Ford Otosan plans to invest USD 630mn in a new Transit model in the next three years. The new model is planned to be launched in 2012. The company's 2011 investment budget is USD 300mn, the majority of which is for the new Transit model. A model renovation for the Connect model is also on the way, but no concrete decisions have been taken yet. The company is currently 30% financed by debt, while management plans to operate at 45% in 2011, due to the financing of new investments.

Ford Otosan’s auto sales (‘000 units) and revenues (TRY bn)



Source: The Company, Erste Group Research

Sound balance sheet and solid dividend yield

Ford Otosan appears to be a cash cow, generating solid cash flow and distributing all distributable income. The balance sheet has low leverage, holding potential for capital expenditures for model renovations. As of December 2010, the company had only TRY 7mn net debt, while it distributed a total TRY 400mn cash dividend in 2010 (which implies a 120% payout ratio and a greater than 8% dividend yield).

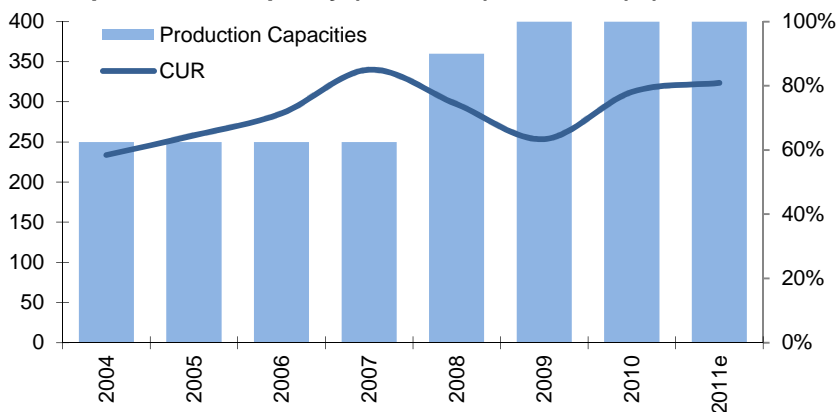
As the company generates enough cash to finance its routine investments and has low leverage, there is no need for Ford Otosan to retain cash in the company. Accordingly, Ford Otosan has been one of the best dividend payers trading on the ISE, with a 100% payout ratio for years; however, the company prefers to pay out in two installments, typically in April and October. Ford Otosan recently decided to distribute cash dividend of TRY301.8mn (which implies a 60% payout ratio and a 6.4% dividend yield) on April 1, 2011.

Tofas (PC and LCV)

Tofas is one of Turkey’s leading automotive manufacturers, producing passenger cars (PC), light commercial vehicles (LCV) and spare parts (CKD). Tofas is a JV between Fiat and the Koc Group, where both parties have an equal 37.9% stake, while the remaining 24% is traded on the ISE.

Total production capacity of the company is 400k units per annum at its facilities in Bursa. On top of producing and selling automotives to both the domestic market and export markets, Tofas distributes Fiat group automotives, including Fiat, Alfa Romeo, Lancia, Ferrari and Maserati in the domestic market. In 2010, the company generated 60% of its revenues from export markets and the remaining 40% from the domestic market. Tofas makes more than half of its total domestic market sales (except fleet sales) through credit sales.

Tofas’ production capacity (‘000 units) and CUR (%)



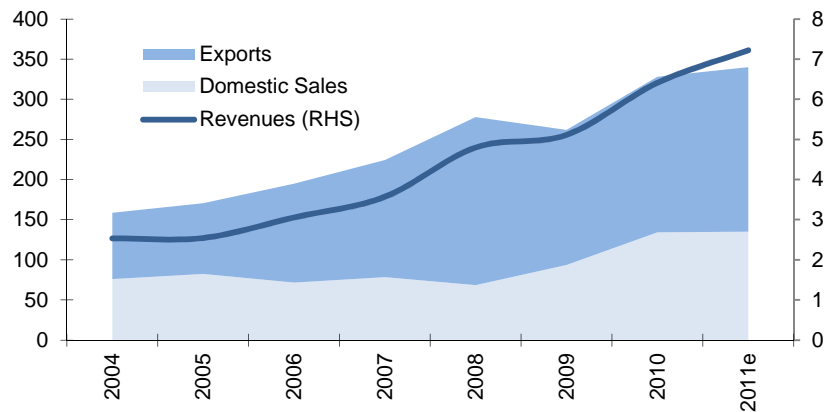
Source: The Company, Erste Group Research

Company Report – Koc Holding

Expecting 4% growth in unit sales

Tofas expects the domestic automotive market to stay at the same level as last year (760k units) and aims to sell 135k vehicles on the domestic market (1% y/y growth) and export 205k vehicles (6% y/y growth) in 2011. The company expects an increase in exports, due to the new Doblo production for Opel. Accordingly, Tofas decided to increase the number of shifts in production from two to three after March 2011 to meet demand from domestic and export markets.

Tofas' auto sales ('000 units) and revenues (TRY bn)



Source: The Company, Erste Group Research

Take-or-pay agreements

The company exports approximately 2/3 of total production. Tofas' export sales are mostly secured with take-or-pay agreements signed with the Fiat and PSA (Peugeot Citroen) groups. Out of Tofas' annual capacity of 400k units, 250k are take-or-pay. However, if the company manages to sell these units in the domestic market, Fiat and PSA will not make any payment regarding the deal. Going forward, we do not expect the take-or-pay agreement to be a critical subject, although it does create a safety net for the company.

Increase in commodity prices affects profitability

We see two major points that are to affect Tofas' profitability, commodity prices (predominantly steel) and capacity utilization. Tofas is not suffering from lower capacity utilization, due to its take-or-pay agreements. Steel prices have entered an uptrend and could have an adverse impact on Tofas' profitability. Nevertheless, thanks to the fact that the company makes its steel purchases via yearly contracts, the impact should be rather limited. Note that Tofas uses Fiat's global steel procurement network and sets steel prices in November of each year. However, the company intends to make steel contracts semiannually to avoid fluctuation in raw material prices. The only negative effect is likely to come from possible price increases from the company's suppliers, which could try to reflect steel price increases in their own prices.

Investment incentives create deferred tax income

Tofas uses investment incentives that create deferred tax income. Management expects the tax expense to be 5% of net profit before tax in 2011, if there are not any sharp movements on the FX side.

Sollers discontinued JV plan with Fiat in February

JV negotiations between Fiat and Russian auto producer Sollers were suspended in February 2011, as Sollers prefers Ford Motor Co. This would have a slightly negative effect on Tofas' CKD exports to Russia, since total CKD and SKD exports constitute less than 4% of total unit sales. Fiat is now in talks with several Russian auto producers in order to expand in the Russian market.

New Doblo production

Tofas signed an agreement with Opel to produce 25k-30k LCVs for Opel based on the Doblo platform. First production is expected in 4Q11. The new agreement with Opel will also increase the capacity utilization of Tofas. The company expects total CAPEX of EUR 150mn in 2011, including investments for new Doblo production for Opel.

Tofas recently decided to distribute cash dividend of TRY250mn (which implies a 65% payout ratio and a 6.2% dividend yield) on April 7, 2011.

Turk Traktor (farm tractors)

Turk Traktor is a leading manufacturer of farm tractors in Turkey, with a production capacity of 35k tractors and 25k engines per year. Turk Traktor is a joint venture between Koc Holding and Case New Holland (CNH) NV, one of the largest tractor manufacturing companies worldwide. Each has a 37.5% stake in the company and the remaining shares are floated on the ISE. CNH has a powerful sales network, with 11,400 dealers in 160 countries. Turk Traktor exports its products to more than 30 countries through the sales network of its major shareholder, CNH. Export destinations include the US, Canada, New Zealand, Italy, France, South Africa and Australia.

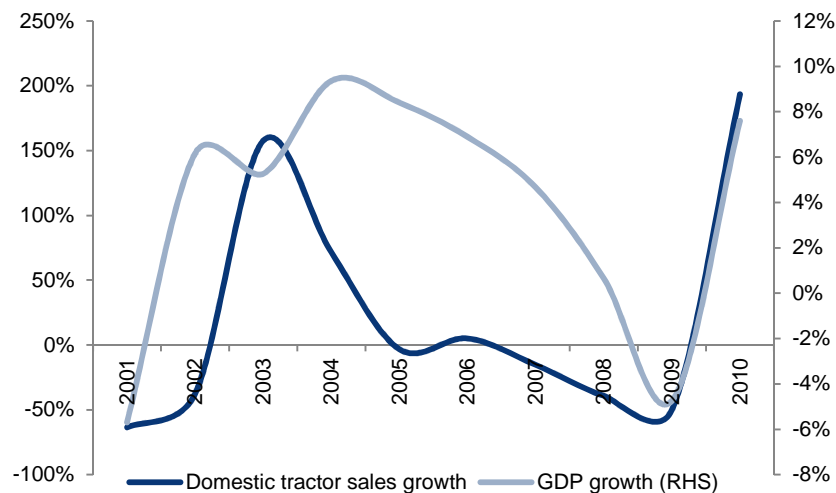
Turk Traktor produced 28k tractors in 2010, with an 80% CUR, and the company is not planning any capacity increase investments in the coming 5-10 years, thanks to its flexible production processes. Turk Traktor sold 28k tractors in 2010, of which 19k were sold to the domestic market and 9k to foreign markets. Although the tractor market is highly fragmented, with more than 36 brands, Turk Traktor maintains its dominant position in the Turkish farm tractor market, with a share of 50%, thanks to its strong sales distribution network. The market had been a duopoly, shared between Uzel Makina and Turk Traktor until 2008, when Uzel halted its production, due to ownership disputes. Currently, there are five other tractor producers in Turkey besides Turk Traktor - Hattat, Tumosan, Basak, Erkunt and Massey Ferguson.

Sales of agricultural tractors in Turkey reached 36k units in 2010. Imported tractors constituted 20% of total domestic sales in 2010. Turk Traktor has the advantage of the weak TRY vs. other currencies compared to the other import player in the market. Turk Traktor exported around 31% of its production in 2010 and obtained 26% of its revenue from exports, ensuring a good balance against any potential contraction in domestic demand.

Turk Traktor offers high dividend payout

The company will distribute a TRY 150mn cash dividend from its 2010 net profit (which implies an 83% payout ratio and a more than 10% dividend yield). The company had TRY 80mn net cash as of December 2010 and does not need any capacity investment.

Domestic tractor sales growth vs. GDP growth



Source: Automotive Manufacturers Association, Turkstat, Erste Group Research

Turkish farm tractor market

The performance of the domestic tractor market is closely related to economic performance and farmers' purchasing power. Low interest loans to farmers and the government's price support (input payments and fuel oil subsidies) to farmers are important in the sale of tractors. However, the tractor market is highly sensitive and vulnerable to economic downturns. The market is expected to grow significantly in the medium-long term, due to (i) the low penetration rate and (ii) the old tractor park in Turkey.

Old tractor park in Turkey

The tractor park in Turkey currently stands at nearly 1.36mn units, although almost 43% of the tractor park is above 25 years old, i.e. outdated.

Otokar (buses, trailers and military vehicles)

Otokar manufactures buses, trailers and military vehicles. Otokar is also a leading contractor in the ALTAY national tank project. Otokar produced 3,390 vehicles (up 15% y/y), with a 32% CUR, and sold 3,475 vehicles (up 21% y/y) in 2010. Otokar obtained 13% of its revenue (TRY 517mn) from exports in 2010 (2009: 31%). Otokar posted TRY 21mn in net profit and TRY 37mn in operating profit, with a 7.2% EBITDA margin in 2010.

Otokoc (automotive retail chain)

Otokoc is the leading automotive retail chain in Turkey. Otokoc offers a wide range of automotive products and services, including new and used car sales, service and maintenance, wholesale spare parts and accessories, automobile finance, insurance, car care services, daily car rental and operational (fleet) leasing. The company represents 8.5% of the total domestic automotive retail market, selling Ford, Volvo, Fiat, Alfa Romeo and Lancia vehicles and servicing more than 400k vehicles annually. Otokoc generated TRY 2bn in revenue and TRY 102mn in operating profit, with a 5% EBITDA margin in 2010.

4- Consumer durables

(10% of current NAV, 13% of 2010 revenues, 10% of 2010 EBITDA)

Koc Holding's listed participant in consumer durables segment

| Company Name | Bloomberg Code | Recommendation | Current | Target | Upside | 3M avg. daily trad. vol. (TRYmn) | Share performance | | | |
|--------------|----------------|----------------|-------------|-------------|-----------|----------------------------------|-------------------|-----|-----|-----|
| | | | Price (TRY) | Price (TRY) | Potential | | 12M | 6M | 3M | 1M |
| Arcelik | ARCLK TI | Buy | 7.22 | 9.90 | 37.1% | 15.0 | 21% | -6% | -5% | -5% |

Source: ISE, Erste Group Research

Koc Holding is the leading player in the consumer durables market in Turkey through Arcelik, with a 50% market share in domestic white goods sales and a 40% market share in domestic TV sales. Koc Holding owns 40.51% of Arcelik shares. 25% of shares are quoted on the ISE.

Arcelik is the most exposed company to international markets among the Koc Group companies. Koc Group increased its market share by 0.5pp to 5.3% in 2010 in the Western European market. Koc Holding aims to acquire a consumer durables brand or production facility in the MENA region or Asia to increase its exposure to emerging markets and improve profitability. The company allocated a USD 160mn investment budget to the consumer durables segment for 2011, excluding inorganic growth moves.

Turkish white goods market

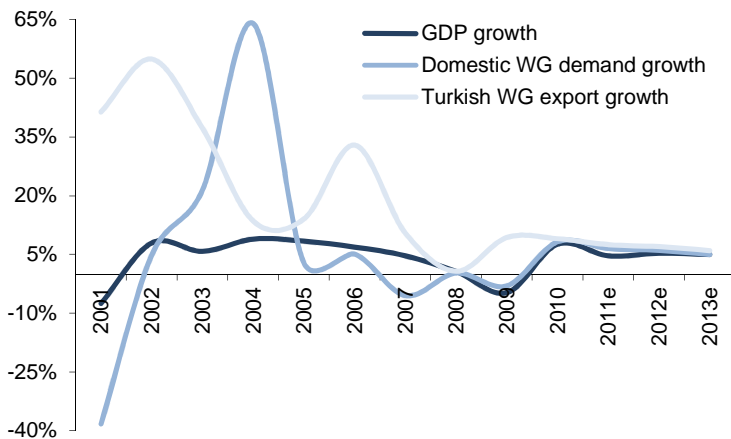
Turkish white goods market offers high growth prospects

Thanks to (i) Turkey's young population, (ii) large household size and (iii) low penetration rates, the Turkish white goods market offers considerable growth potential in the long term. Approximately 60% of the Turkish population is under the age of 30 and the annual population growth rate is approximately 1.5%. The average household in Turkey consists of four people, with an average of three white goods in each home. Half of domestic demand stems from new household formation (supported by marriages and house construction), with the remainder for replacement needs. The replacement cycle for consumer durables in Turkey is approximately seven years. The last jump in domestic demand was seen in 2004. We thus expect domestic demand for white goods to continue to increase at a brisker pace than GDP growth in 2011 and 2012.

We expect white goods market growth to outperform GDP growth, due to pent-up demand

We expect domestic white goods demand to grow by 6.5% in 2011 and 6.0% in 2012, higher than our GDP growth estimates, due to the pent-up demand in the market. We also project that Turkish white goods exports will grow by 7.5% in 2011 and 7.0% in 2012, thanks to the growing market share of Turkish producers in Europe and their expanding operations in high-growth markets. Note that domestic white goods demand grew by 8.2% (vs. our GDP growth expectation of 7.6%) and Turkish exports increased by 9% (despite approximately 2% growth of the European white goods market) in 2010.

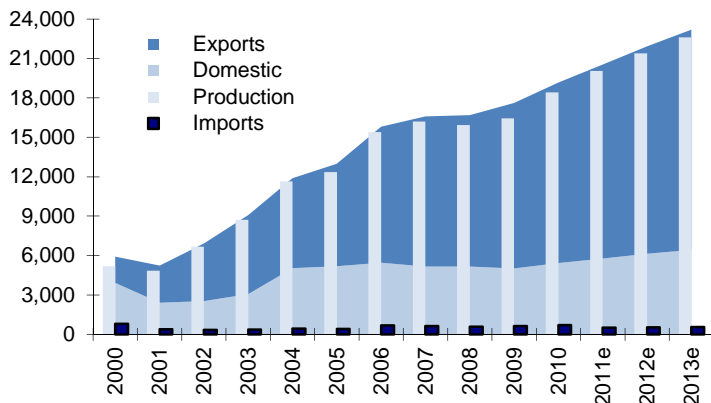
WG unit sales growth vs. GDP growth



Source: TURKSTAT, TURKBESD, Erste Group Research

According to 2010 sector data released by the Association of White Goods Industrialists of Turkey (TURKBESD), export sales accounted for around 75% of total white goods production in Turkey. Approximately 60% of exports were directed to the EU. Other major markets are Eastern Europe, CIS and the Middle East, which offer opportunities for higher growth and profitability than in Western European markets. Therefore, Turkish white goods manufacturers have been expanding in developing countries to sustain high growth rates and improve overall profitability.

WG production, sales and imports ('000 units)



Source: TURKBESD, Erste Group Research

Turkish manufacturers have advantages to expand in export markets

Thanks to Turkey’s geographical advantage, as it is close to the European market and quickly growing markets such as the Middle East, CIS and Africa (and their low-cost production bases), Turkish white goods producers have an advantage, helping them to increase their export volumes.

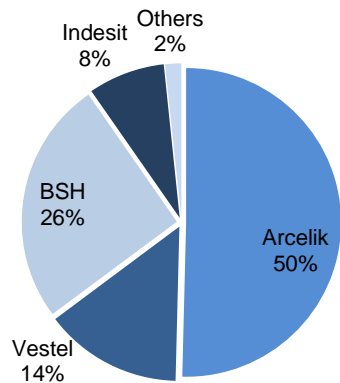
Arcelik (Buy), Vestel WG (Hold) and BSH Ev Aletleri (N.R.) are the three main manufacturers in Turkey, between them dominating both domestic and export sales of white goods.

Possible upward trend in raw material prices as major risk

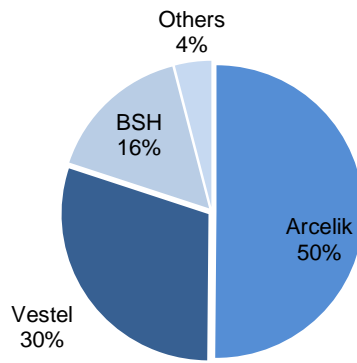
As producers cannot reflect raw material price increases in product prices immediately or completely, any hike in raw material prices hurts producers’ profitability. We expect high steel prices to continue to squeeze operating margins in 1H11, as well as in 4Q10. Steel prices have increased by 5% in 4Q10 and a further 10% in 1Q11.

Market Shares

Domestic WG market



Turkish WG exports



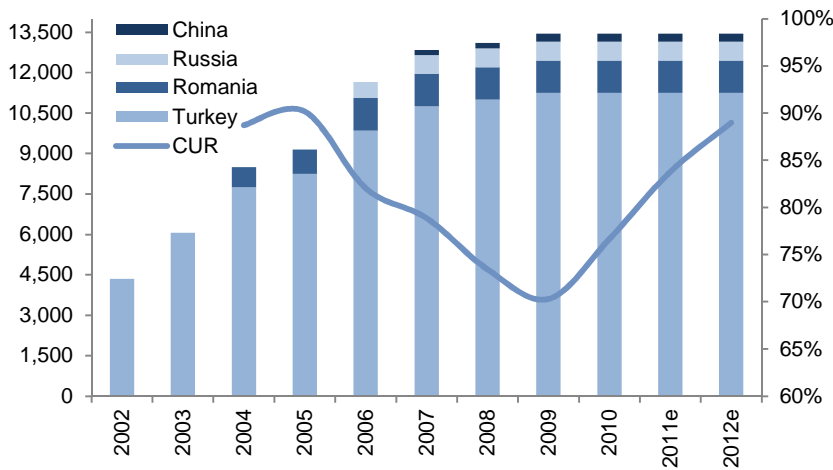
Source: TURKBESD, company data, Erste Group Research

Arcelik (white goods & TV)

11 production facilities in four countries

Arcelik produces refrigerators, washing machines, dishwashers, ovens, freezers and driers at its production facilities in Turkey, Romania, Russia and China, with total production capacity of 13.5mn units. The company also produces and sells LCD television sets, with production capacity of 2.6mn units in Turkey, as well as air conditioning units and some commercial products such as furniture. The company also has the largest services network in Turkey, with 3,600 dealers in its network and 600 after-sales service centers.

White goods production capacity (mn units) and CUR (%)



Source: The company, Erste Group Research

Well diversified revenues

White goods sales constitute two thirds of Arcelik’s total revenues, with 18% of total sales from TVs and other electronic goods, including air conditioning units and some commercial products. The company generates half of its total revenues from domestic sales and 27% of total revenues from Western Europe.

Leading player in Turkey

We expect Arcelik to be the main beneficiary of the growth prospects in both the domestic and export markets, as the company offers the best exposure to the Turkish white goods sector, thanks to its market share of nearly 50% in both the domestic market and in exports from Turkey. Arcelik also has an approximately 40% market share in the domestic TV market in Turkey and generated 15% of total TV exports from Turkey.

Company Report – Koc Holding

Arcelik is the price maker in the Turkish white goods market and is more secured in terms of exchange rate fluctuations and any hikes in raw material prices than its domestic competitors. We expect Arcelik to be the main beneficiary of the low interest rate environment, high GDP growth and delayed demand for white goods since 2005 in the Turkish market. Moreover, Arcelik is restructuring its TV operations, improving profitability and lowering its debt.

Increasing market share in Europe

Arcelik is currently the market leader in the British refrigerator market and ranks second in the overall white goods market in the UK (following Indesit, and ahead of Bosch), with a 16.4% market share. The UK is the second biggest white goods market in Europe. Arcelik succeeded to increase its market share by 0.5pp to 5.3% in 2010 in the Western European market. Arcelik also commands a share of more than 20% of the white goods market in Eastern Europe and Russia. Arctic is the leading home appliances brand in Romania, with a 35% market share. Meanwhile, Grundig has a 9% market share of the LCD TV market in Germany.

Arcelik is the most profitable manufacturer among its European peers, thanks mainly to i) lower labor costs and ii) its high exposure to developing countries; 73% of its revenues come from developing markets.

Focusing on high-potential markets

Almost 60% of Arcelik's export sales are to Western Europe, where the white goods sector has exhibited a stable performance. However, due to the limited opportunity for expansion in the mature European market, Arcelik is seeking to acquire an existing facility, or establish a greenfield investment, in the Middle East & Africa region, which currently comprises 8-9% of total revenues.

Management's 2011 guidance

Arcelik targets 6-8% growth in domestic market unit sales, in line with their market growth expectation and more than 10% increase in its international unit sales (we expect 6% growth in domestic unit sales and 7% in international sales). Arcelik also targets 10-12% growth in total revenues in TRY terms and greater than an 11.5% EBITDA margin (we expect 12% revenue growth and an 11.4% EBITDA margin).

Our valuation for Arcelik is based on both a DCF valuation and a comparison of global peer group multiples. Our 12-month target value for Arcelik is TRY 9.9.

Arcelik LG Klima (air conditioners)

Arcelik LG Klima is Turkey's leading air conditioner producer. It is a joint venture between Koc Holding and LG Electronics. Arcelik LG Klima has production capacity of 2mn units and commands nearly half of the total air conditioner demand in Turkey. The company also exports its production to more than 60 countries, mainly in the MENA region and Europe.

None-core businesses

(2% of current NAV, 5% of 2010 revenues, 3% of 2010 EBITDA)

Koc Holding's listed participants in food segment

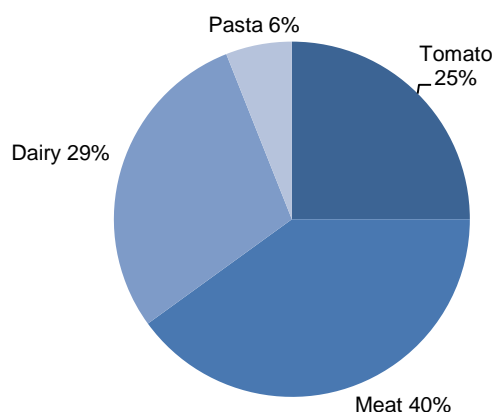
| Company Name | Bloomberg Code | Current Price (TRY) | Free float | 3M avg. daily trad. vol. (TRYmn) | Share performance | | | |
|--------------|----------------|---------------------|------------|----------------------------------|-------------------|-----|------|------|
| | | | | | 12M | 6M | 3M | 1M |
| Tat Konserv | TATKS TI | 3.34 | 31.0% | 0.7 | -1% | -4% | -19% | -15% |

Source: ISE, Erste Group Research

Tat Konserve (Food)

Koc Holding has a 44% stake in Tat Konserve; 41% of its shares are free float. Tat Konserve produces canned products, mainly tomato paste (Tat brand), meat products (Maret brand), dairy products (SEK brand) and pasta (Pastavilla brand).

Tat Konserve revenue breakdown



Source: The company, Erste Group Research

Tomato

Tat Konserve is the leader in the Turkish tomato paste market, with a market share of 40% and plans to be one of the largest tomato producers in the world. The company has tomato paste capacity of 182k tons currently. Tat purchases tomatoes from producers and Harranova Besi, which is a 58% subsidiary of Tat. US-based Morning Star (the biggest player in the tomato processing business in the world) has another 10% stake in Harranova Besi. The company prefers to rent land with 5-year contracts, instead of buying.

Tat Konserve plans to increase its tomato production capacity to 1mn tons by 2014, from the current 200k tons, at Harranova Besi. Thus, the company is planning to increase its tomato paste production to 210k tons by 2014, from 70k currently at the Harranova Besi plant. Tat Konserve plans to allocate the capacity increase to export markets.

Meat products

Tat's meat brand Maret is the second biggest player in the meat processing sector, following market leader Pinar Et. Nearly half of the meat processing market is unregistered in Turkey. Maret has capacity to process 36k tons of meat annually. Maret acquires unprocessed meat from Harranova Besi and other farms. Harranova Besi has a cattle farm capacity of 16k cattle and is planning to increase the capacity to 25k.

Dairy products

Tat's dairy brand SEK has a 7% market share in the milk processing sector, in which competition is fierce. SEK aims to increase production in more profitable segments such as cheese and yogurt. Per capita consumption of milk and meat are far below the European averages (28kg meat and 24lt milk consumption per capita in Turkey vs. 66kg meat and 76lt milk consumption per capita in the EU).

Company Report – Koc Holding

Tat's pasta brand Pastavilla is a leading brand in Turkey's premium pasta segment, with a 50% market share.

The company had a gross margin of 18% and an EBITDA margin of 8% in 9M10. Operating margins declined by 2.8pp, due to the increase in raw material costs. Raw materials constitute approximately 80% of total costs and production costs constitute 12% of total costs. Due mainly to bad weather conditions, low tomato production resulted in higher tomato prices in 2010. Tat Konserve projects margin improvement in the coming years, as Harranova's share in operations increases, as planned.

The company has idle land in Balikesir for sale. The company aims to reduce its debt by selling this property. The company had TRY 272mn in net debt as of September 2010 (approx. 4x net debt/EBITDA). We value Tat Konserve with its current market capitalization.

Others

Koc Holding's listed participants in tourism segment

| Company Name | Bloomberg Code | Current Price (TRY) | Free float | 3M avg. daily trad. vol. (TRY mn) | Share performance | | | |
|--------------|----------------|---------------------|------------|-----------------------------------|-------------------|------|-----|------|
| | | | | | 12M | 6M | 3M | 1M |
| A. Cesme | AYCES TI | 11.85 | 7.0% | 1.3 | 68% | -28% | 6% | -10% |
| Mares | MAALT TI | 18.40 | 29.7% | 9.3 | 29% | 34% | 12% | -2% |

Source: ISE, Erste Group Research

Marmaris Altinyunus & Altinyunus Cesme (tourism)

Koc Holding has a 36.8% stake in Marmaris Altinyunus. The company operates the Divan Hotel in Antalya, with a room capacity of 204. The company generated TRY 14.3mn in revenue (up 9% y/y), with a 30% EBITDA margin in 2010.

Altinyunus Cesme is a Yasar Holding company and Koc Holding holds a 30% stake in the company. The company operates the Altin Yunus Hotel in Izmir, with a room capacity of 1,080. The company generated TRY 14mn in revenue (up 31% y/y), with a 12% EBITDA margin in 2010.

Shares of both companies are also listed on the ISE. We value both companies at their current Mcaps.

Koctas (home improvement retailing)

Koctas is the leader of the home improvement retail sector in Turkey, with a total 30 stores (with four new openings in 2010) and a selling area of 165k sqm as of end-2010. The company aims to increase the number of stores to 38 in the medium term with a USD 50mn investment. Koc Holding holds a 37.1% stake in Koctas.

Company Report – Koc Holding

Koc Holding Segment Breakdown

| | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Consolidated Revenues | 55,548 | 44,841 | 53,812 | 60,386 | 65,925 | 69,450 |
| Financial Services | 5,864 | 5,382 | 4,990 | 5,221 | 5,973 | 6,331 |
| Non-Finance | 49,683 | 39,459 | 48,822 | 55,165 | 59,952 | 63,119 |
| <i>Automotive</i> | 6,435 | 5,948 | 7,767 | 7,861 | 8,363 | 8,865 |
| <i>Energy</i> | 34,370 | 24,488 | 31,412 | 36,571 | 39,830 | 41,467 |
| <i>Consumer durables</i> | 6,953 | 6,810 | 7,052 | 7,951 | 8,793 | 9,642 |
| <i>Other</i> | 1,926 | 2,213 | 2,592 | 2,782 | 2,967 | 3,145 |
| Revenue contribution | | | | | | |
| Financial Services | 11% | 12% | 9% | 9% | 9% | 9% |
| Non-Finance | 89% | 88% | 91% | 91% | 91% | 91% |
| <i>Automotive</i> | 12% | 13% | 14% | 13% | 13% | 13% |
| <i>Energy</i> | 62% | 55% | 58% | 61% | 60% | 60% |
| <i>Consumer durables</i> | 13% | 15% | 13% | 13% | 13% | 14% |
| <i>Other</i> | 3% | 5% | 5% | 5% | 5% | 5% |
| EBITDA | 4,563 | 5,275 | 5,233 | 5,651 | 6,232 | 6,614 |
| Financial Services | 1,161 | 1,901 | 1,666 | 1,751 | 2,005 | 2,131 |
| Non-Finance | 3,402 | 3,375 | 3,566 | 3,900 | 4,227 | 4,483 |
| <i>Automotive</i> | 594 | 408 | 680 | 697 | 740 | 784 |
| <i>Energy</i> | 1,791 | 1,528 | 1,577 | 1,794 | 1,973 | 2,078 |
| <i>Consumer durables</i> | 510 | 762 | 543 | 591 | 644 | 703 |
| <i>Other</i> | 508 | 676 | 766 | 818 | 869 | 919 |
| EBITDA contribution | | | | | | |
| Financial Services | 25% | 36% | 32% | 31% | 32% | 32% |
| Non-Finance | 75% | 64% | 68% | 69% | 68% | 68% |
| <i>Automotive</i> | 13% | 8% | 13% | 12% | 12% | 12% |
| <i>Energy</i> | 39% | 29% | 30% | 32% | 32% | 31% |
| <i>Consumer durables</i> | 11% | 14% | 10% | 10% | 10% | 11% |
| <i>Other</i> | 11% | 13% | 15% | 14% | 14% | 14% |
| EBITDA margin | 8% | 12% | 10% | 9% | 9% | 10% |
| Financial Services | 20% | 35% | 33% | 34% | 34% | 34% |
| Non-Finance | 7% | 9% | 7% | 7% | 7% | 7% |
| <i>Automotive</i> | 9% | 7% | 9% | 9% | 9% | 9% |
| <i>Energy</i> | 5% | 6% | 5% | 5% | 5% | 5% |
| <i>Consumer durables</i> | 7% | 11% | 8% | 7% | 7% | 7% |
| <i>Other</i> | 26% | 31% | 30% | 29% | 29% | 29% |

Source: Company data, Erste Group Research

Company Report – Koc Holding

| Income Statement | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| (IFRS, TRY mn, 31/12) | 31/12/2008 | 31/12/2009 | 31/12/2010 | 31/12/2011 | 31/12/2012 | 31/12/2013 |
| Net sales | 55,547.71 | 44,840.55 | 53,812.44 | 60,385.75 | 65,924.92 | 69,449.54 |
| Cost of goods sold | -47,245.50 | -35,964.72 | -44,620.79 | -50,554.83 | -55,274.93 | -58,173.94 |
| Gross profit | 8,302.21 | 8,875.83 | 9,191.65 | 9,830.92 | 10,649.99 | 11,275.61 |
| SG&A | -4,478.45 | -4,431.70 | -4,803.04 | -5,065.41 | -5,394.66 | -5,718.34 |
| Other operating revenues | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other operating expenses | -115.99 | -93.66 | -123.86 | -130.63 | -139.12 | -147.47 |
| EBITDA | 4,562.99 | 5,275.14 | 5,232.72 | 5,650.79 | 6,231.83 | 6,613.97 |
| Depreciation/amortization | -855.21 | -924.66 | -967.97 | -1,015.91 | -1,115.62 | -1,204.17 |
| EBIT | 3,707.77 | 4,350.48 | 4,264.74 | 4,634.88 | 5,116.21 | 5,409.80 |
| Financial result | -1,957.25 | -317.16 | -218.92 | -7.85 | -20.87 | 99.85 |
| Extraordinary result | 1,330.16 | -874.27 | -159.87 | 0.00 | 0.00 | 0.00 |
| EBT | 3,080.69 | 3,159.05 | 3,885.95 | 4,627.03 | 5,095.34 | 5,509.65 |
| Income taxes | -586.08 | -518.46 | -747.55 | -925.41 | -1,019.07 | -1,101.93 |
| Result from discontinued operations | 83.37 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Minorities and cost of hybrid capital | -554.43 | -1,211.38 | -1,403.92 | -1,915.18 | -2,118.97 | -2,186.05 |
| Net result after minorities | 2,023.56 | 1,429.21 | 1,734.48 | 1,786.44 | 1,957.30 | 2,221.67 |
| Balance Sheet | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e |
| (IFRS, TRY mn, 31/12) | | | | | | |
| Intangible assets | 4,719.67 | 4,837.75 | 4,910.51 | 4,910.51 | 4,910.51 | 4,910.51 |
| Tangible assets | 10,383.66 | 10,629.54 | 10,445.85 | 10,364.13 | 10,241.65 | 10,033.72 |
| Financial assets | 16,733.21 | 16,784.80 | 23,779.75 | 23,779.75 | 23,779.75 | 23,779.75 |
| Total fixed assets | 31,836.53 | 32,252.09 | 39,136.11 | 39,054.39 | 38,931.91 | 38,723.97 |
| Inventories | 3,645.75 | 3,361.00 | 4,193.10 | 4,184.89 | 4,559.84 | 4,796.30 |
| Receivables and other current assets | 19,975.04 | 18,295.26 | 22,900.92 | 23,364.84 | 23,847.51 | 24,166.76 |
| Other assets | 370.84 | 518.51 | 351.23 | 351.23 | 351.23 | 351.23 |
| Cash and cash equivalents | 9,061.92 | 11,959.58 | 14,561.17 | 15,792.19 | 19,038.85 | 23,378.48 |
| Total current assets | 33,053.55 | 34,134.35 | 42,006.41 | 43,693.15 | 47,797.42 | 52,692.76 |
| TOTAL ASSETS | 64,890.08 | 66,386.43 | 81,142.52 | 82,747.53 | 86,729.33 | 91,416.73 |
| Shareholders' equity | 9,749.49 | 11,169.96 | 12,574.19 | 13,879.30 | 15,526.44 | 17,510.24 |
| Minorities | 6,382.17 | 7,612.09 | 8,403.72 | 10,318.91 | 12,437.88 | 14,623.93 |
| Hybrid capital and other reserves | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Pension and other LT personnel accruals | 680.39 | 763.66 | 788.86 | 831.95 | 886.02 | 939.19 |
| LT provisions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Interest-bearing LT debts | 8,190.80 | 6,428.18 | 8,032.45 | 10,562.14 | 11,850.88 | 12,961.01 |
| Other LT liabilities | 1,882.05 | 2,398.96 | 2,273.14 | 2,273.14 | 2,273.14 | 2,273.14 |
| Total long-term liabilities | 10,072.85 | 8,827.13 | 10,305.59 | 12,835.27 | 14,124.02 | 15,234.15 |
| Interest-bearing ST debts | 10,781.16 | 9,980.51 | 10,391.13 | 6,852.79 | 4,729.79 | 3,455.99 |
| Other ST liabilities | 27,224.03 | 28,033.08 | 38,679.03 | 38,029.31 | 39,025.18 | 39,653.23 |
| Total short-term liabilities | 38,005.19 | 38,013.59 | 49,070.16 | 44,882.11 | 43,754.97 | 43,109.22 |
| TOTAL LIAB., EQUITY | 64,890.08 | 66,386.43 | 81,142.52 | 82,747.53 | 86,729.33 | 91,416.73 |
| Cash Flow Statement | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e |
| (IFRS, TRY mn, 31/12) | | | | | | |
| Cash flow from operating activities | -919.20 | 6,347.56 | 2,189.61 | 3,612.11 | 5,330.15 | 5,684.24 |
| Cash flow from investing activities | 282.04 | -1,132.63 | -449.42 | -92.23 | -201.30 | -117.14 |
| Cash flow from financing activities | 4,133.29 | -3,739.32 | 1,027.65 | -2,288.85 | -1,882.18 | -1,227.47 |
| CHANGE IN CASH , CASH EQU. | 3,416.05 | 1,506.39 | 2,767.84 | 1,231.02 | 3,246.66 | 4,339.63 |
| Margins & Ratios | 2008 | 2009 | 2010 | 2011e | 2012e | 2013e |
| Sales growth | 18.7% | -19.3% | 20.0% | 12.2% | 9.2% | 5.3% |
| EBITDA margin | 8.2% | 11.8% | 9.7% | 9.4% | 9.5% | 9.5% |
| EBIT margin | 6.7% | 9.7% | 7.9% | 7.7% | 7.8% | 7.8% |
| Net profit margin | 4.5% | 5.9% | 5.8% | 6.1% | 6.2% | 6.3% |
| ROE | 23.0% | 13.7% | 14.6% | 13.5% | 13.3% | 13.4% |
| ROCE | 14.7% | 10.6% | 12.2% | 13.0% | 14.2% | 15.2% |
| Equity ratio | 24.9% | 28.3% | 25.9% | 29.2% | 32.2% | 35.2% |
| Net debt | 10,590.4 | 5,212.8 | 4,651.3 | 2,454.7 | -1,572.2 | -6,022.3 |
| Working capital | -5,322.5 | -4,397.8 | -7,415.0 | -1,540.2 | 3,691.2 | 9,232.3 |
| Capital employed | 28,604.1 | 26,393.8 | 27,902.3 | 28,926.0 | 28,665.3 | 28,385.0 |
| Inventory turnover | 11.6 | 10.3 | 11.8 | 12.1 | 12.6 | 12.4 |

Source: Company data, Erste Group estimates

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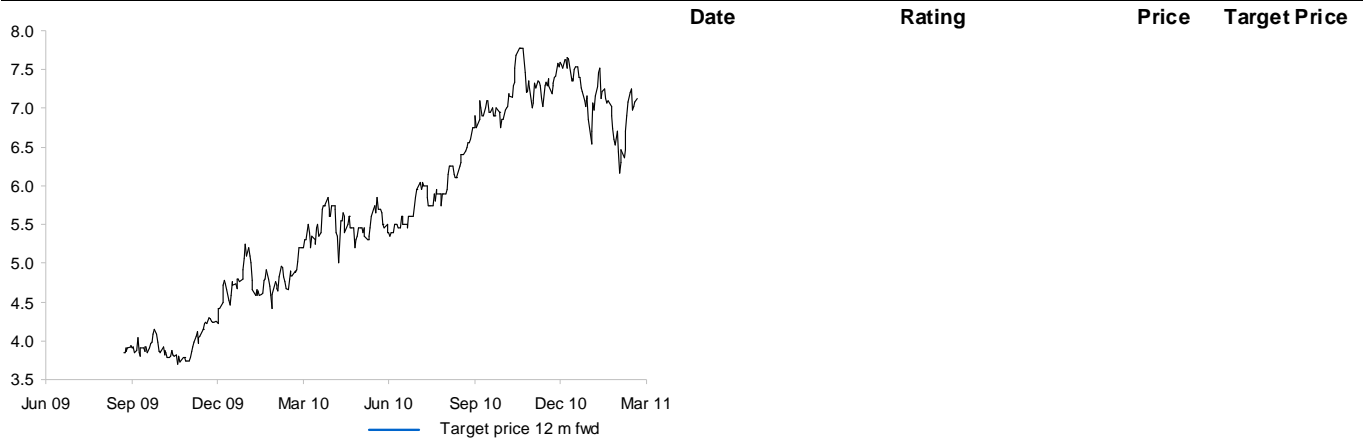
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Company Report – Koc Holding

Koc Holding

Rating history



Company

Disclosure

Koc Holding

Important Disclosures

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| | |
|-------------------|----------------------------|
| Buy | > +20% to target price |
| Accumulate | +10% < target price < +20% |
| Hold | 0% < target price < +10% |
| Reduce | -10% < target price < 0% |
| Sell | < -10% to target price |

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

| Recommendation | Coverage universe | | Inv. banking-relationship | |
|----------------------|-------------------|--------------|---------------------------|--------------|
| | No. | in % | No. | in % |
| Buy | 46 | 27.9 | 9 | 52.9 |
| Accumulate | 46 | 27.9 | 5 | 29.4 |
| Hold | 46 | 27.9 | 3 | 17.6 |
| Reduce | 8 | 4.8 | 0 | 0.0 |
| Sell | 7 | 4.2 | 0 | 0.0 |
| N.R./UND.REV./RESTR. | 12 | 7.3 | 0 | 0.0 |
| Total | 165 | 100.0 | 17 | 100.0 |

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