

KOC HOLDING

BUY
(Initiation of coverage)

Offering a good risk-reward combination...

July 7, 2009

✚ **Initiating with a BUY rating and a target Mcap of US\$5,274 mn...** We initiate on Koc Holding with a BUY rating and a 12M target Mcap of US\$5,274 mn, which implies 31% upside potential from current levels.

✚ **Recent underperformance in the shares...** Koc Holding has underperformed both the market and its listed portfolio by 16% and 12%, respectively since early June. We attribute this to a combination of profit taking and negative newsflow on one small unlisted subsidiary and believe that the sell-off is now overdone.

✚ **Trading below historic discounts to current NAV...** After the recent underperformance in its shares, Koc Holding's NAV discount has widened to 23% currently vs. 9% in mid-May. This is below both its average 12% discount since the beginning of 2006 and 17% average discount in the last 12 months.

✚ **Direct exposure to long term macro recovery with limited downside risks at the holding level...** Koc Holding offers a good risk-reward combination at present. On the downside, its risks are limited by its strong solo cash and diversified business mix while on the upside it offers full exposure to any macro recovery and potential re-rating in listed subsidiaries.

✚ **Improving signs for the Turkish and global economy...** Both Turkish and global economy have shown some signs of stabilization/mild improvement very recently. If sustained, these bode well for Koc's underlying businesses as well as for Koc Holding itself given its status as a major play on macro recovery.

✚ **Upside risk from future M&As...** With strong cash on hand, Koc Holding is once again eyeing new M&A opportunities particularly in banking, white goods and energy sectors. The Holding may participate in some of these deals directly and create additional value at the holding level, which can only be tapped through a direct investment in its shares.

✚ **Risks...** We see a belated economic recovery, deteriorating risk appetite and consumer sentiment and volatility in FX rates and oil prices as the main risk factors for Koc Holding.

Price Data

Current Price (TL, 06-Jul-09)	2.56
Current Mcap (US\$mn)	4,011
12-mth Target Price (TL/share)	3.46
12-mth Target Mcap (US\$mn)	5,274

12-mth Forecast Returns (US\$)

Dividend Yield	0%
Capital Appreciation	31%
12-mth Total Return	31%

Financials (US\$ mn)	2007	2008	2009E	2010E
Net Sales	35,955	42,822	26,532	32,032
% ch yoy	5	19	-38	21
EBITDA*	3,327	3,214	2,427	2,936
% ch yoy	25	-3	-24	21
Net Income	1,763	1,558	763	1,056
% ch yoy	350	-12	-51	38

*2008 adj for sales proceeds from Migros and insurance JVs

Margins (%)	2007	2008	2009E	2010E
Operating margin	7.7	9.1	7.3	7.5
EBITDA Margin	9.3	7.5	9.1	9.2
Net Profit Margin	4.9	3.6	2.9	3.3
Net Dividend Yield (TL)	0.0	0.0	0.0	0.0

Ratios	2007	2008	2009E	2010E
P/E (US\$, x)	2.3	2.6	5.3	3.8
P/BV (US\$, x)	0.6	0.6	0.6	0.5
ROE (%)	35.5	23.0	12.2	14.9

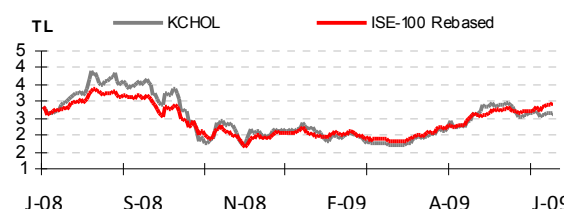
Stock Data

Ticker	KCHOL.IS	KCHOL.TI
Sector		Conglomerates
# of Shares (mn)		2,415.1
3M Av. Trd. Vol. (mn)		US\$25.1
52-week Range	TL1.68 -	TL3.88

Market Data

ISE-100	36,759
TL/US\$	1.5415

Price Chart



Price Performance	1M	3M	YTD	YoY
US\$ Absolute	-4%	25%	16%	-26%
ISE-100 Relative	-9%	-11%	-14%	-11%

Shareholder Structure

Koc Family	71%
Vehbi Koc Foundation	7%
Koc Holding Pension Fund	2%
Free Float	20%
Foreign Holding as % of Free Float	53%

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INVESTMENT POSITIVES

Major portfolio restructuring already complete

Stepping ahead of its peers, Koc Holding has undertaken an extensive portfolio restructuring since 2005. This included both big ticket acquisitions (YKB and Tupras) worth US\$6 bn and proactive non-core asset divestitures totaling US\$3.0 bn. Koc Holding has managed its restructuring process quite successfully (thereby establishing a good track record for the future) and deserves particular credit for its timely exits from Migros and insurance JVs just before the global financial crisis in mid-2008. While there are a few more non-core assets in Koc's portfolio, like the smaller food, IT and tourism subsidiaries, its major restructuring for the foreseeable future is already complete and it could wait for the best time to divest these.

Koc Holding - Proactive Divestitures (US\$m)

Company	Sector	Closing date	Transaction value	Total proceeds to Koc Group	Proceeds to Koc Holding
Izocam	Insulation materials	29-Nov-06	299	179	52
Doktas	Iron casting	12-Dec-06	202	111	103
Kofisa	International trade	16-Nov-06	27	13	13
BOS	Industrial gas manufacturing	17-Jul-07	124	124	1
Demirdokum	Heating & cooling appliances	05-Oct-07	385	300	191
Migros*	Retail	30-May-08	3,212	1,633	1,633
Koc Allianz JVs**	Insurance	21-Jul-08	1,240	592	561
Oltas***	Auto supplies	28-Aug-08	8	3	3
Total				2,954	2,558

Source: Koc Holding, BGC Partners

*For convenience TL transaction price is converted to US\$ at the exchange rate as of the closing date. (TL price is 1,977 mn)

**For convenience EUR transaction price is converted to US\$ at the exchange rate as of the closing date. (EUR price is €353.4 mn)

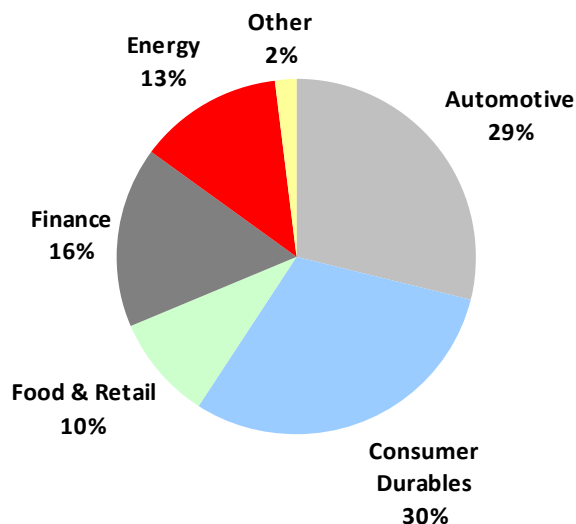
***For convenience EUR transaction price is converted to US\$ at the exchange rate as of the closing date. (EUR price is €5.2 mn)

Current portfolio is more focused, more balanced and more resilient than ever been

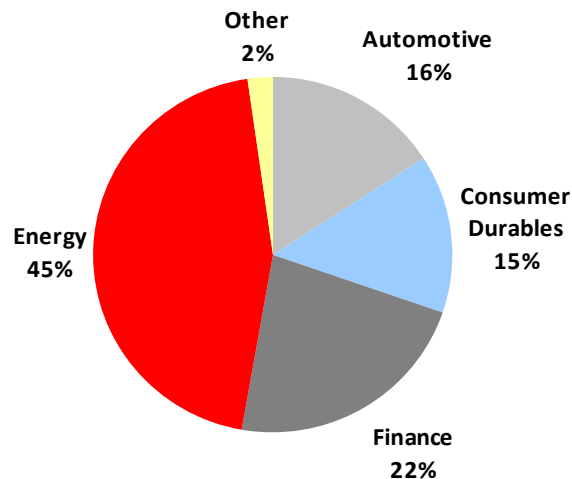
Following a 3-year long successful reshuffling, Koc Holding achieved a more focused and balanced business portfolio, which is also more resilient to domestic downturns vis-à-vis earlier periods. Through restructuring, Koc Holding has refocused on four core businesses, namely, automotives, consumer durables, energy and financial services and attained a more optimal position in terms of resource allocation. Clearly, with a smaller number of businesses, Koc Holding can grow in its core sectors more effectively now and create higher value for its shareholders. Moreover, Koc Holding transformed the risk profile of its portfolio with the milestone Tupras acquisition. Essentially, Tupras reduced Koc's vulnerability to domestic market risks while balancing out its formerly disproportionate exposure to consumers. As a result, Koc Holding now commands a more desirable business mix – in terms of focus, risk profile and growth opportunities –

vs. historically. The good thing is that Koc’s new portfolio still offers notable leverage to macro recovery but compared to past, it is more resilient to domestic volatilities.

Koc Holding – EBITDA Breakdown in 2005



Koc Holding – EBITDA Breakdown in 2008



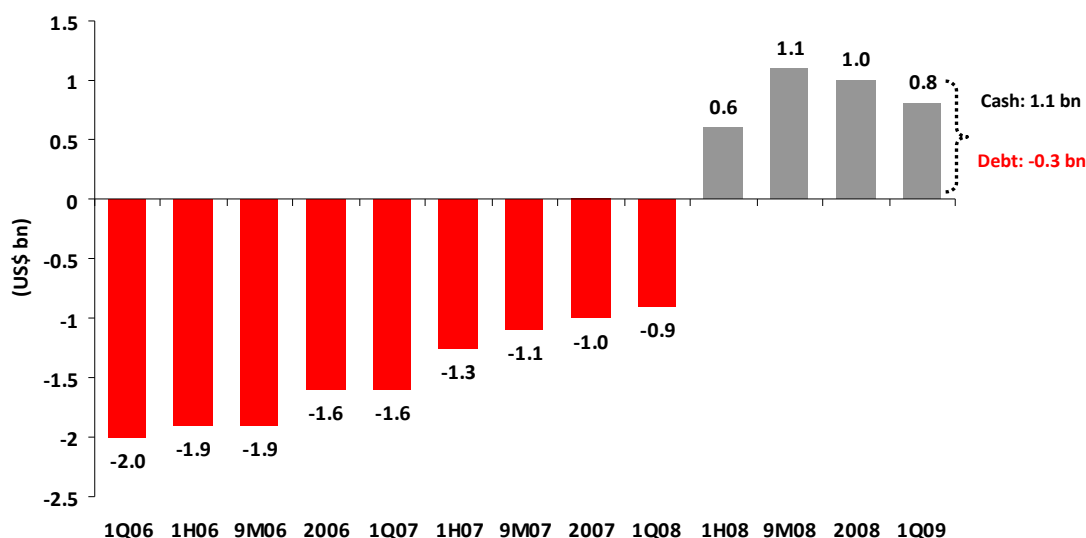
Source: Company, BGC Partners

Eliminated balance sheet risks at the solo level

Koc Holding entered the global credit crisis with a strong stand-alone balance sheet thanks to its timely sales of Migros and insurance JVs in mid-2008. These sales generated US\$2.1 bn of total cash proceeds and allowed Koc Holding to shift from a net debt to a net cash position at the holding level for the first time since 1Q06. Consequently, Koc Holding has cUS\$1.1 bn of gross cash and US\$300 mn of financial debt on a solo basis as of 1Q09. With timely divestitures, Koc Holding also eliminated its stand-alone FX risks and shifted from an open to a long FX position, which stood at US\$290 mn as of 1Q09-end. All in all, Koc Holding has significantly improved its risk profile at the holding level since mid-2008, which, we think, should not be overlooked by the investors.

Koc Holding will repay its remaining debt stemming from the Tupras acquisition in 4 equal installments (i.e. at US\$75/year) over 2010-2013. In our view, these can be easily serviced with the future dividend flows from subsidiaries, thus leaving the gross cash fully available for other uses, primarily for growth in core businesses. For the time being, this cash serves as a buffer against downside risks and adds a defensive feature to Koc Holding.

Koc Holding – Stand-alone net cash/(debt)



Source: Company, BGC Partners

Strong solo cash provides a safeguard against market risks as well as ammunition for new acquisitions

While solo cash at Koc Holding is currently reserved against further deterioration in market conditions and potential funding needs at subsidiaries, it is also available for opportunistic buy-outs in core sectors which may arise with the recent erosion in global asset prices. Koc Holding is particularly eyeing M&A opportunities in banking, white goods and energy (electricity generation) sectors and may be directly involved in some of these either on a solo basis or in partnership with underlying subsidiaries depending on the size of the deal. The prospects of additional value creation through new M&As at the holding level present upside risks for Koc Holding, which are currently not taken into account in our valuation. Although the scope for new acquisitions may be limited in the short run due to delays in privatization schedule and Koc's increased cautiousness in the current market environment (giving the priority to balance sheet strength and liquidity), we would expect them to come onto the agenda as debt markets normalize and government gives an impetus to long pending privatizations. The sizable free cash at Koc Holding also raises the possibility of cash dividends in the future, which may, at the earliest, be reinstated from 2010, depending on market conditions.

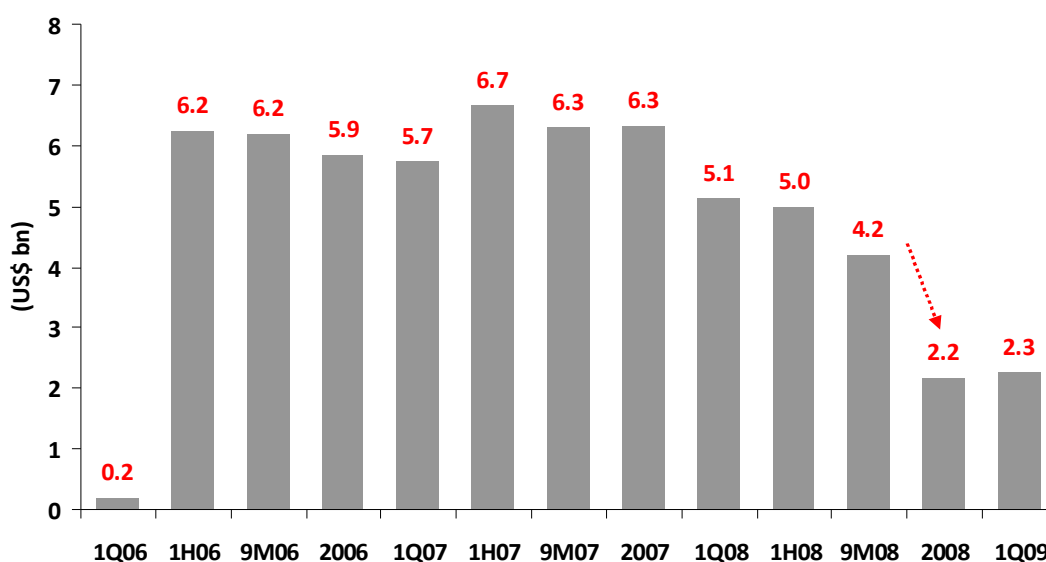
Reduced FX risk on a consolidated basis

The sales proceeds from Migros and insurance JVs also allowed Koc Holding to more than halve its consolidated short FX position from US\$5.1 bn at YE07 to US\$2.2 bn as of

1Q09-end. Hence, Koc Holding has become less vulnerable to FX volatility now vs. recent years. Most of this existing short FX position stems from Tupras and Tofas but there is a partial hedge from operations at both companies thanks to Tupras’s FX linked revenues and Tofas’s take or pay export contracts. Taking these into account, Koc’s consolidated short FX position declines to a lower US\$1.3 bn.

Koc Holding recorded TL376 mn of net FX losses in 1Q09 due to TL’s depreciation, though these were down by 24% yoy, reflecting its lower short FX position. As we forecast TL to slightly appreciate by YE09 vs. 1Q09-end, we foresee lower net FX losses for the full-year, which is positive for Koc’s 2009E bottomline. Moreover, we expect Koc’s 1Q09 net FX losses to be largely offset with net FX gains in 2Q09 thanks to TL’s c10% appreciation since 1Q09-end.

Koc Holding – Evolution of Consolidated Short FX Position



Source: Company, BGC Partners

A portfolio still geared to domestic demand recovery

Despite Tupras’s addition to portfolio and increasing exposure to foreign markets in automotive and consumer segments in recent years, Koc Holding is still one of the best plays for a long term recovery in domestic demand given its strong presence in consumer driven sectors, i.e. automotives, consumer durables, oil & LPG distribution and financial services.

Koc Holding - Domestic Market Shares by Sectors (2008)

Sector	Market Share
Automotive	27%
White goods	54%
Consumer electronics	45%
Petroleum distribution	16%
LPG Distribution	30%
Finance (credit cards)	22%

Source: Company, BGC Partners

Signs of slight recovery in Turkish economy

As suggested by some recent economic indicators (such as IP, consumer confidence index, etc. please refer to page 13 for related charts), Turkish economy has started a mild recovery from 2Q09, raising the hopes that at least the worst may be finally over. While there is no doubt that a sustainable economic recovery will take more time, we could still see sentimental support to domestically geared companies if current stabilization/mild recovery trends can be maintained in the coming period. Moreover, Turkish economy may recover faster than the global economy thanks to its relatively stronger fundamentals (in particular the solidity of its banking system) and a likely IMF deal. In our view, Koc Holding would be one of the first beneficiaries of improving outlook for the Turkish economy given its leading positions in key domestic sectors.

Improving expectations for the world economy

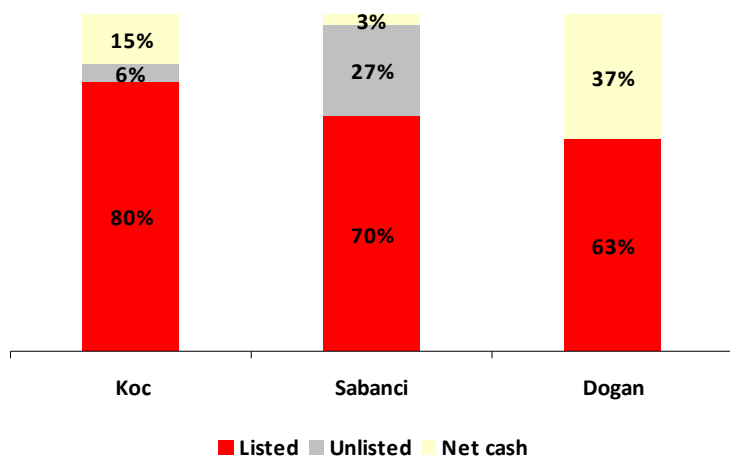
Koc Holding has become more dependent on global dynamics in recent years owing to its increasing foreign exposure in auto and consumer durables sectors and its step into the globally driven refining business with the Tupras acquisition. Hence, Koc Holding would also benefit from the prospective recovery in global economy (in particular in Eurozone economies) when that sets in. Recently, there have been some encouraging developments on global front, too with some green shoots of recovery emerging from a number of key economies such as China, US, Japan and Germany, etc. These bode well for Koc's international operations and refining business if they can gain more momentum and turn into a broader and steady recovery going forward.

Transparent NAV

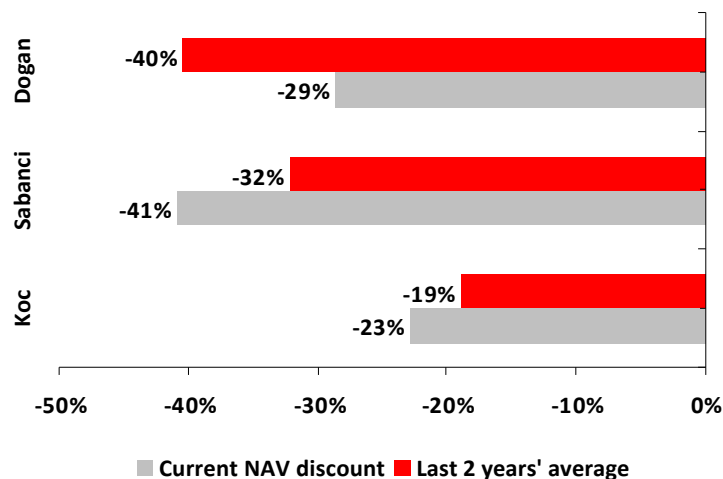
Listed subsidiaries comprise a significant 80% of Koc Holding's current NAV. This facilitates Koc's valuation while enhancing its NAV transparency. For these reasons, we would also expect Koc Holding to trade at narrower NAV discounts vs. its domestic peers. On the flip side, investors can replicate Koc Holding's portfolio by buying the major subsidiaries directly from the ISE provided that there is sufficient liquidity. Yet,

Koc Holding's strong solo cash position and potential M&A activities still create additional value for the Company aside from its current portfolio.

Koc Holding vs. listed peers – NAV Breakdown



Koc Holding vs. listed peers – NAV discounts



Source: ISE, BGC Partners' Estimates

Improvement in financials from 2Q09

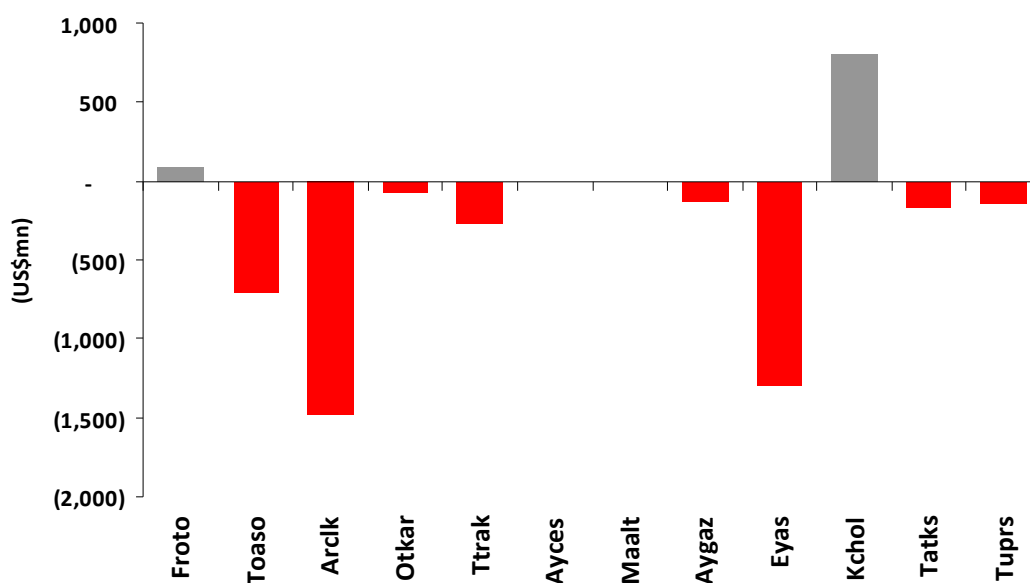
We believe that Koc Holding left the worst behind in 1Q09, which marked the peak of the global economic crisis with severe demand contraction both in domestic and external markets, and will post an improving financial performance from 2Q09. We expect this to be driven by **1)** the rising CUR, sales volumes and refining margins in the energy business, **2)** temporary SCT cuts in the consumer durables and auto businesses, which boosted domestic sales and CUR (thus helping margins) in 2Q09 and which will, to a lesser extent, continue in 3Q09 as well, **3)** gradual recovery in domestic consumer sentiment in 2H09 and **4)** TL appreciation and resulting net FX gains in the remainder of the year. We expect the improvement to gather more pace in 2010 as growth momentum is restored both in domestic and global markets. Consequently, we foresee Koc Holding to grow its revenues by 23%, EBITDA by 23% and bottomline by 40% in TL terms in 2010. In our opinion, with halfway through the year, a weak 2009 should be largely priced in by the market, which may soon start focusing on 2010 expectations.

Manageable net debt at non-finance companies

Maintaining a strong balance sheet in the current market environment is a top priority across Koc Group and in this respect; all Group companies are doing their best to lower their financial leverage and short FX positions. As of 1Q09-end, Koc's non-financial companies have a US\$3.1 bn of consolidated net debt, down from US\$3.5 bn at YE08 and US\$3.8 bn in 9M08. Most of this net debt stems from the SPV company, Enerji Yatirimlari AS, Arcelik and Tofas. However, in both Arcelik and Tofas cases the existing

debt is largely secured by the future cash flows from operations and at Enerji Yatirimlari AS by the high dividend income from Tupras. Although there is a cUS\$40 mn financing shortfall at Enerji Yatirimlari AS this year, we expect this to be closed by an advance dividend from Tupras in 4Q09 or in the worst case, by a capital injection from Koc Holding. Moreover, Enerji Yatirimlari AS's debt is long term in nature maturing further out in 2016.

Koc Holding – Net cash/(debt) positions in non-finance segment by company



Source: ISE, BGC Partners' Estimates

INVESTMENT RISKS

Turkish economy recovering at a slower pace than anticipated

While Turkish economy started a mild recovery very recently, this was driven to a large extent by the government's recent stimulus packages and it is not yet clear what will happen after these packages expire on September 30. Besides, there are still prevailing risks over unemployment, which reached an all-time high 15.8% as of May, the pending IMF deal (which is important for consumer sentiment and revival in credit mechanisms) and demand outlook in export markets. We think that the latter is particularly noteworthy because Turkish economy will not make a strong rebound unless it is supported by an accompanying recovery in foreign markets.

A belated recovery in global economy

While global economy presents a better outlook compared to a few months ago, there are still grey clouds over the pace and kind of recovery that lies ahead given the breadth of the current recession and fragility of the financial systems in US and Europe. Clearly, export demand (auto & consumer durables) and refining profits (energy) could remain weak for a longer period if global economy recovers later and at a slower pace than expected. As far as external developments are concerned, progress in Eurozone (which is the main destination for Turkish exports) will be more critical for Koc Holding and in this respect, current expectations which call for a lagged recovery in Europe vis-à-vis US and Asia also pose a slight risk for the Company.

Exposure to Turkey related risks

As a market proxy, Koc Holding is vulnerable to any macro or political turbulence in Turkey as well to any deterioration in risk appetite in financial markets.

Exposure to currency weakness on unhedged short FX position

Koc Holding remains vulnerable to TL weakness on the unhedged portion of its short FX position, which stands at US\$1.3 bn as of 1Q09-end. Moreover, operational hedging mechanisms at subsidiaries (particularly at Tupras) may not work fully during times of extreme volatility in oil prices and currency and pose an additional FX risk to Koc's consolidated net earnings.

Risk of aggressive bidding in future M&As

As we have seen in Tupras's case previously, a sizable acquisition at an aggressive price may disappoint the market and lead to an underperformance in Koc Holding shares particularly if Koc Holding becomes directly involved in the deal and assumes

significant leverage at the holding level. In this respect, prices to be paid in future M&A deals and financing structures would also bear great importance for the investors.

Koc Holding - Sector/Company specific positives & risks in core businesses

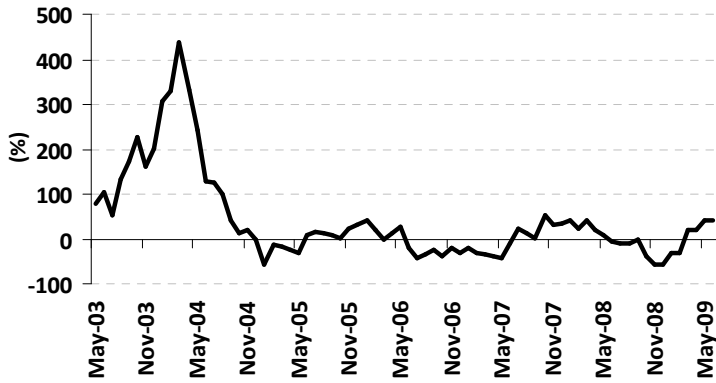
Business Line	Positives	Risks	Recommendation
Automotive <i>Share in Cons Rev: 11%</i> <i>Share in Cons EBITDA: 13%</i> <i>Share in current NAV: 23%</i>	<p>Beneficiary of tax incentives at home fuelling demand,</p> <p>State of the art manufacturing facilities ensuring margin optimization,</p> <p>Demonstrated ability in cutting costs during crisis,</p> <p>Margin protection against downturn in European demand with take-or-pay contracts in the case of Tofas.</p> <p>Potential benefits from restructuring efforts on the part of JV partners.</p>	<p>Domestic demand may not recover as fast as anticipated after the end of the SCT cuts and put a cap on overall margins,</p> <p>A prolonged global recession may have negative impact on CUR & margins,</p> <p>Higher than expected borrowing costs at home may lead to lower demand than projected, thus lower earnings,</p> <p>Potential troubles pertaining to JV partners Fiat (in Tofas) and Ford (in Ford Otosan) could have adverse impact on the business.</p>	<p>Tofas – BUY (Current price: TL 2.88, Target price: TL4.5)</p> <p>Ford Otosan – BUY (Current price: TL6.6, Target price: TL9.80)</p>
Consumer Durables <i>Share in Cons Rev: 16%</i> <i>Share in Cons EBITDA: 10%</i> <i>Share in current NAV: 8%</i>	<p>Market leader with unrivalled distribution and sales,</p> <p>Beneficiary of the tax incentives at home,</p> <p>Increasing market share in Europe due to shift in consumption to lower priced quality products.</p> <p>Potential increase in higher margin and lower penetrated international markets due to strengthening distribution networks and new manufacturing sites.</p>	<p>Major demand recovery difficult to come without a turnaround in real estate,</p> <p>High indebtedness an undesirable quality during times of crisis,</p> <p>TV business is likely to continue to lose money in the absence of subsidies.</p>	<p>Arcelik – HOLD (Current price: TL2.32, Target price: TL2.68)</p>
Energy <i>Share in Cons Rev: 51%</i> <i>Share in Cons EBITDA: 37%</i> <i>Share in current NAV: 11%</i>	<p>Domestic monopoly in an undersupplied market with no imminent threat of competition,</p> <p>Ability to beat benchmark refining margins on a sustained basis,</p> <p>Expected improvement in operations and financials from 2Q09,</p> <p>Gradual pick up in global oil demand and refining margins from 2010,</p> <p>Benefits to pending Residuun Upgrade project from government's new investment incentives.</p>	<p>A prolonged global recession which would delay the expected recovery in global oil demand and refining margins,</p> <p>Volatility in TL and oil prices which may cause unexpected FX and inventory gains/(losses) and blur earnings visibility,</p> <p>Regulatory risks such as increasing state control over the sector,</p> <p>New refinery investments in Turkey, which would be a longer term risk.</p>	<p>Tupras – BUY (Current price: TL18.50, Target price: TL25.8)</p>
Finance <i>Share in Cons Rev: 17%</i> <i>Share in Cons EBITDA: 35%</i>	<p>Solidity and high growth potential of the Turkish banking sector,</p> <p>Market leader in highly profitable credit card business,</p>	<p>Macroeconomic risks in Turkey,</p> <p>Subject to substantial asset quality deterioration risk due to high credit card exposure,</p>	<p>YKB – SELL (Current price: TL2.30, Target price: TL2.64)</p>

Share in current NAV: 39%	Potential to create synergies with other Group businesses in retail banking, Strong fee income generation stabilize to earnings during volatile periods.	Stretched loan/deposit ratio of 94% (the highest among large-cap peers) and low marketable securities exposure, which may limit the lending growth in the medium term.	
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Source: BGC Partners' Estimates, ISE

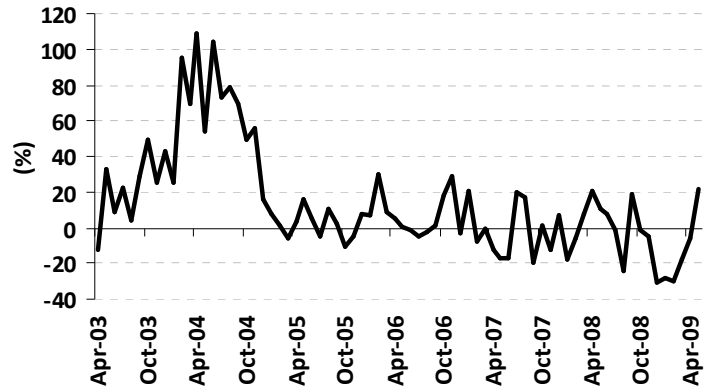
RECENT DEVELOPMENTS IN SOME KEY ECONOMIC INDICATORS

YoY change in domestic passenger car sales



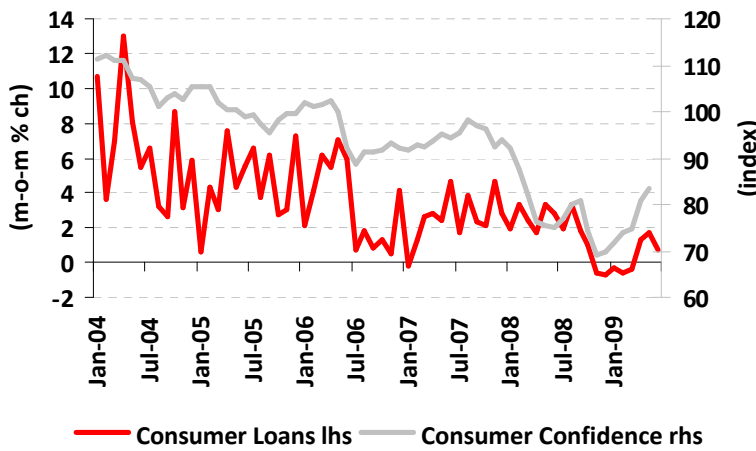
Source: Automotive Industry Association, BGC Partners

YoY change in domestic white goods sales



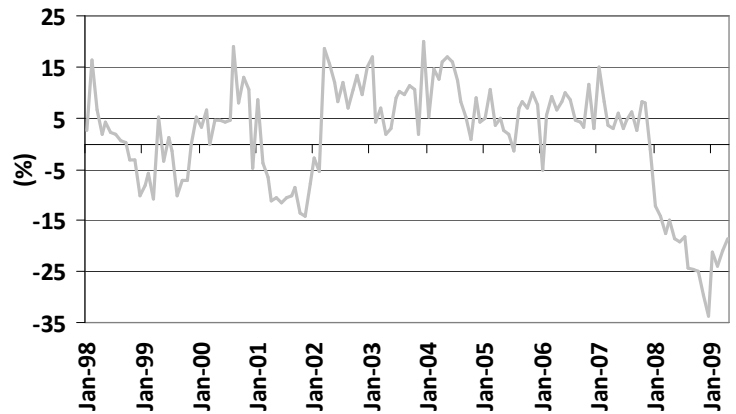
Source: White Goods Manufacturers' Association, BGC Partners

Consumer loans vs. consumer confidence



Source: CBT, TURKSTAT, BGC Partners

Industrial production growth

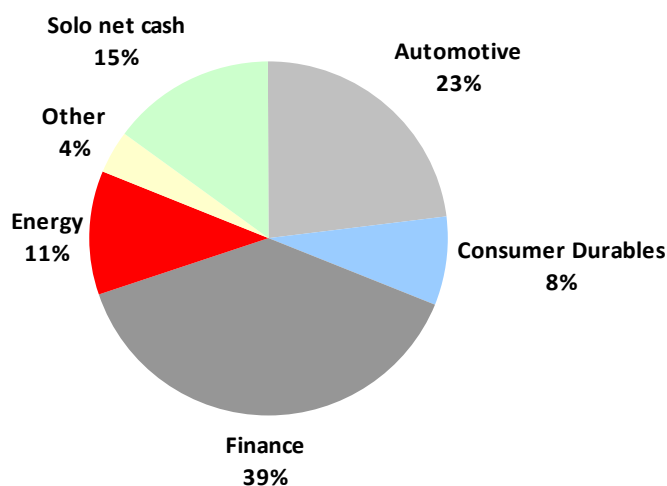


Source: TURKSTAT, BGC Partners

VALUATION

We use sum-of-the-parts method to value Koc Holding... We value Koc Holding through the sum-of-the-parts method and reach our 12M target Mcap by applying a 10% holding discount to our target NAV. We think that a 10% discount will be fair for Koc Holding given its high NAV transparency, reduced balance sheet risks and future M&A prospects. Moreover, the quality of the NAV has improved markedly since mid-2008 thanks to timely divestitures and Koc Holding's subsequent shift from a net debt to a net cash position at the solo level.

Koc Holding – Breakdown of Current NAV



Source: ISE, BGC Partners' Estimates

Initiating with a BUY rating and a US\$5,274 mn target Mcap... In deriving our target NAV for Koc Holding, we use the 12M target Mcaps for listed subsidiaries under our coverage, current Mcaps for remaining listed subsidiaries and multiple based valuations and/or book values for the unlisted subsidiaries. To these we add the Holding's solo net cash position of cUS\$777 mn (1Q09 net cash adjusted for cash dividends from subsidiaries and Koc's participation in Arcelik's rights issue in 2Q09). Accordingly, we derive a US\$5,274 mn 12M target Mcap for Koc Holding, implying 31% upside potential from current levels and we thus initiate on the Company with a BUY rating.

Koc Holding - Sum of Parts Valuation (US\$mn)										
Business	Valuation Method	Market Capital US\$mn	Equity Share	Portfolio Value US\$mn	% of Total Port	Valuation Method	Equity Value US\$mn	Equity Share	Portfolio Value US\$mn	% of Total Port
Automotive										
Ford Otomotiv	Market Value	1,502	38.5%	578	13%	DCF	2,073	38.5%	797	16%
Otokar Otobus Sanayii	Market Value	202	44.7%	90	2%	DCF & Multiples	236	44.7%	105	2%
Tofas Fabrika	Market Value	934	37.6%	351	8%	DCF	1,356	37.6%	510	10%
Turk Traktor	Market Value	211	37.7%	80	2%	Market Value	211	37.7%	80	2%
Otokoc	2.0x 09E P/EBITDA	100	96.3%	96	2%	2.5x 09E P/EBITDA	100	96.3%	96	2%
Total				1,195	27%				1,588	31%
Consumer Durables										
Arcelik	Market Value	993	41.5%	412	9%	DCF & Multiples	1,018	41.5%	422	8%
Others	Multiples	66		3	0%	Multiples	66		3	0%
Total				415	9%				426	8%
Food										
Tat	Market Value	206	43.7%	90	2%	Market Value	206	43.7%	90	2%
Others	Book value	22		7	0%	Book value	22		7	0%
Total				97	2%				97	2%
Energy										
Enerji Yatirimlari AS	51% of Tupras-net debt	412	75.0%	309	7%	51% of Tupras-net debt	716	75.0%	537	12%
Tupras	Market Value	3,005	38.3%	1,150	26%	DCF & Multiples	3,718	38.3%	1,422	28%
Aygaz	Market Value	689	40.7%	280	6%	Market Value	689	40.7%	280	6%
Total				589	13%				817	16%
Others										
C. Altinyunus	Market Value	36	30.0%	11	0%	Market Value	36	30.0%	11	0%
M. Altinyunus	Market Value	31	36.8%	11	0%	Market Value	31	36.8%	11	0%
Others	Various	111		89	2%	Various	111		89	2%
Total				111	3%				111	2%
Finance										
Koc Financial Services	81.79% of YKB	5,305	37.6%	1,992	45%	81.79% of YKB	5,397	37.6%	2,026	40%
YKB	Market Value	6,486				Gordon Growth Model	6,598			
Koc Tuketici Finans	0.5 x P/BV	41	44.5%	18	0%	0.5 x P/BV	41	44.5%	18	0%
Total				2,010	46%				2,044	40%
Total Value of finance				2,010	46%				2,044	40%
Total Value of non-finance				2,407	54%				3,038	60%
Total Value of listed com.				4,204	95%				4,870	96%
Total Value of unlisted com.				213	5%				213	4%
Stand alone net cash				777					777	
NAV				5,195					5,860	
KCHOL Mcap				4,011					4,011	
Discount /Premium				-23%					-32%	
Target Mcap @10% conglomerate discount to target NAV									5,274	
Potential upside/(downside) to target Mcap									31%	
Current share price (TL)									2.56	
Target share price (TL)									3.46	
Potential upside/(downside) to target price									35%	

Source: ISE, BGC Partners' Estimates

Our positive view on Koc Holding is based on the following:

1) Defensive features: We think that Koc Holding's strong solo cash and diversified business mix will limit its downside risks in the current market environment vis-à-vis individual companies. We have seen a good example of diversification benefits during the challenging 1Q09, when Koc Holding managed to partially offset the poor performance of its energy, consumer durables and auto businesses with stronger performance in its banking business.

2) Leverage to growth: While offering defensive qualities at present, Koc Holding, as a major macro play and a market proxy, also allows investors to fully participate in the prospective recovery in the economy and potential re-rating in listed subsidiaries.

3) M&A prospects at the holding level: Koc Holding may deploy some of its stand-alone cash directly at the holding level, which means that this potential can only be tapped through a direct investment in the Holding shares. Historically, M&A prospects have been an important driver for holding companies, leading them to trade at high premiums to their NAVs. While we would not normally expect the high NAV premiums of the past to be repeated going forward, Koc Holding's NAV discount may at least narrow down to single digit levels with improving M&A expectations. We currently do not include any potential value for future M&As in our NAV model, which brings an upside risk to our valuation.

Potential Share Drivers

We see the following potential catalysts for Koc Holding shares in the coming period.

- **Faster than expected improvement in sentiment:** This will benefit Koc Holding due to its market proxy status as we have seen during the recent market rally. This may happen e.g. if Turkey strikes a deal with the IMF sooner than expected.
- **Economic recovery gaining further momentum:** Both Koc Holding and its underlying subsidiaries will benefit if current signs of improvement in the economy turn into a stronger and steady recovery. This will boost the sentiment for Koc Holding given its status as a direct play on macro recovery.
- **New M&As in core sectors:** Koc Holding plans to channel most of its solo cash into further growth in core sectors. In this respect, future M&As could be another trigger for Koc Holding shares depending on the assets acquired and prices to be paid. As we stated earlier, Koc Holding is particularly eyeing M&A opportunities in banking, energy and white goods sectors. In the banking sector, Koc is interested in acquiring a state bank, e.g. Halbank, which would

complement YKB strategically and/or a second tier private bank, if such an opportunity arises with another wave of consolidation in the sector. In the white goods sector, Koc has long been looking to acquire a premium brand and distribution channels in Western Europe, which would allow them to penetrate into the higher end of the market. Finally, in the energy sector, Koc Holding is interested in electricity generation projects (thermal power plants and renewable energy projects) and may thus participate in the upcoming power plant privatizations. Koc Holding may be directly involved in some of these deals (either on a solo basis or in partnership with underlying subsidiaries and/or other outside partners) if this is deemed necessary by the size of the deal. This would position Koc Holding as the primary vehicle for investors to exploit such prospects.

We see new acquisitions as more of a mid term catalyst for Koc Holding shares... Despite cheaper asset valuations on a global basis, there may not be much activity on acquisition front in the near term given the delays in the government's privatization schedule (important for bank and power plant acquisitions), continuing tightness in debt markets and Koc Holding's more cautious investment strategy in the current market environment. In our opinion, Koc Holding may opt to remain liquid for some more time unless a very lucrative opportunity comes up.

- **Further divestitures:** There are still some small non-core assets in Koc's portfolio, which may be put up for sale in the coming period. These may provide another trigger for Koc Holding shares depending on the transaction prices. However, like acquisitions, we see little scope for new asset sales in the short term given both less favourable market conditions and Koc's financial flexibility after the recent asset disposals.
- **Positive newsflow on underlying subsidiaries:** Positive newsflow on key subsidiaries (such as transfer of new manufacturing projects from Fiat and Ford to Tofas and Ford Otosan) will also benefit Koc Holding through a re-rating in related underlying companies.

Current NAV discount below historic averages... Koc Holding currently trades at a 23% discount to its current NAV. This is below both its average 12% discount since the beginning of 2006 (when the major transformation in its business portfolio began to take effect) and 19% average discount in the last two years.

Koc Holding – Historic NAV Premium/(Discount) Chart



Source: ISE, BGC Partners' Estimates

Koc Holding's NAV discount contracted from 24% in early March to 9% in mid-May (which is one of its lowest levels in the last two years) as the Holding outperformed most of its key subsidiaries (except for Tofas and Arcelik) during the recent market rally. Yet, this has widened back to 20-23% levels since then, which we attribute to a combination of profit taking in the shares and negative newsflow on Demir Export, Koc Holding's 2.34% owned unlisted mining company. To recap, Demir Export was alleged to have acted against the contract when supplying coal to a state owned power plant. Although these allegations were denied by the company, Koc Holding shares continued to remain weak and underperformed the market by 16% and listed subsidiaries by 12% since early June. In our view, this sell-off is overdone as Demir Export has only a negligible share in Koc Holding's financials (we do not even take it into account in our NAV calculations).

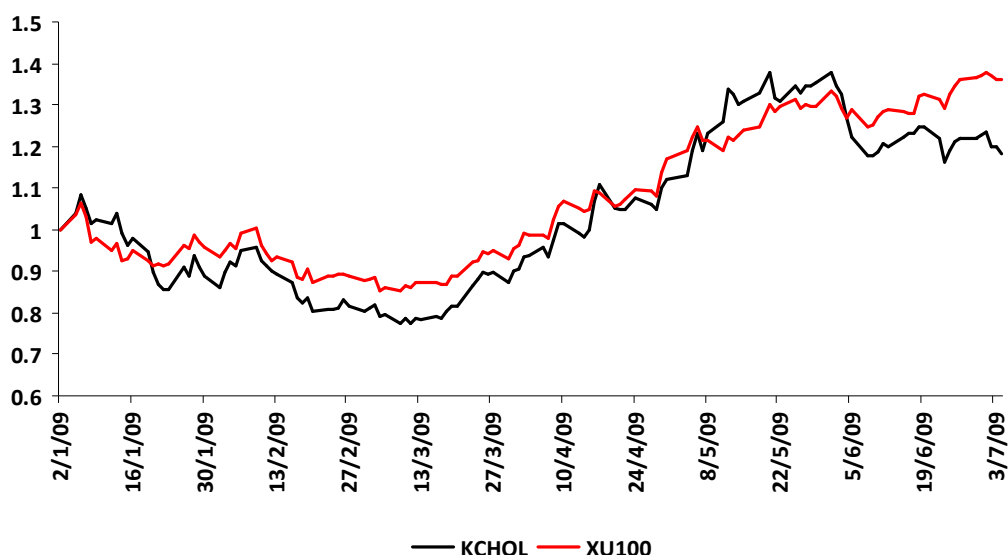
Koc Holding has traded as deep as a 38% NAV discount in the last three years whereas its lowest discount has been 5% in this period. While we would not expect a return to the deep 38% discount going forward, Koc Holding's NAV discount may very well move towards single digit levels with improving market sentiment and M&A expectations. Note that the 38% NAV discount seen in May 2008 was exceptional, mainly attributable to the large solo net debt and short FX position at the time. Yet, Koc Holding switched

back to a strong net cash position from early June 2008 and one again became a strong M&A player.

Market Performance

As a market proxy, Koc Holding outperformed the broader market by 12% during the recent market rally, which lasted from March 9 to June 1. Yet, due to subsequent sell-off in its shares as we mentioned above, Koc Holding still lags behind the market by 14% ytd and 11% yoy.

Koc Holding vs. ISE-100 Index

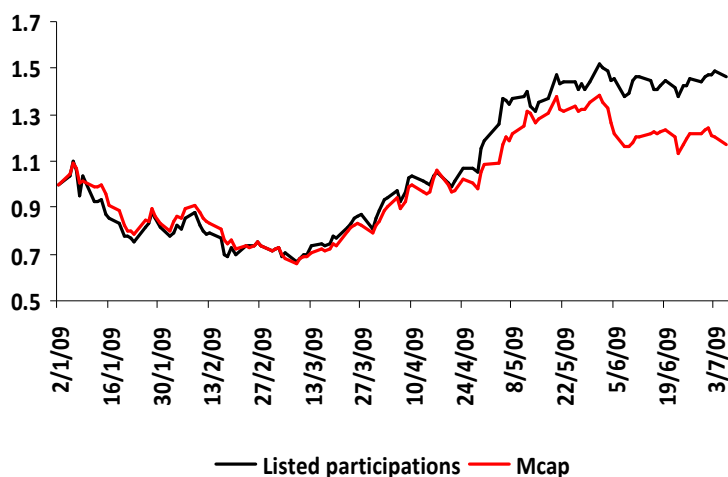


Source: ISE, BGC Partners

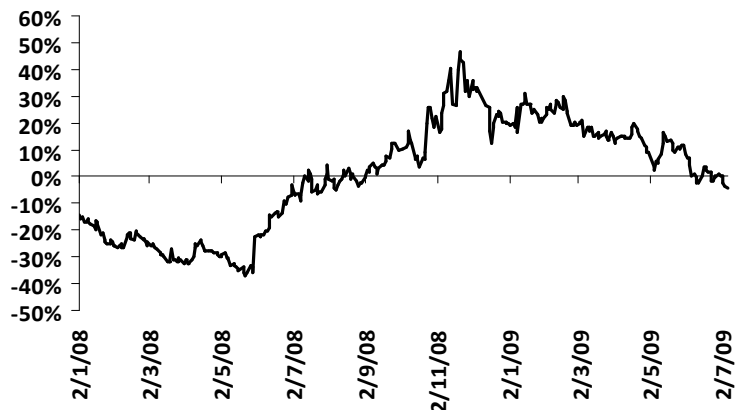
Koc Holding underperformed both Tofas and Arcelik during the recent market rally while beating YKB, Tupras, Aygaz and Ford Otosan. We attribute Tofas's and Arcelik's stronger market performances to temporary tax incentives in the auto and consumer durables sectors which became effective from mid-March. These incentives have been very helpful in terms of reviving the pent-up demand and depleting the excess inventories particularly in the automotive sector in 2Q09. In mid-June, the government extended these incentives for another three and half months until September 30, though at less supportive rates compared to the original package. While their impact is likely to be weaker in 3Q09 given the partial reversal in tax rates and demand saturation during 2Q09, this is still better than having no incentives at all. Thus, we view the extension of the tax cuts (even at lower rates) as slightly positive for Koc's consumer durables and auto subsidiaries and indirectly for Koc Holding.

Because of the recent sell-off in its shares, Koc Holding also underperformed its listed subsidiaries from early June and consequently, lags behind them by 17% over the last three months and 20% ytd.

Koc Holding vs. Listed subsidiaries



Koc Holding's premium/(discount) to listed portfolio



Source: ISE, BGC Partners

As shown in the graph on the right-hand side, Koc Holding has started trading at a premium to its listed portfolio from early September 2008, which we attribute both to a de-rating in its listed subsidiaries and to market's pricing of its strong cash position at the solo level. This premium has however narrowed down since late November 2008 and as a result, Koc Holding currently trades at a 5% discount to its listed subsidiaries. In other words, at current valuations, investors can buy Koc's Holding's strong solo cash and unlisted portfolio virtually for free.

Koc Holding - Income Statement				
(TL mn)	2007	2008	2009E	2010E
Net Revenues	46,802	55,631	42,919	52,718
Non-finance	41,420	49,798	37,300	46,436
Finance	5,383	5,834	5,618	6,282
Operating expenses	(43,208)	(50,595)	(39,780)	(48,749)
Non-finance	(38,542)	(45,612)	(35,065)	(43,557)
Finance	(4,666)	(4,983)	(4,715)	(5,193)
Operating income	3,594	5,036	3,138	3,968
Non-finance	2,877	4,185	2,235	2,879
Finance	717	851	903	1,089
<i>Operating margin (%)</i>	<i>7.7%</i>	<i>9.1%</i>	<i>7.3%</i>	<i>7.5%</i>
<i>Non-finance</i>	<i>6.9%</i>	<i>8.4%</i>	<i>6.0%</i>	<i>6.2%</i>
<i>Finance</i>	<i>13.3%</i>	<i>14.6%</i>	<i>16.1%</i>	<i>17.3%</i>
Financial income/(expense) net	473.0 -	1,955.1 -	776.5 -	650.6
Profit before tax	4,067	3,081	2,362	3,318
Taxation	(712)	(586)	(576)	(815)
Minority interest	(1,593)	(554)	(518)	(733)
Income from terminated operations	534	83	-	-
Net profit/(loss)	2,295	2,024	1,268	1,769
<i>Net margin (%)</i>	<i>4.9%</i>	<i>3.6%</i>	<i>3.0%</i>	<i>3.4%</i>
EBITDA*	4,331	5,851	3,929	4,839
Adjusted EBITDA	4,331	4,176	3,929	4,839
<i>EBITDA margin (%)</i>	<i>9.3%</i>	<i>10.5%</i>	<i>9.1%</i>	<i>9.2%</i>

Source: Company data, BGC Partners' Estimates

2008 EBITDA includes one-off gains from the sale of Migros and insurance subsidiaries

Koc Holding - Income Statement

(US\$ mn)	2007	2008	2009E	2010E
Net Revenues	35,955	42,822	26,532	32,032
Non-finance	31,820	38,332	22,988	28,155
Finance	4,135	4,490	3,545	3,877
Operating expenses	(33,194)	(38,946)	(24,589)	(29,619)
Non-finance	(29,610)	(35,110)	(21,614)	(26,414)
Finance	(3,584)	(3,836)	(2,975)	(3,205)
Operating income	2,761	3,876	1,943	2,413
Non-finance	2,210	3,222	1,374	1,741
Finance	551	655	570	672
<i>Operating margin (%)</i>	<i>7.7%</i>	<i>9.1%</i>	<i>7.3%</i>	<i>7.5%</i>
<i>Non-finance</i>	<i>6.9%</i>	<i>8.4%</i>	<i>6.0%</i>	<i>6.2%</i>
<i>Finance</i>	<i>13.3%</i>	<i>14.6%</i>	<i>16.1%</i>	<i>17.3%</i>
Financial income/(expense) net	363.4 -	1,504.9 -	489.9 -	401.5
Profit before tax	3,125	2,371	1,454	2,011
Taxation	(547)	(451)	(363)	(503)
Minority interest	(1,224)	(427)	(327)	(453)
Income from terminated operations	410	64	-	-
Net profit/(loss)	1,763	1,558	763	1,056
<i>Net margin (%)</i>	<i>4.9%</i>	<i>3.6%</i>	<i>2.9%</i>	<i>3.3%</i>
EBITDA*	3,327	4,504	2,427	2,936
Adjusted EBITDA	3,327	3,214	2,427	2,936
<i>EBITDA margin (%)</i>	<i>9.3%</i>	<i>10.5%</i>	<i>9.1%</i>	<i>9.2%</i>

Source: Company data, BGC Partners' Estimates

2008 EBITDA includes one-off gains from the sale of Migros and insurance subsidiaries

Koc Holding - Segmental Breakdown				
(TL mn)	2007	2008	2009E	2010E
Revenues				
Automotive	6,510	6,435	5,714	7,232
Consumer Durables	7,110	6,876	6,824	7,511
Finance	5,383	5,834	5,618	6,282
Energy	26,231	34,561	22,884	29,485
Other	1,568	1,926	1,878	2,208
Total	46,802	55,631	42,919	52,718
Share in Revenues				
Automotive	14%	12%	13%	14%
Consumer Durables	15%	12%	16%	14%
Finance	12%	10%	13%	12%
Energy	56%	62%	53%	56%
Other	3%	3%	4%	4%
Total	100%	100%	100%	100%
EBITDA				
Automotive	631	659	661	806
Consumer Durables	688	607	538	665
Finance	804	936	993	1,180
Energy	1,894	1,885	1,592	1,960
Other	316	1,765	146	229
Total	4,331	5,851	3,929	4,839
Share in EBITDA				
Automotive	15%	11%	17%	17%
Consumer Durables	16%	10%	14%	14%
Finance	19%	16%	25%	24%
Energy	44%	32%	41%	40%
Other	7%	30%	4%	5%
Total	100%	100%	100%	100%
EBITDA Margin				
Automotive	10%	10%	12%	11%
Consumer Durables	10%	9%	8%	9%
Finance	15%	16%	18%	19%
Energy	7%	5%	7%	7%
Other	20%	92%	8%	10%
Total	9%	11%	9%	9%

Source: Company data, BGC Partners' Estimates

Koc Holding - Segmental Breakdown				
(US\$m)	2007	2008	2009E	2010E
Revenues				
Automotive	5,001	4,953	3,356	4,217
Consumer Durables	5,462	5,293	4,008	4,380
Finance	4,135	4,490	3,545	3,877
Energy	20,152	26,603	14,438	18,196
Other	1,205	1,482	1,185	1,363
Total	35,955	42,822	26,532	32,032
Share in Revenues				
Automotive	14%	12%	13%	13%
Consumer Durables	15%	12%	15%	14%
Finance	12%	10%	13%	12%
Energy	56%	62%	54%	57%
Other	3%	3%	4%	4%
Total	100%	100%	100%	100%
EBITDA				
Automotive	485	507	388	470
Consumer Durables	528	467	316	388
Finance	618	720	627	728
Energy	1,455	1,451	1,004	1,209
Other	242	1,358	92	141
Total	3,327	4,504	2,427	2,936
Share in EBITDA				
Automotive	15%	11%	16%	16%
Consumer Durables	16%	10%	13%	13%
Finance	19%	16%	26%	25%
Energy	44%	32%	41%	41%
Other	7%	30%	4%	5%
Total	100%	100%	100%	100%
EBITDA Margin				
Automotive	10%	10%	12%	11%
Consumer Durables	10%	9%	8%	9%
Finance	15%	16%	18%	19%
Energy	7%	5%	7%	7%
Other	20%	92%	8%	10%
Total	9%	11%	9%	9%

Source: Company data, BGC Partners' Estimates

Koc Holding - Balance Sheet

		(TL mn)		
	2007	2008	2009E	2010E
Assets				
Cash & cash Equivalents	4,913	8,329	8,668	8,093
Financial investments	1,574	733	1,911	1,927
Trade receivables (net)	6,063	5,056	5,409	6,130
Loans and advances to customers (net)	9,477	13,109	13,657	15,979
Inventories (net)	4,527	3,674	4,655	5,572
Other current assets	3,952	1,813	1,859	1,982
Current Assets	30,506	32,714	36,158	39,682
Non-current assets				
Loans and advances to customers (net)	7,347	8,973	9,490	11,104
Financial assets (net)	6,642	6,860	5,732	5,781
Goodwill/negative goodwill (net)	3,524	3,534	3,534	3,534
Property, plant & equipment (net)	9,898	10,454	10,800	11,200
Intangible assets (net)	881	1,186	1,250	1,250
Other non-current assets	909	1,170	1,278	1,180
Non-current Assets	29,201	32,176	32,084	34,049
TOTAL ASSETS	59,707	64,890	68,242	73,731
LIABILITIES				
Banking Customer Deposits	16,792	20,616	22,677	25,118
Short term borrowings (net)	6,658	9,387	8,381	8,444
Trade payables (net)	4,670	3,400	4,476	5,665
Other current liabilities (net)	6,366	4,807	5,246	5,576
Non-current Liabilities	34,486	38,211	40,780	44,803
Banking Customer Deposits	139	276	229	254
Long term borrowings (net)	7,781	8,191	8,381	8,444
Other liabilities (net)	2,242	2,081	2,197	2,206
Total non-current Assets	10,163	10,548	10,807	10,904
Total Liabilities	44,649	48,758	51,587	55,707
Minority interests	7,206	6,382	5,654	5,255
Shareholders' Equity				
Share capital	1,746	2,013	2,415	2,415
Adjustment to share capital	967	967	967	967
Capital Reserves	22	-31	-61	-41
Profit reserves	211	502	572	552
Net income for the period	2,295	2,024	1,268	1,769
Retained earnings	2,611	4,276	5,840	7,107
Total Shareholders' Equity	7,852	9,749	11,001	12,770
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	59,707	64,890	68,242	73,731

Source: Company data, BGC Partners' Estimates

Koc Holding - Balance Sheet

	(US\$ mn)			
	2007	2008	2009E	2010E
Assets				
Cash & cash Equivalents	4,219	5,508	5,256	4,840
Financial investments	1,352	484	1,158	1,152
Trade receivables (net)	5,205	3,343	3,279	3,666
Loans and advances to customers (net)	8,137	8,668	8,280	9,557
Inventories (net)	3,887	2,430	2,823	3,333
Other current assets	3,393	1,199	1,127	1,185
Current Assets	26,192	21,632	21,923	23,734
Non-current assets				
Loans and advances to customers (net)	6,308	5,933	5,754	6,641
Financial assets (net)	5,702	4,536	3,475	3,457
Goodwill/negative goodwill (net)	3,026	2,337	2,143	2,114
Property, plant & equipment (net)	8,499	6,912	6,548	6,699
Intangible assets (net)	756	784	758	748
Other non-current assets	780	774	775	706
Non-current Assets	25,072	21,276	19,453	20,365
TOTAL ASSETS	51,264	42,908	41,376	44,098
LIABILITIES				
Banking Customer Deposits	14,418	13,632	13,749	15,023
Short term borrowings (net)	5,717	6,207	5,081	5,050
Trade payables (net)	4,009	2,249	2,714	3,388
Other current liabilities (net)	5,466	3,179	3,181	3,335
Non-current Liabilities	29,609	25,267	24,725	26,796
Banking Customer Deposits	119	183	139	152
Long term borrowings (net)	6,681	5,416	5,081	5,050
Other liabilities (net)	1,925	1,376	1,332	1,319
Total non-current Assets	8,726	6,975	6,552	6,521
Total Liabilities	38,335	32,241	31,278	33,318
Minority interests	6,187	4,220	3,428	3,143
Shareholders' Equity				
Share capital	1,499	1,331	1,464	1,444
Adjustment to share capital	831	640	586	579
Capital Reserves	19	-21	-37	-24
Profit reserves	181	332	347	330
Net income for the period	1,971	1,338	769	1,058
Retained earnings	2,242	2,827	3,541	4,251
Total Shareholders' Equity	6,742	6,447	6,670	7,638
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	51,264	42,908	41,376	44,098

Source: Company data, BGC Partners' Estimates

BGC Istanbul Stock Ratings

Rating	Definition
STRONG BUY	The analyst expects with high conviction that the stock will generate a total return of at least +30% in USD terms over the next 12 months.
BUY	The analyst expects that the stock will generate a total return of at least +15% in USD terms over the next 12 months.
HOLD	The analyst expects that the stock will generate a total return of less than +15% in USD terms over the next 12 months.
SELL	The analyst expects that the stock will generate a negative return in USD terms over the next 12 months.
Total return	Forecast percentage change in share price over the next 12 months from the current price + the forecast dividend yield

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