

## 11. KOÇ HOLDING MEETING TO INFORM THE PRESS AND PUBLIC

### SPEECH OF F. BÜLEND ÖZAYDINLI

#### “Target: 2014”

Koç Holding CEO F. Bülend Özaydınlı discussed the present economic situation in Turkey at the 11th Press Conference to inform the Press and the Public and provided information about the developments in Koç Group. He also spoke about the Koç Group that is envisioned as a result of the fulfillment of strategic targets.

The 11th Press Conference to inform the Press and the Public took place at Koç Holding in Nakkaştepe on the 27th of February 2004. As he presented an assessment of the current situation and economic developments, Koç Holding CEO F. Bülend Özaydınlı said, “We are in a period of economic development. What is important is for this positive picture to be sustainable.” Bülend Özaydınlı mentioned that one of the questions marks in people’s minds at the beginning of 2003 was about the determination of the government in carrying on with the economic reform program that was already initiated and the process of integration to the EU. He also said that, “There were concerns regarding the approaching war in Iraq and the uncertainties regarding the role Turkey would play in such a development.”

“Our Government is to be congratulated”

Özaydınlı mentioned that the war in Iraq ended sooner than expected, the economic program was continued despite some delays, progress in EU harmonization increased confidence and allowed for the markets to improve. Özaydınlı went on to say:

“We are in a period of economic growth. As citizens, we are happy to observe these developments, especially the increase in exports and imports. Domestic demand was revitalized. Inflation went down to a 30-year-low, foreign currency reserves grew and annual interest rates dropped from 70% to 25% in a year. This picture shows that the realization of the suggestions that we, as businessmen, have been keenly insisting on for years has yielded a very positive result.”

“What needs to be done to carry on with success”

“We would like to see 2003 as the beginning of such a period. However, it is important to ensure that this development is a sustainable one. Therefore, we should not relax because of the success achieved so far and remember that any mistakes could rapidly cause the deterioration of balances”, said Bülend Özaydınlı and he listed what needed to be done for continued success:

- “The stand-by agreement signed with the IMF in 2001 and currently under implementation will expire in 2004. Considering the fact that Turkey will have to service heavy debt in 2005 and 2006, there is merit in starting the preparations for a new medium to long-term program in close cooperation with international institutions.

- If one of the two most important and determining elements of the economic program is the decisiveness and efficient functioning of an independent Central Bank, then the other one is the budget discipline that has been achieved. Fiscal discipline is the main policy tool to reduce inflation and inflationist expectations permanently, pull interest rates down, reduce debt burden, increase medium to long-term growth potential and render the real valuation of the exchange rate permanent.
- One of the main elements of this policy is fairness in taxation and supporting the budget by expanding the tax base. In other words, not to keep taxing the taxpayer, but to tax those who are unregistered. However, “the law on major stores” that is currently under discussion does not take this objective into consideration. Barriers to the registered and organized retail sector that fulfills its obligations should not be created at the expense of trying to help others in the sector that do not comply with these requirements. Instead, sector-specific incentives may be utilized in different ways.
- Privatization has been an area where the government has been unsuccessful in 2003 despite their serious efforts. Improving implementation in privatization may help improve chances for success.
- Positive developments in our economy have led to a serious increase in imports. As a result, our current accounts deficit increased consistently to reach 4.2 billion dollars. The ratio of exports to imports is at 70% and the ratio of the current deficit to national income is at 2.5% and they do not constitute any serious concern at the moment. However, the financing of this deficit is important.
- The various crises in recent years have led to an exemplary solidarity in the Turkish industrial sector. As a result of a very healthy dialogue between the employers and workers, both parties have managed to survive these crises with minimum damage.
- Presently, the economic indicators are improving but a sufficient increase in employment has not been observed yet. If the atmosphere of mutual understanding that exists is forced by excessive demands and labor peace is endangered, it will not be possible the increase production, attract foreign capital to Turkey and increase employment. It is in Turkey’s interest to act with mutual commonsense and, for everyone including the press, to support this understanding.
- If the Cyprus problem can be resolved through the joint efforts of both parties and a solution that protects the interests of both parties is reached, there will be a serious improvement in economic indicators and an important stage in Turkey’s EU membership will have been realized.
- Our government has passed very important legislative amendments in order to initiate negotiations with the EU. We are all currently focused on the Cyprus talks. On the other hand, the most important element in the decision to be taken by the EU will be the impact of the implementation of the laws that have been passed. This also has to do with the extent to which these changes have an impact in our daily lives. For this reason, any shortcomings that may exist both in legal infrastructure and implementation need to be improved as soon as possible.”

## Activities realized by the Koç Group in line with Strategic Objectives

After this overview of the situation in Turkey, Bülend Özaydınlı gave information about the developments in Koç Group and the activities realized to achieve the strategic objectives.

“Bülend Özaydınlı reminded the main objective of the Koç Group as: “To be one of the leading companies in Europe by realizing rapid and profitable growth and to improve the quality image of Turkish products and brands.” He went on to say, “We aim to grow by 14% on average annually and create value for our shareholders by making profits that exceed our capital costs.” Özaydınlı said, “Our expectation is a sustainable growth rate of 5-6% annually for a few consecutive years. In such case, we as the Group target a 14% growth rate which is 2.5-3 times the growth rate. If this is achieved, then Turkey’s reputation and position in Europe and the world will improve and the place of Koç Group that grows against this background will be very different in the world markets.”

Bülend Özaydınlı said that the aim of the Group was to take the necessary steps to achieve the vision stated above for the Koç Group. He listed the developments that have been taking place to implement the strategy to “increase international revenue and realize an increasing portion of our turnover from our international operations”:

- Beko Elektronik, together with our partner, bought one of the best-known brands in Europe, Grundig, with its patent rights, R&D, service network and European sales force. As a result of this development, we aim to further increase the market share of Beko which is the third largest manufacturer in Europe. 2003 exports of Beko reached 560 million dollars and 810 million dollars of exports is planned for 2004.
- The restructuring activities at companies bought by Arçelik in Europe last year will continue. Arçelik’s 2003 consolidated international revenue that stood at 1 billion dollars will reach 1.2 billion dollars in 2004 with a consolidated turnover of 2.4 billion dollars.
- In 2003, Ford Otosan increased its export revenue by 156% compared to the previous year and reached 880 million dollars. 2004 export target is a 64% increase reaching 1.440 million dollars.
- Tofaş exported 83.000 vehicles in 2003. Next to Ford Otosan, it is the second largest exporter in the Group with 770 million dollars. Tofaş is working on the production of another export model in addition to Fiat Doblo.
- Türk Traktör increased its production 4.5 times as a result of a new export model and increased its export revenue by 515% to 127 million dollars.
- Migros continued to grow internationally.
- Last year, 11 new stores and one new shopping center were opened internationally.
- With these new stores, the total number of stores reached 34 while the number of shopping centers reached 7.
- Our international turnover in the retail sector in 2004 will reach 520 million dollars.
- After having concentrated on Moscow for its investments in Russia, Migros is looking for investment in areas outside of Moscow since 2003. In line with this strategy, the first stores in Tataristan and Siberia were opened in 2003.

- Aygaz and Opet jointly formed a company and entered the fuel oil and LPG market in Bulgaria. As a result of this effort, we aim to get a 6.5% share in the fuel oil and a 16% share in the LPG market in Bulgaria in five years.
- Aygaz and Opet began to export fuel oil and LPG to Iraq after the war and so far exported 360 million dollars of fuel oil and LPG. Since the beginning of shipment, almost half of the need for white products was met by Opet.
- Türk DemirDöküm activated the radiator factory established with a local partner in China last month. Targeted production in the initial stage is 300.000 radiator units and capacity may go up to 2.300.000 units depending on demand.

#### Concentration on Businesses that are Closest to the Consumer

Bülend Özyaydınlı summarized the developments that took place in line with the strategy to “concentrate on businesses where we are competitive, successful and closest to the consumer”:

- “Düzey continues to develop its distribution network. Düzey had access to 24.000 sales points at the end of 2002 and increased this number to 104.000 in 2003.
- Tat established a 50%-50% partnership with Tariş to produce rakı and plans to become operational by the end of 2004. This company aims to reach a 10% market share by the end of 2006 by utilizing the distribution network of Düzey.
- Opet continues to grow rapidly. The number of Opet and Sunpet stations increased to 1147 at the end of 2003. We are currently focusing on investments for stations in big cities. In parallel with these developments, our market share in the fuel oil market increased from 10.6% last year to 12.5%.
- The turnover of Aygaz increased by 42% compared to the previous year and the number of Oto Aygaz stations reached 398.
- Our electricity production company Entek bought the majority shares of Türk Edison in İzmit. The established capacity of Entek doubled to 217 MWs as a result of the capacity of Türk Edison and the investments completed in 2003. Entek also established a company called “Eltek” in order to actively engage in wholesale electricity purchasing and sales.
- The profitability of our Finance Group before tax increased by 270% compared to the previous year to 280 million dollars as a result of developments in the main banking activities, efficient expense control and increased overall efficiency. In 2003, Koçbank branches reached 143; the total number of credit cards reached 428.000 with a 36% increase; and the number of customers reached 1.9 million with a 27% increase.
- Koç Allianz companies realized the highest increase in technical profits before tax in its sector in 2003. Koç Allianz Life and Retirement Company completed its preparations and became one of the first companies to offer services in individual pension funds.
- In order to achieve the long-term growth rates stated in our main objectives, we aim to enter new businesses in addition to our present activities. The privatization program underway offers important opportunities. We set the privatization of Türk Telekom and the National

Lottery as priority targets because they fit to our strategies and the character of our Group and we have started to work on these issues.”

Bülend Özaydınlı said that the Group maintained and even developed its leadership position in many sectors in 2003 in parallel with the strategy of “being the leader or the close follower in our sectors” and he gave the following examples:

- “In 2003, Ford Otosan is the leader of the Turkish automotive market while Tofaş ranks third. The total share of our Group in this market where almost all of the brands produced around the world exist is 28.3%.
- In 2003, our Group companies realized 47% of motor vehicle production in Turkey. The share of our companies in total motor vehicle exports in Turkey is also 47%.
- In 2004, the total turnover of our main automotive industry companies will reach 4.9 billion dollars while exports will reach 2.4 billion dollars.
- In 2003, Arçelik realized 58% of total white goods production in Turkey and 62% of total exports. Beko Elektronik got a 34% share in TV production in Turkey and 33% in exports. Both of these companies are market leaders in domestic market share. Türk DemirDöküm and Arçelik LG companies maintain their leadership in production and sales for natural gas heating units and air conditioning products.
- The merger of four food companies under Tat was completed in August. In line with our goal for being one of the leading companies in the food sector in Turkey, we entered into new product categories and we plan to strengthen our position by including other growing and profitable categories in our product portfolio.
- Aygaz continues to be a leader in LPG distribution in Turkey. Opet recently entered the fuel oil distribution business and ranks fourth. We aim to improve our ranking further.
- We are achieving great progress with our strategic partners in financial services and insurance business in order to grow rapidly in these sectors and become market leader.
- Koçbank is the fifth largest private bank in Turkey and increased its branch network from 84 to 143 in three years.
- Koç Lease maintained its leadership in 2003.
- Koç Portföy became the third largest portfolio management company in Turkey in the fund and portfolio management market.
- Koç Yatırım is the leader amongst other investment companies in the market in terms of bond and repurchase transaction volume.
- Koç Faktoring is the largest factoring company in Turkey at the end of 2003 with the highest market share in total and international business volume.
- Koç Allianz that ranks second in its sector started to work with individual pension fund schemes and aims for market leadership in individual pension funds as in all other insurance services.”

Bülend Özaydınlı summarized the steps taken in line with the strategy of “increasing our brand value and dominating technology in our sectors”:

- “Beko Elektronik acquired one of the best-known and respected brands in Europe by buying Grundig and also owns its R&D and current 717 patents. As a result, Beko Elektronik is not only a producer in the European consumer electronics market, but has also become one of the most ambitious players with a brand and technology.
- According to the results of an independent survey, Arçelik maintained its position as the best-known brand in Turkey this year. In the same survey, Beko ranked second and Aygaz, Migros and Tat were first in their categories.
- According to another survey, Arçelik was first among the most admired companies in Turkey while Koç Holding came third.
- As a result of a survey among professional executives conducted by a periodical, Koç Allianz was selected as the “most admired company of the insurance sector” in 2003 as in 2001 and 2002.
- The emphasis on technology is a major underlying factor in Arçelik’s success. Arçelik applied for more than 150 patents in the last four years and holds the record as the local company with the highest number of patents in Turkey. Arçelik was awarded for all of these efforts by receiving the first place for Turkey in a competition organized by the European Commission. The EU Commission selected Arçelik refrigerators as the refrigerator with the least energy consumption in Europe among 900 products.
- Ford Otosan developed its new 2003 Ford Cargo truck completely independent of its partner by utilizing its own technology from the body to the engine. The engine of the vehicle, “Ecotorq”, is the first engine ever to be designed completely in Turkey.
- As a result of its success in technology development, Ford Otosan took over all product development and engineering responsibility for the Transit Connect that is in production since 2002.
- In line with the emphasis we place on being close to the consumer and creating brand value, we established a system to evaluate customer satisfaction for our brands. With this system, we measured customer satisfaction in 34 Koç products and brands as well as 100 products and brands of the competition. We determined improvement targets for 2004 based on these results and included them in our company performance targets.”

#### 2004 Targets...

The last part of Bülend Özaydınlı’s speech was about the 2003 results and 2004 targets. As usual, this data was prepared according to International Accounting Standards:

- “The total combined turnover of Koç Group increased by 82% compared to 2002 (Euro 52%, TL 36%) and reached 17.9 billion dollars. The program target for 2004 is an increase of 9% (Euro 18%, TL 15%) to 19.5 billion

dollars. Our growth in 2003 has been above the general growth in Turkey. The main reasons for this are;

- The continuation of rapid growth in exports and our international activities.
- The above average increase in domestic demand for automotive and consumer durables that constitute a major part of our sales.
- Opet that was bought at the end of 2002 contributed to the turnover.
- Our exports reached 3.7 billion dollars with a 60% (Euro 38%) increase in 2003 and our target for 2004 is 4.7 billion dollars with a 26% (Euro 24%) growth. With these figures, Koç Group has realized 8% of total exports in Turkey.
- Our total international revenue grew by 56% (Euro 35%) in 2003 to reach 5 billion dollars. In 2004, we aim to reach 6 billion dollars with a 20% (Euro 18%) increase. With these results, 31% of our turnover will have been realized through international revenue.
- Although the auditing of our accounts is not complete yet and the figures are not final, our profit before tax increased by 320% (Euro 255%, TL 220%) and reached approximately 1.100 million dollars. And a very important indication is that our operating profit is equal to our profit before tax. This points out to a healthier economy.
- In 2003, our investments as the Group reached 493 million dollars. Our program for 2004 calls for an increase of 50% to reach 741 million dollars.
- Our headcount increased by 4700 and reached 54.800 at the end of 2003. We plan to increase our headcount by 6.300 to reach 61.100 at the end of 2004.”

Koç Group will continue to be a source of pride for Turkey

Bülend Özaydınlı also spoke about important opportunities that exist for Turkey and said that, “We believe with all our heart that Turkey will make good use of these important opportunities and become one of the strongest, respectable and leading countries in the world and in Europe. As the Koç Group, we are ready to do what we can. If we succeed, Koç Group will also become one of a handful of leading companies around the world and will continue to be a source of pride for Turkey.” Özaydınlı completed his remarks by saying, “I repeat what we always say: We trust in the future of Turkey and we work for that future.”

Koç Group Vision in Ten Years

If we implement our plan and achieve the targets I mentioned, then we will have a Koç Group that looks like the following:

- Closest to the consumer with all of its products and services, management, employees and dealers,
- Leader or a close follower in all of its sectors,
- More internationally oriented and realizing at least half of its sales in international markets,
- A candidate for leadership in all of its sectors in the neighboring markets of Turkey,

- Has a leading edge in technology in its sectors, develops its own technology and produces very innovative products and services by using this technology,
- Owns quality brands that are well known in Turkey and in international markets,
- Employs the best and talented professionals,
- Matches big European companies in sales volume and continues to grow,
- Is an attractive company for investors because of its profitability, high efficiency, high returns for partners,
- An example in terms of transparency, integrity, respect for laws, and ethics,
- And, as a result of the above, “a Koç Group that is considered to be among the leading companies around the world as a highly-valued company.”

#### Notes From the Press Conference

Koç Holding CEO Bülend Özaydınlı responded to question during the 11th Press Conference to inform the Press and the Public:

- We are interested in telecommunications as a sector. This includes line operations and GSM. We talk about Türk Telekom because it will be privatized. In the same way, if there is an opportunity for GSM operations, we will be interested.
- All of our companies continue to have organic growth of their own. If the companies are to maintain their leadership in their sectors, then they have to do that by increasing investments. You will see in the coming years that this investment potential will lead to faster growth.
- We say, “Turkey will and must increase its exports in the near future.” However, we need to carefully analyze areas for export in order to grow this business. We see that Europe is the place to concentrate on. There is fierce competition in Europe. Therefore, Turkish companies need to be competitive in order to increase their exports to this region. They have to be more competitive than other manufacturers around the world. This can only be realized through efficiency. It is also important to reduce costs. We have the chance to succeed in European markets depending on how successful we are in controlling the factors I just mentioned.
- Turkey is in a process of serious growth after the economic crisis. If we review what has been done recently, we see that there is only one thing missing. That is the implementation of the legislation and laws in a determined fashion.
- Our colleagues initiated an important study on the transition to the new Turkish Lira. The transition to the new Turkish Lira is important and has many dimensions. This must be very carefully analyzed. As the Koç Group, we are making necessary preparations.