Gizem Poyraz Intro:

Welcome and thank you for joining us this evening.

I would like to remind you that our presentation and the Q&A session might contain forward-looking statements. Our assumptions are based on the environment and our businesses as we see them today, and this might be subject to change. Before the call, we have sent our E-Bulletin, which contains the link to our earnings presentation. After the call, you can access a replay facility on our website together with the transcript.

Now I would like to hand over to Mr. Ashaboğlu, our CFO, to start the presentation.

Ahmet Ashaboğlu:

Welcome everyone.

We would like to start by looking at our segment performance, focusing on the flagship companies in our main sectors. Let’s start with Energy and Tüpraş on slide 2.

Firstly, looking at the domestic market dynamics, we saw a robust 8% y/y growth in diesel driven by ongoing infrastructure investments and Tüpraş again captured 46% market share. Jet fuel sales volume increased by 2% y/y – indicating the first time this trend has turned positive this year, mainly thanks to uptick in number of tourists. Gasoline consumption also improved with 4% growth y/y -- here, Tüpraş met the entire gasoline demand in Turkey.

When we look at the refining margins, we can see a significant improvement in the Med Complex margin to 5.8 dollars per barrel from 3.6 a year ago supported by middle distillates as well as fuel oil cracks. This was driven by a mix of solid demand and a weaker supply mainly due to (i) maintenance stoppages at some refineries and (ii) impact of hurricane Harvey in the US. In this period, Tüpraş was able to almost double its net refining margin up to 8.5 dollars per barrel, which indicates a positive gap vs the Med Complex of more than 2.5 points on the back of higher crack spreads, above 100% capacity utilization and improving white product yield.

Regarding 2017 expectations, volume expectations are being maintained while strong margin performance in 3Q led to an upward revision in margins. Accordingly, the Med Complex margin expectation has been increased by 0.5 dollars per barrel to a range between 5.25 to 5.75 while Tüpraş net refining margin has also been increased by 0.5 dollars per barrel to 7.5 – 8.0 range.

Let me also briefly mention the developments of the LPG sector. In the first 8 months, domestic LPG consumption contracted slightly, albeit with an improving trend in the last few
months. Aygaz, the leading player in the LPG sector, recorded an increase of 3% in its total sales volume supported by contribution of robust export growth.

In this period, Opet continued to add new stations to its portfolio and increased its market share up to 17.9%, thereby maintaining its #2 position in Turkey.

Accordingly, if we look at the energy segment contribution to Koç Holding, we can see that the share in our total combined operating profit is at 40% with 133% y/y increase. In terms of consolidated net income, energy contributed 1.5 bn TL with more than 200% y/y increase. The main driver of this strong growth was Tüpraş thanks to the favorable margin environment and increased operational efficiency supported by our Residuum Upgrade Investment. In addition, higher US$/TL and low base also contributed positively.

Let’s move to slide 3 and discuss the developments in the AUTO SEGMENT.

Again starting with the sector trends, we can see that the Turkish auto market remained relatively stable in the first nine months with only 2% decline y/y supported by rising demand in 3Q. Light commercial vehicle sales, where our companies are more active, increased by 2% in the same period. Exports, on the other hand, displayed a very strong performance with 24% y/y growth thanks to the success of new models introduced by the Turkish auto companies.

In this period, we gained market share in the domestic market with strong performance of Tofaş in passenger cars with its new model Fiat Egea and the positive performance of Ford Otosan in the commercial vehicle segment. Our overall market share in the auto market increased from 22% to 24%.

Looking at the revenue performance of Tofaş and Ford Otosan, we can see above 30% growth in revenues for both companies – both these levels indicate an all-time high. This performance was driven by both domestic and international revenues. For both companies, international revenues contributes around 70% to total revenues and the growth was supported by increasing volumes as well as currency impact. On the domestic front, despite muted volumes in the sector, both companies were able to record above 20% revenue growth due to disciplined pricing and positive sales mix.

Regarding 2017 expectations, both our companies revised up their domestic market growth expectations.

- For the domestic market, the sales unit expectation was revised upwards and we now foresee a relatively stable to -2/3% decline for the whole year (revised from -5/8% in 1H17)
- Ford Otosan has not made any revisions to its full year guidance and still expects total sales volume growth of ~10% driven by 15% increase in exports and flattish trend in
domestic sales. Previously announced capacity increase plan is underway and the first phase will be finalized in 4Q17 (by YE17: up from 415K to 440K and to 455K by 3Q18).

- Tofaş made a slight upward revision of domestic sales guidance and slight downward revision of exports guidance. Overall, the Company expects 6% total volume growth.

Let me also touch upon our tractor company, TürkTraktör. Following strong volume growth and market share gains in 1H17, the Company implemented some upward pricing in 3Q and saw the positive impacts on its revenue performance. Total revenues grew by 22% y/y.

In summary, we can see that the successful performance of all of our auto companies resulted in a solid contribution of the auto segment for Koç Holding. The auto segment operating profit increased by 41% y/y and consolidated net income reached 905 mn TL with 31% y/y growth. Overall, our auto segment contributed 22% to the combined operating profit of the Group. The main drivers of this positive performance was (i) strong sales volume, (ii) higher capacity utilization (iii) pricing focus and (iv) tight opex control more than offsetting increasing raw material prices during this period.

On the next page, we can look at the CONSUMER DURABLES segment slide 4.

In the sector, domestic white good sales increased by 23% y/y with some slowdown over the last 2 quarters due to the easing impact of the special consumption tax cuts – which have now been finalized as of Sept'17. Other important markets like Western and Eastern Europe all recorded increases compared to the same period of last year which supported the export performance. Overall, exports increased by 6% y/y with some acceleration in 3Q.

Looking at Arçelik’s revenue figures: domestic revenues increased by 28% supported by solid volume growth. Due to strong competition and campaigns in the market, the Company was able to only partially reflect the impact of price increases in 3Q but will continue to focus on profitability going forward. On the international front, revenue growth was 33% driven primarily by currency impact and Pakistan consolidation. Improving momentum in European and S. African markets should contribute more going forward.

In terms of 2017 guidance, Arçelik maintained its growth guidance for the domestic market at 10% but with some upside potential. Revenue growth expectation for Arçelik was maintained at ~25% while the EBITDA margin was decreased slightly from 10.5% to 10%. However, the long-term EBITDA margin guidance was maintained at 11% with some expected recovery going forward.

Accordingly, the consumer durables segment operating profit increased by 10% y/y and contributed 9% to the Group’s total combined operating profit. In terms of consolidated net income, consumer durables contributed 306 mn TL with 14% y/y growth. In terms of operating performance, increase in raw material prices and higher USD/€ rate were compensated by (i)
strong sales volumes, especially in Turkey and the (ii) positive impact of the consolidation of the high margin Pakistan investment, which now has a 5% share in total Arçelik revenues.

Finally, let me also briefly talk about the **FINANCE** segment and the developments at Yapı Kredi Bank on slide 5.

In the first nine months, Yapı Kredi’s net income (adjusted for Visa sale gains in 2Q16) grew by 27% y/y to TL 2.7 billion and ROATE was 14%. Decrease in cost/income by 2pp to 41% and positive trend in cost of risk supported this performance.

The Bank focused on selective and balanced growth and market shares remained relatively stable compared to the end of 2016. Loan growth was mainly driven by the Credit Guarantee Fund where volume reached 12.5 bn TL.

The capitalization of the Bank continued to improve through internal capital generation. Bank-only CAR reached 14.8% and common equity Tier-1 ratio increased by 70 basis points to 11.3%.

For 2017, YKB confirmed its guidance of mid/high-teens growth in net income

- On both loan and deposit volumes, YKB expects around 10-12% growth
- Net interest margin to be stable with mild deposit cost trend into 4Q and support from expansion of loan and CPI-linker yields
- Cost growth to be contained at 2-3 percentage points below inflation, as confirmed by 9M figures

As a result, finance segment also contributed positively to overall group performance. Normalized operating profit increased by 13% y/y and the share in total combined operating profit was realized as 27%. In terms of consolidated net income, the total contribution reached 1 bn TL with 20% y/y growth.

If we move to the next page, we can talk about the overall results of the Group as a result incorporating all of the segment trends we just discussed. Overall, we are pleased to post such a robust financial performance in the first nine months of the year with positive contribution from all segments. On a combined basis, Koç Group registered 156 billion TL in revenues, 12 billion TL in operating profit, 11 bn TL in profit before tax and 10 billion TL in net income in the first nine months of 2017. Looking at the growth dynamics, you can see that all major profitability indicators displayed significant growth on a y/y basis.

On slide 7, we can see the breakdown of the consolidated net income performance. On an adjusted basis, we recorded 65% y/y growth and reached 3.8 bn TL of net income in the first nine months of the year. The biggest contributor to this performance was the energy segment followed by autos and finance. The growth was driven by strong operational
performance and there were only very minor one-off impacts (for info: 9M17: 26 mn TL related to Koç Holding’s asset exchange transaction; 9M16: 32 mn TL related to Koç Holding’s asset exchange transaction and 70 mn TL related to YKB’s gain on sale of Visa)

Moving next to slide 8, I would like to touch briefly on our risk metrics. This is a topic which we give the utmost importance to both at the group level and for our underlying companies.

Our net cash position has been recorded as US$ 573 mn as of September 2017. This is composed of US$ 2.1 bn of gross cash, of which 75% is denominated in US$ and 25% in TL. Then, we have US$ 1.5 bn of debt which is in the form of 2 Eurobonds that we have issued in 2013 and 2016 – the proceeds of which have not yet been used but not generating any major negative carry.

If we look at the historic trend, you can see that the 5 year average net cash position that we have carried is around US$ 700 mn. This is a level we feel comfortable with since it gives us a buffer against volatility but also firing power in case an attractive acquisition / investment opportunity comes up.

We also have a solid liquidity and funding position with majority of our debt with a maturity over 1 year. Our leverage is at a sustainable level of 1.2x EBITDA on a combined level.

We also actively monitor our FX position. Currently, we have a long FX position of US$ 55 mn on a solo basis. At a consolidated level, this figure is US$ 17 mn after taking into account natural hedges and hedging mechanisms (through FX linked pricing of Tüpraş’ inventories).

I would like to wrap up our presentation on slide 9 (text on slide)

Thank you for listening, now we can open the floor for questions.

Q&A

OPERATOR: The first question comes from Ms. Kilickiran Hanzade from JP Morgan. Please go ahead.

KILİÇİRAN H: Hi, it’s Ms. Hanzade Kilickiran. Ahmet, thank you for the presentation. I would like to hear more about your strategy going forward and that’s to say, what is your primary sector for the next leg of growth in the medium term and where do you expect to see to split of your NAV going forward? I mean do you think that we can see some new sectors including into your portfolio or you will continue to grow with the existing portfolio? Thank you.

ASHABOGLU A: Thank you for the question. Koc Holding is an investment holding company as you know and our job is to deploy our capital in growth areas with returns that are acceptable to us which means returns that
are exceeding the cost of capital that we would calculate on a risk-adjusted basis for the opportunity that may be in front of us.

So, having said that, we are quite content with the sectors that we are actively invested in today and looking forward to growing these sectors depending on the sector locally as well as internationally, but continue scanning the marketplace for additional areas to invest.

The additional areas to invest can come from the existing sectors as well as adjacent sectors to our existing portfolio companies but also from potentially completely new sectors, so we do not necessarily define one specific sector and choose that one, to invest going forward, but we are much more open minded and evaluate options as we see them.

As you have seen recently we have invested or we have participated in privatization in the energy sector on the generation side and we have come out as the party that has submitted the highest bid in that tender and we are waiting for the necessary regulatory approvals to close that transaction. This is an example of an investment in the local market in Turkey in a sector that we find quite attractive.

Now that the prices seem to rationalize in our minds as they were not so rational in the last ten years, we will also continue focusing on expansion opportunities as well as investment opportunities in international markets in various sectors that we are involved in as well as not involved in.

KILİÇİRAN H: Thank you Ahmet Bey. In the international markets, do you have focus mostly in the developed markets or have a priority in the emerging markets?

ASHABOGLU A: That also depends on the sector; there are some emerging markets of interest to us as in this case of Arcelik’s recent acquisition in Pakistan as well as its new formation of the company in India. Arcelik continues to be interested in other emerging markets’ economies such as the Southeastern Asian economies. In the case of other companies and including Arcelik, we are also interested in developed markets; North America is of interest to us, and there are some Western European markets that are also interesting in terms of their growth and profitability dynamics to us. So the answer is both for both areas again depending on the company and the sector it varies.

KILİÇİRAN H: Thank you very much.

OPERATOR: The next question comes from Kurbay Berna from BGC Partners. Please go ahead.

KURBAY B: Good afternoon. Thank you for the presentation. I’ve got a question about your dividends policy going forward. Is it reasonable to expect an
increase next year given the potentially higher dividend inflows from your participations in subsidiaries? Thank you.

ASHABOGLU A: I mean you are right to highlight that we have in the coming periods an increased dividend inflow into the Holding Company and especially of course the biggest change is coming from the SPV that we have formed to acquire Tüpraş in 2006 and now that the debt the acquisition financing facility is completely taken out and the dividends to be collected by that SPV will start flowing directly into the shareholders of the SPV and Koç Holding is of course the main shareholder.

Having said that, of course the cash that comes to Koç Holding has three main purposes: one is firepower for new acquisitions, two is your point which is dividends to our shareholders and third one is what we call risk management. As you know being the largest company in Turkey and being active in many diversified sectors, we always like to maintain a certain level of cash as I have mentioned earlier in the presentation.

So it’s really a balance and it all depends on the opportunities that are in front of us in the acquisition side, but we do not plan on sitting on cash in higher volumes than what we deem as the right level. So in the absence of acquisition targets, it would be fair to expect by our shareholders that there will be an increased dividend from the Holding Company, but I need to underline that if there is an acquisition tomorrow, of course that can change.

So therefore, I think it is fair to have that expectation but that expectation should also keep in mind that we are an investment holding company and trying to deploy the capital in the best interest of our shareholders.

KURBAY B: Thank you very much for that and if I may, one follow-up question. I think earlier in your presentation you mentioned a comfortable level of cash for the investment holding company as $700 million. Have I heard that correctly? Was that the figure that you mentioned?

ASHABOGLU A: The figure that I mentioned was $700 million is the average of the last five years, so you can make your conclusion what we are comfortable with but I think having that average over the last five years is quite telling. We don’t share the exact level of cash that we do see as minimum, but you have the data in front of you.

KURBAY B: Okay. Thank you very much.

OPERATOR: The next question is from a webcast participant Kerem Tezcan from Citi. The question is: “Any plans divest a company in any time soon? What is your plans in deploying cash if there will be no new investments made in 2017?”
ASHABOGLU A: Okay and thank you for the question. I think the second part of the question is already answered. That is probably because of the delay coming from the web. The first part of the question, we do not have any sizable divestitures that we are currently working on that would move the needle but as part of our portfolio management exercise we are dynamically looking at our portfolio for both inorganic growth opportunities but also asking ourselves whether we are the best owners of all the assets in our portfolio.

So, as part of this dynamic process in the coming period, we may identify a few companies that would fit into that criteria. However as I said right now, there is no such divestiture candidate that would move the needle.

OPERATOR: The next question comes from Ms. Kilickiran Hanzade from JP Morgan. Please go ahead.

KILICKIRAN H: I have a follow up question; actually it’s a new question. I think it’s fair to say that you are the biggest consumer company of Turkey. So, I really wonder your opinion about 2018 outlook on the consumer side, is there anything that you are getting worried on the consumer, on the consumption trends in Turkey? And do you start to get worried about the inflation trends in Turkey?

ASHABOGLU A: We have just kicked up off our budget process for 2018, so therefore it is a bit early for us to comment on the outlook of next year. Having said that briefly as you know, we have two elections coming in 2019; both the local elections and of course the Presidential election. And if you look at 2017, the government is quite keen on the performance of the country from an economic point of view and they are working quite hard to support the economy.

I think it would be fair to expect a continuation of that in 2018. Therefore even though we haven’t seen the full year figures for 2017 in terms of GDP growth, but everybody is almost expecting above 5% in some cases close to 6% growth for this year, which is quite healthy and strong. So a similar performance can be expected from next year, all other things of course being as steady.

KILICKIRAN H: Do you feel easy to reflect the inflation on your prices to the consumer?

ASHABOGLU A: Well of course inflation is one aspect, an important one, but under the raw material costs there is also the developments vis-à-vis the currency and all of that combined, are affecting our cost prices going into production and therefore our sale prices to consumers. And it’s a fiercely competitive market in pretty much all sectors, where we are present in and one of course one tries to optimize this situation and
2017 is really a good example of that. Despite of the high inflation and high recent devaluation in the currency, as you have seen our companies have performed quite well. And of course this is attributable to many dimensions, the main importance of which are the fact that we are quite diversified, sectorally diversified, geographically diversified and the fact that we have very sound risk management policies as I have mentioned earlier with the leverage and FX exposure just to name two. We are able to weather these types of volatilities in the marketplace with very strong and stable results.

KILICKIRAN H: Okay. Thank you very much.

OPERATOR: There are no more questions registered at this time. You may now proceed with your closing statements.

After the Q&A Gizem Poyraz Closing:

Thank you all again for joining us today. If you have any further question, you can always get back to us by phone or by email. As a reminder, our presentation and a replay of this conference call can be found on our website together with the transcript. We hope to see you all again in our next webcast. Bye