

10. KOÇ HOLDING MEETING TO INFORM THE PRESS AND PUBLIC

SPEECH OF F. BÜLEND ÖZAYDINLI 25 SEPTEMBER 2003

Distinguished representatives of the press and the finance world,

Dear colleagues,

We are gathered here at another one of our information meetings which were started according to the principle of transparency, an important prerequisite of Corporate Governance, and which have become traditional. We started to organize these meetings more than four years ago and we are now holding the tenth meeting. In this period, both the world and Turkey went through very serious turbulence and many significant changes took place.

In the past four years, there were terrorist acts which shook the world, wars, crises in the global economy, as well as crises in Turkey. At the same time, there was a structural transformation in the political and economic arenas, especially in Turkey.

In this period of many ambiguities, as a member of the business world, we tried to see ahead of us; we met with you on a regular basis in an effort to share with you our opinions about the present conditions, our expectations about the future, what we have done and what we plan to do in our business. Today I will try to give you some general information about these topics.

However, one aspect differentiates this meeting from the others. For the first time in years, there is an obvious improvement in the economic indices. The structural reform program that has been implemented for the past couple of years is finally bearing its fruits. Although there is still a lot more to be done, there is more hope that Turkey is entering a period of rapid and stable growth.

You will remember that I had shared our strategic plan with you at various occasions and had said that we believe that Turkey would enter a period of sustainable growth due to the structural transformation program and that our plan was based on this scenario.

We had held the previous meeting right after the Iraq war when there were many ambiguities. In that meeting, I had enumerated our suggestions to overcome the ambiguities and to establish stability; I had said that the most important issue was the new government's adoption of the economic program and its implementation in a determined manner in order to establish confidence in the market. Since then, the government has taken some significant steps about the economic program and has helped to gradually recreate an environment of trust.

Here is the current economic outlook which gives us hope:

- For the first time in 21 years, the inflation rate is down to 22% and it continues to decrease. The determination of the government played a role in this success, as well

as the autonomy of the Central Bank, its independence in implementing its policies and its growing reputation. The primary precondition of continuing to decrease the inflation rate and of sustaining the single-digit inflation rate that we aim to achieve is to improve the public finance balance in an irrevocable manner.

- The Turkish Lira appreciated significantly in parallel with the increase in confidence, as the speculative move in the foreign exchange markets during the war was reversed. These days, the dollar exchange rate is below the level it was at two years ago. The appreciation of the Turkish Lira is an indication of the creation of an environment of confidence.

- The nominal interest rates which had gone up to 70% due to the war are now down to less than 35%, thanks to the environment of confidence. It is important to emphasize the impact of the government's adoption of the economic program in establishing an environment of trust. The anticipated inflation and real interest rates are decreasing significantly under the current circumstances. Naturally, the deceleration in real interest rates will decrease as the interest rates decline; however, there is an obviously downward trend.

- Industrial production continues to increase thanks to the contribution of exports and the positive expectations about the future; it grew by 8.2% during the first 7 months of the year. The national income grew by 5.4% during the first half of the year.

These rates indicate that both financial contraction and disinflation have a positive impact on the growth process in countries like Turkey where there are dominant debt problems. The process Turkey is going through will make significant contributions to answering the questions about the balance between inflation and growth.

- Exports continue to increase, in spite of the higher than expected appreciation of the Turkish Lira. In the past 12 months, exports broke a record by exceeding \$41 billion. Exports grew by 31% in 7 months; a new record is broken every month. One of the most important reasons for this development is the focus of companies on efficiency after the crisis. To give an example, 80% of the Koç Group's combined profit comes from its main activities.

While exports increased continuously, imports also increased rapidly; therefore, our foreign trade volume reached the highest level in our history. The growth in foreign trade deficit also increased; however, this deficit is below dangerous levels when compared with previous years. The exports to imports ratio is 70%. In the years before the crises, this ratio was 51% in 2001, 54% in 1997 and 52% in 1993, to cite a few examples.

- The budget had a surplus in August for the first time in 26 months. 77% of the targeted primary surplus was reached at the end of 8 months.

- The Central Bank's foreign exchange reserves which reached \$30 billion and the total international reserves which reached \$42 billion are at the highest levels in their history.

- Expectation surveys published by various institutions indicate that the improvement process in the economy will continue. The surveys show that the growth forecasts are improving and a decrease is forecasted in the inflation and interest rates.

- Analyses about the internal debt stock indicate that there are some very positive changes. The lender base is moving from the public sector to the private sector and from the banking sector to the non-banking sectors within the private sector. Although these are very positive developments, we believe that the margin of error in debt servicing is getting narrower and that we need to be more careful in the period ahead of us.

Undoubtedly, it is much healthier to take decisions and to conduct business in an environment where economic balances are maintained. Naturally, it is important to maintain this positive situation and to make it sustainable.

Distinguished members of the press,

At this point, I would like to draw your attention to an important point: nobody should get complacent about the positive economic outlook; we should not forget that there is still a lot more to be done.

- The tasks to be carried out by the government within the framework of the economic program implemented jointly with the IMF are indicated in the Letters of Intent according to a certain time schedule. "The Public Finance Administration and Control Law", which is part of the current agenda and which had been committed to, has been delayed due to delays in reforms such as the second tax reform package. The period between the beginnings of the new judicial year and the sixth review is very short. It is vital to maintain the determination about the reforms and to comply with the schedule. We should not forget that the current environment of confidence is the result of the program and the structural reforms. It is vital to implement the commitments in the program in time, in order for the government to not lose its credibility in the domestic and international markets.

- The budget actuals in August give hope about the future. However, one should not forget that the one-off tax adjustments have contributed to these results. The public finance figures will need to continue reflecting some primary surplus in the coming years in order to maintain the public debt. It is thus necessary to implement reforms to give continuous support to the budget, such as the SEE reform, social security reform and direct tax reform. As long as the government does not exhibit a strong and reformist approach in the financial arena, there will be doubts about the medium-term expectations, even though fiscal discipline may be achieved in the short term.

In this context, potential expenditures for the local elections to be held next spring should not have a negative effect on the budget deficit; in addition, the 2004 budget for which the preparations will start soon should comply with the primary surplus targets envisaged in the economic program.

- The public has been interested in the current deficit, in parallel with the appreciation of the Turkish Lira. In fluctuating currency regimes, only the market determines the exchange rates.

However, the fact that the Turkish Lira has been appreciating for a long time is creating doubts and making people wonder whether there may be a sudden depreciation, as was the case in 2001. It is natural for the local currency to appreciate in an economy which has undergone significant structural changes and which is believed to have improved its macroeconomic balance. In addition to the global and domestic demand for goods, services and assets, shocks, news and expectations gain significance until the end of the normalization process; the exchange rates will fluctuate up or down according to the recent news. The fact that the news and shocks are usually positive plays the most important role in the appreciation of the domestic currency.

However, it would be healthier to have a gradual –if any– increase in the exchange rates, rather than rapid fluctuations. A sudden drop in the value of the Turkish Lira can carry the country to new crises. At this point, confidence becomes a top priority once more. If there are more debts in public finance than envisaged in the program, one can expect rapid fluctuations in the exchange rates. Therefore, I would like to emphasize the sensitivity of public finance once more. Taking concrete steps to downsize the state in order to take debts under control and to decrease their ratio to the national income will help sustain the economic developments.

- Another important aspect of current deficit is how debts are financed, rather than their size. Thanks to the environment of confidence that has been created, significant amounts of money enter the system from abroad or from personal funds. These resources which are positive in the short term need to be replaced by sound and permanent funds in the medium and long terms. There are examples of this around the world. For example, Brazil, a country whose similarity to Turkey is often emphasized, attracts significant amounts of direct foreign capital every year and does not experience significant problems in financing its public debt. The average direct foreign capital investment made in Brazil in the past years is \$24 billion, whereas the level in Turkey does not exceed \$1 billion.

It is unacceptable that while Turkey has a 1-3% share in the developing country portfolio of foreign funds after the economic crisis, Russia has a 22% share. In order to ensure that Turkey attracts the desired level of foreign capital, it is important to take steps to improve the investment environment, as well as to exhibit determination in implementation and to use macroeconomic balances to show that this is a period of stability.

- The most important problems on the economic agenda are increasing unemployment and decreasing purchasing power after the crisis. According to the official figures, the unemployment rate was 6.6% in 2000; it is now 10% according to the most recent data. Encouraging domestic and foreign investment and using the country's limited resources in the most efficient fields can increase the employment rate. It is essential to revitalize the concept of 3-5 year plans which impose principles on the public sector and guide the private sector. In this framework, investment incentives should comply with the norms in the West.

- The bankrupt banks in the finance sector which began a period of restructuring after the February 2001 crisis put a significant burden on the state. The state and

therefore taxpayers were in a way obliged to bear the burden of the banks' irresponsibility. In fact, banking should be based on trust between the citizens and a bank's management. Banks should not be allowed to work by abusing the citizens' goodwill under the guarantee of the state and the state's guarantee for deposits should be brought down gradually to the European Union's norms.

- The IMF program includes the guarantee that autonomous councils would take decisions independently from the political authority. The independent implementation of such rules will support Turkey's harmonization process with the European Union

To summarize, Turkey has a historical opportunity in the economic sphere. The economic indices are positive. However, some risks may arise once again if there are deviations from the current program. We believe that the state will make the best of the current situation and will do its best to attain historical and permanent success in the economy which is going through a sensitive period.

Moving to the subject of foreign politics, a number of very important issues that will have an impact on our future are currently on the public agenda:

- Sending troops to Iraq is a matter closely followed by our people. However, we should try to put our emotions aside and think about our national interests to carry out a comprehensive risk assessment. The biggest risk for Turkey is for the unrest in Iraq to continue and for the country to disintegrate. The security problems that may arise in such a situation will not only threaten Turkey but all countries of the region for many years to come. Turkey cannot protect her interests or change the flow of events by staying indifferent to what is going on in a neighboring country or by using other countries. For this reason, Turkey must act in line with its own interests.

- Turkey has entered a critical turn on the subject of full membership to the EU. As it was decided at the Copenhagen Summit in December 2002, the EU Commission reports must be favorable for Turkey to start negotiations at the end of 2004. The government has been taking some brave, decisive steps towards the EU. In this framework, the 6th and the 7th reform packages have been prepared. However, as it is stated in the EU reports, Turkey must also display decisiveness in implementing the reforms and the man on the street must feel their concrete benefits.

At the next stage, there are great benefits for the government to launch new activities for the implementation of reforms and for the promotion of Turkey at the EU. These activities should be carried out in the framework of a plan and strategy to be formed jointly by the private sector and NGOs. Both foreign and domestic public opinion should be the target of such a promotional effort. The discussions on harmonization with the EU should not delay these decisions.

- Shortly after the elections, the government has displayed decisiveness in solving the Cyprus issue. However, in spite of all the good will efforts, so far this matter has reached a concrete conclusion. May 2004, when the Greek Cypriot side will become a full member to the EU, is a date of no return. Postponing the issue will not be of benefit to anyone. Before any pressures come about, our government should take initiative and exert concrete efforts for a solution.

Distinguished Members of the Press;

Let us now move on to important developments within the Koç Group.

As you will remember, we had started the year with ambitious targets for 2003 that were prepared in line with our ambitious strategic plan. We have taken many important steps in reaching these targets. I would like to briefly talk about these.

In the Automotive sector, we continue our rapid growth in the domestic and foreign markets.

- Ford Otosan has increased its production by 258 % in the first 8 months of the year, compared to the same period last year. Our domestic sales have increased by 124% and our exports by 383 % compared to last year. The success of Transit Connect, which we started to produce last year, has had an important share in these results.

We expect Ford Otosan's exports to reach € 740 million at the end of the year. The target for 2004 is around € 1.5 billion.

The Transit production that will be moved here from Belgium will also greatly contribute to our exports.

On the other hand, in the coming months, Focus C-Max will be joining some of the other models launched this year, such as Ford Street Ka and Fusion.

In line with our target of increasing investments in technology and R&D as outlined in our strategic plan, the new Ford Cargo truck was developed solely by Turkish engineers from the body to the engine and was launched at the end of last month. We have thus strengthened our traditional competitive position in the Turkish truck market and we also hope to get a share of the export markets.

- Tofaş has increased its production by 32 % and its domestic sales by 56 %. Our export expectation for the year-end is € 720 million.

This year, Tofaş has launched Stilo, Palio Van, Palio Go, Doblo Combi, Punto and the new Alfa Romeo 156 models as well as the diesel versions of various models.

Ford Otosan is the leader and Tofaş ranks in third place in the Turkish automotive market. The total market share of our two companies is 26 % in this country where each company competes with all of its models.

- Türk Traktör has increased its domestic sales by 138 % and its production has increased 5 fold compared to last year. The new series of tractors that we have started to export have had an important contribution in this. Thanks to these results, Türk Traktör now exports half of its production.

- This year, Otokar has launched the Sultan model, a new midibus developed by the company.

We also continue with our rapid growth in Durable Goods.

- In the first 8 months, Arçelik has increased its exports of durable goods by 42 %. The increase in total production has been 29 %. Arçelik Group's consolidated turnover is expected to go up to € 1.9 billion this year.

The restructuring activities in the companies Arçelik has acquired last year are underway.

In addition to these developments, according to a survey, Arçelik continued to be the most recognized brand this year. In the same survey, Beko was the second most recognized brand.

- At Beko-Elektronik, we are reaping the fruits of our efforts in the areas of technology development and expansion into foreign markets. Our growth in exports is continuing. The increase in our TV exports in the last 8 months has been 21 %. We expect this increase in exports to reach 34 % and the total number of TVs produced to go up to 5.4 million.

In the Energy Group

- Aygaz's turnover in the first 8 months has increased by 39 % compared to the same period last year. The number of Oto Aygaz stations has reached 384.

- Opet is also growing very rapidly. The number of our Opet and Sunped stations has increased by 145 since the beginning of the year and reached 1119. In this period, special emphasis was given to station investments in large cities. In line with these developments, our market share in the fuel market has gone up to 12.2 % from 10.6 % last year.

- We have taken the decision to establish a company in Bulgaria in order to monitor the rapidly developing fuel and auto gas markets in the southeastern Europe and to get a share from these countries. The company jointly founded by Aygaz and Opet will operate in the fuel and LPG markets.

- Aygaz and Opet have signed a \$ 200 million agreement to export fuel and LPG to post-war Iraq. The export conducted in this framework has reached \$ 140 million.

In the Consumer Group

- Migros has opened 29 new domestic stores to bring its total number of stores to 442. The number of stores in foreign countries has reached 30 with 8 new ones this year. Our target for the year-end is to increase the number of our domestic stores to 464, the number of our stores abroad to 35 and the number of domestic shopping malls from 6 to 7.

- The merging of our four food companies under Tat has been completed in August. We plan to enter new product categories in line with our target to become one of the leading food companies of Turkey. In this framework, we have entered the water and chicken meat categories this year. We are thinking about adding other growing and profitable categories to our product portfolio.

- In line with this strategy, our Düzey company that distributes consumer goods continues to expand its distribution network. Düzey, which reached only 24,000 sales points at the end of 2002, has a network of 68,000 sales points today. Our target for the end of the year is 120,000. The distribution of BAT tobacco products that we have launched in 3 cities in October 2002 will be expanded to all of Turkey by the end of the year.

The Finance Group

- We have prepared a new strategic plan in our Koç Finansal Hizmetler Company. Our main strategic targets are value creation, growth, productivity and thus profitability.

Our priorities in this area are to accelerate growth and to reach excellence in operations, quality of service, cost and risk managements. This plan has been put into effect and we have started moving towards our objectives. Koçbank will stand out from the rest of its competitors in an industry that will start focusing on real banking activities in a period of disinflation.

Koç Allianz has acquired an operational license from the Undersecretariat of Treasury in order to operate in the field of private pension funds and a permit from the Capital Markets Board (SPK) to establish funds. As in other insurance services, Koç Allianz targets market leadership in the field of private pension funds.

- As a result of our restructuring efforts, the profit-before-tax of our finance group has increased rapidly and has exceeded the amount of last year by 240 percent at the end of August.

Esteemed Members of the Press,

In addition to these developments in our companies, we are undertaking some changes in the financial structure of Koç Holding according the framework of our Financial Plan that supports our Strategic Plan.

During the Extraordinary General Assembly of Koç Holding held on September 1, 2003, an authority has been granted to transfer 50.8 % of Migros Türk T.A.Ş. shares belonging to Temel Ticaret A.Ş. to Koç Holding and the transfer procedure has been initiated.

In this context, the objective is for Koç Holding to, as much as possible, take over the shares of the companies that are under its management. Koç Holding will thus grow its portfolio and its value will increase at least by the value of the shares it takes over. In this first operation, through Temel Ticaret, one of the most valuable assets in the hands of the Koç family will have been taken over by Koç Holding without any cash transfer. One of the main issues here is that the Koç family has taken the decision to use Koç Holding as the main instrument for their investments.

On the other hand, in line with our strategy to extend the terms of our borrowing, last month Koç Holding has secured a loan of \$ 65 million with a 2-year term, with the participation of 6 international banks. With this loan, Koç Holding has become one of the first non-financial companies that could borrow from international markets with a 2-year term following the crisis. This loan was extended with even better terms of interests than the two-year Treasury borrowing valid at the time. This should be interpreted as a symbol of the trust of the capital markets in the name and future of Koç.

As you know, we as Koç Group have a very wide dealer organization which has played a very important role in bringing the Group to where it is today. Our relations with some dealers go back to 2-3 generations. Our dealers always ask us to guide them in managing their investments. With this inspired, we have developed a project quite unusual for Turkey. We plan to make our dealers partners in the new investments we enter into. This will help expand the capital to the base of the organization and help us strengthen our relations by presenting them with a safe alternative they can invest in.

On the other hand, in the Extraordinary General Assembly we held this month, we have taken the decision to increase our registered capital ceiling to 1 quadrillion TL from 250 trillion TL.

Through this and similar operations we have initiated, we shall be ready for the large scale investments that we are foreseeing.

Distinguished Members of the Press;

We make a great effort to realize our rapid growth target that we have foreseen in our Strategic Plan. In order to reach our target, we plan to develop our current business, undertake new investments in these fields and enter new areas of business. In this context, we are currently analyzing the opportunities that may arise in the privatization program. In the face of the decisive steps taken by our government in the field of privatization, Koç and Sabancı, the two leading private sector organizations of Turkey, have taken the decision to join our forces and support the program. In this framework, we are naturally interested in projects in line with our strategy of being “the group closest to the consumer” as outlined in our Strategic Plan; this can give us a new impetus. We are currently looking into projects such as Türk Telekom and Milli Piyango (National Lottery). However, I should like to add that in order for us to continue our interest in these projects, the conditions for privatization must be formed on a realistic base.

Coming to the financial results of our Group, the activities and positive developments I have shared with you have also reflected upon the combined results of our Group. According to the International Accounting Standards, our results for the first 8 months of the year are as follows:

- The sales of the Koç Group in the first 8 months have reached € 9.4 billion. This is an increase of 68 % compared to the same period last year.
- Our exports have increased to € 2 billion, 43 % higher than last year.

- If we add the turnover of our foreign companies, our total sales in foreign markets have reached € 2.7 billion, 42 % higher than last year.
- The number of our employees has increased by 6.755 people and has reached a total of 56.428 from 49.673 in the same month last year (13.6 %).
- Our profit before tax was € 402 million for the first 6 months, 413 % higher than last year. 75 % of this amount is our operational profit. Because of the Capital Markets Board's restrictions, we base our profitability data on the 6th month, which is the last data disclosure period for public companies. However, although I cannot share with you the figures, I can say that the increasing trend in profitability is continuing.

Distinguished Members of the Press,

In our meetings, I often talk about our Strategic Plan and the targets contained in this plan. As you will remember, in these meetings, I also share with you the steps we have taken towards this plan and the projects that we have realized. Our Group has started to reap the initial fruits of these efforts. We will continue to implement this plan with the same decisiveness.

There is no reason why Turkey should not, through sustainable growth in a stable environment, become one of the developed countries of the world. Turkey has caught another historical opportunity that she must use. In this context, the Koç Group is resolute in its decision to do its share. For this reason, I would like to reiterate once again: "We believe in Turkey's future and will continue to work for this future".

I would like to relay my sincere regards to you.