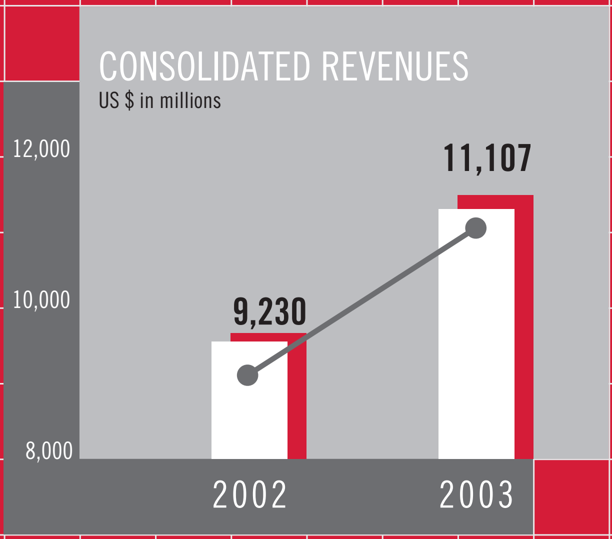
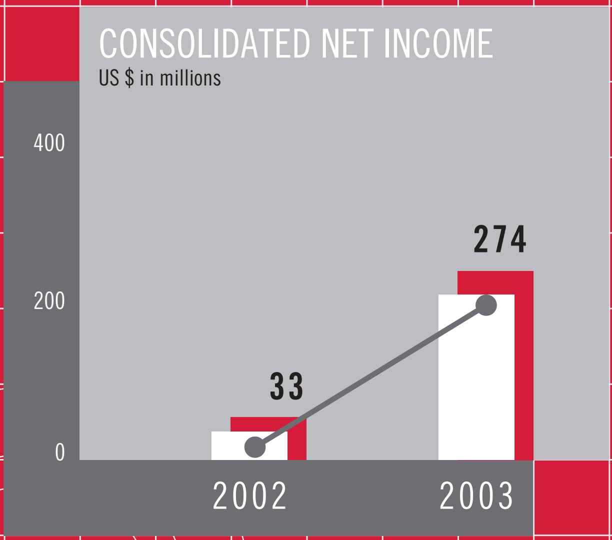
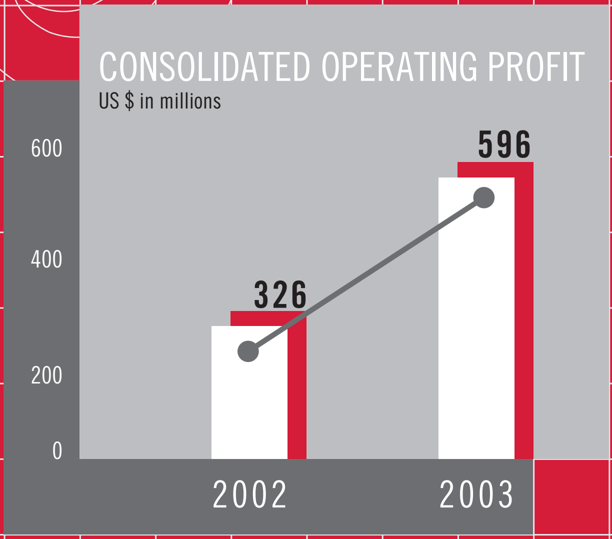
# THE KOÇ GROUP ANNUAL REPORT

# 2003

# FINANCIAL HIGHLIGHTS



## KOÇ HOLDİNG A.Ş. AND ITS SUBSIDIARIES FINANCIAL HIGHLIGHTS

| | 2003(1) (US$ in millions) | 2002(1) (US$ in millions) | 2003(2) ( in millions) |
|---|---|---|---|
| **Consolidated Revenues** | **11,107** | **9,230** | **8,884** |
| Non-banking and financial services | 10,112 | 7,573 | 8,088 |
| Banking and financial services | 995 | 1,657(4) | 796 |
| **Consolidated operating profit** | **596** | **326** | **477** |
| Non-banking and financial services | 475 | 191 | 380 |
| Banking and financial services | 121 | 134 | 97 |
| **Income before loss on net monetary position, taxation on income and minority interest** | **701** | **292** | **561** |
| **Net income before minority interest** | **568** | **161** | **455** |
| **Net income excluding minority interest** | **274** | **33** | **219** |
| **Short-term financial debt** | **1,323** | **1,268** | **1,058** |
| **Fixed assets-gross** | **6,371** | **6,177** | **5,096** |
| **Total assets** | **10,421** | **9,794** | **8,336** |
| **Total shareholders' equity excluding minority interest** | **2,325** | **1,751** | **1,859** |
| **Number of employees(5)** | | | |

(1) Convenience translation with the year end of 2003 TL 1,395,835 = US$1.00 exchange rates
(2) Convenience translation with the year end of 2003 TL 1,745,072 = 1.00 exchange rates
(3) Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of the TL at 31 December 2003
(4) Revenues of insurance companies include gross values of premiums to reinsurers
(5) For the companies included in the consolidation

| 2002[2] ( in millions) | 2003[3] (TL in billions) | 2002[3] (TL in billions) | Change % |
|---|---|---|---|
| **7,383** | **15,503,678** | **12,883,992** | **20** |
| 6,058 | 14,114,725 | 10,570,945 | 34 |
| 1,325[4] | 1,388,953 | 2,313,047[4] | (40) |
| **261** | **832,612** | **454,957** | **83** |
| 153 | 663,233 | 267,298 | 148 |
| 108 | 169,379 | 187,659 | (10) |
| **233** | **979,040** | **406,974** | **141** |
| **128** | **793,437** | **224,126** | **254** |
| **27** | **382,122** | **46,315** | **725** |
| **1,014** | **1,846,763** | **1,769,692** | **4** |
| **4,941** | **8,893,080** | **8,622,518** | **3** |
| **7,834** | **14,546,135** | **13,670,440** | **6** |
| **1,401** | **3,244,935** | **2,444,099** | **33** |
| | **53,985** | **50,019** | |

CONTENTS

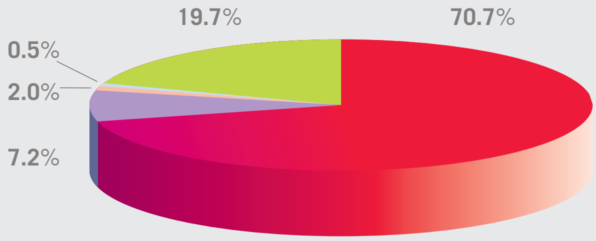
# CONTENTS



THE KOÇ GROUP
ANNUAL REPORT
2003

# KOÇ AT A GLANCE

## SHAREHOLDERS




- Koç Family
- Vehbi Koç Foundation
- Koç Holding Foundation for Pensions and Assistance
- Other
- Public

## HIGHLIGHTS

- 96 consolidated subsidiaries
- 54,000 employees
- 13 listed subsidiaries, together with Koç Holding (parent), making up for 18% of ISE's total market capitalization
- 28% of sales are international
- Subsidiaries realized 8% of Turkey's total exports
- 5 subsidiaries among Turkey's 10 largest private sector industrial companies
- Domestic network of
  - 12,000 independent dealers, agencies and after sales service points
  - 450 supermarkets
  - 143 bank branches
  - Wholesale distribution of consumer products to 120,000 points
- 20 subsidiaries, 23 offices in 23 countries
- 47% of Turkey's total motor vehicle production
- 47% of Turkey's total motor vehicle exports (in terms of units)
- 58% of Turkey's major household appliance production
- 62% of Turkey's major household appliance exports (in terms of units)
- 34% of Turkey's TV production
- 33% of Turkey's TV exports (in terms of units)

| Segments | Automotive | Consumer Durables | Food & Retailing | Finance | Energy | Other |
|---|---|---|---|---|---|---|
| **Key Companies**<br><br>Listed Companies* | Ford Otosan*<br>Tofaş*<br>Türk Traktör<br>Döktaş*<br>Otokar*<br>Otoyol<br>Birmot<br>Otokoç | Arçelik*<br>Beko Elektronik*<br>Türk Demir Döküm*<br><br>Arçelik-LG<br>Arctic<br>Blomberg<br>Elektra Bregenz | Migros*<br>Ramenka<br>Tat*<br>Düzey | Koç Finansal Hizmetler<br><br>Koç Allianz | Aygaz*<br><br>Opet<br><br>Entek | Kofisa<br>Ram<br>Koç Sistem<br>Koçnet<br>Setur<br>Mares*<br>İzocam*<br>RMK Marine |
| **Total # of companies included in the consolidation** | 15 | 22 | 8 | 14 | 15 | 22 |
| **Domestic** | 15 | 8 | 4 | 10 | 10 | 20 |
| **International** | 0 | 14 | 4 | 4 | 5 | 2 |
| **International Alliances** | Ford Motor Co.<br>Fiat Auto S.p.A.<br>Case New Holland<br>Iveco<br>Yamaha<br>Magneti Marelli<br>Michelin Kronprinz | LG Electronics | Kagome<br>Sumitomo<br><br>Kaneka<br>Seeds | Unicredito<br>Allianz<br>Tokyo Marine | BOC | TNT<br>B&Q |
| **Share in Consolidated Revenues** | 24.1% | 24.8% | 14.4% | 9.0% | 20.7% | 7.1% |
| **Share in Operating Profit** | 26.6% | 36.6% | 5.5% | 20.3% | 13.0% | -2.0% |
| **Number of Employees** | 17,566 | 14,414 | 10,716 | 4,669 | 2,280 | 4,340 |
| **Domestic Market Position** | #1 in Commercial Vehicles and Farm Tractors<br><br>#1 in Total Automotive<br><br>#1 in Automotive Retailing<br><br>#2 in Passenger Cars | #1 in Refrigerators, Washing Machines, Dishwashers, Ovens, Air-Conditioners, TV's, Heating Appliances | #1 in FMCG Retailing | #1 in Leasing and Factoring<br><br>#3 in Insurance<br><br>#3 in Mutual Funds<br><br>#5 in Banking (among private banks in terms of asset size) | #1 in LPG Distribution<br><br>#4 in Petroleum Products Distribution | #1 in Insulation Materials<br><br>#1 in Shipbuilding (among privately owned shipyards) |

# HONORARY CHAIRMAN’S MESSAGE

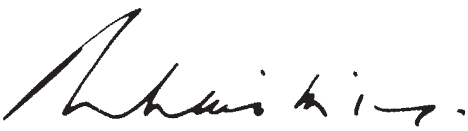
The news is good:

The government pursued a determined foreign policy.
The government continued its economic policies without any deviation.

Turkey became one step closer to EU accession negotiations.
The economy turned around and growth started.
Historically Koç Group performs better than the economy.
This time was no exception.
Revenues and profits surpassed expectations.
Restructuring and streamlining were implementd as planned.
Market shares either stayed the same or improved.
Value was created for our stockholders.
I would like to thank our suppliers, dealers and customers for their continued support and trust in Koç.

77 year old Koç is in strong hands and I am happy, satisfied and content.

**Rahmi M. Koç**



# CHAIRMAN'S STATEMENT

*The strategic restructuring of the Group targets a gradual reduction of the number of sectors in which we operate in order to focus on a smaller number of internationally competitive businesses.*

2003 was an outstanding year for Koç Group both domestically and internationally. Higher sales in all our key business lines pushed total revenues to $11.1 billion in 2003, resulting in net income of $274 million. This achievement is a direct result of our strength in core businesses such as automotive, consumer durables, retailing, finance and energy, and investment and initiatives realized in recent years.

Our remarkable performance stems from growing emphasis on international operations and exports although we continue to be a dominant player in the lucrative domestic market. The increasing international profile of our operations is seen in the success of our automotive division as a production base for Europe, acquisition of strong European brands in order to gain foothold in international household appliance markets and expansion of our retail activities from Kazakhstan to the Balkans.

Our principal objective is to become one of Europe's leading companies by sustaining a rapid rate of growth, increasing profitability and enhancing shareholder value. The strategic restructuring of the Group targets a gradual reduction of the number of sectors in which we operate in order to focus on a smaller number of internationally competitive businesses.

Political stability and economic growth in Turkey and the early resolution of the War in Iraq played a large role in the success of Koç Group in 2003. We believe that stability and peace in Iraq is vital for the future of the entire region. For Turkey and Koç Group, Iraq is an important market. As the reconstruction of Iraq proceeds we believe this market will offer many opportunities.

Turkey's newfound economic stability reflects the wise policies and firm implementation of the Central Bank and the Government's commitment to economic restructuring. Inflation fell below 20% in 2003 for the first time in memory and to single digits in the first quarter of 2004, a victory in the war against Turkey's chronic high inflation. GNP growth rebounded to 5.9%, driven by industry and trade. Exports neared $50 billion and the current account deficit remained below expectation despite the appreciation of the Turkish Lira. Interest rates have fallen to record lows. Higher productivity has improved international competitiveness. Capacity utilization in some sectors has reached historic highs and industrial production witnessed buoyant growth. The success of structural reforms has bred strong business and consumer confidence, which have helped improve the economy's resilience to internal and external shocks.

Confidence in the economy was further strengthened by positive developments in Turkey's relations with the European Union. The single party government has enacted a large number of important reforms in order to satisfy the Copenhagen Criteria and thus qualify for entry into the EU. Turkey improved relations with Greece to a significant degree and saw, for the first time in 30 years, the possibility of a peaceful and lasting resolution to the Cyprus problem in a process led by the United Nations General Secretary. However, in the ensuing referendum, the Greek Cypriots rejected the plan while the Turkish Cypriots accepted it. Despite this result, there is optimism in the Turkish Republic of Northern Cyprus that conditions will improve and a just solution will be found.

*The journey toward membership in the European Union will not be a short one, but it will be an enormously beneficial process.*

The journey toward membership in the European Union will not be a short one, but it will be an enormously beneficial process. We hope to see further progress along this road in 2004 so that the country can move forward to develop its true potential.

Closer relations with the EU put a spotlight on Turkish business practices and ethics. As the most institutionalized and transparent conglomerate in Turkey, Koç is admired and respected for its integrity, values and good business practices. As an indicator of the value we assign to this subject, we are currently revising our corporate governance principles according to best international practices.

Important changes took place during the year on our Board. After 19 years at the helm, my father, Rahmi Koç, stepped down as Chairman of Koç Group In April 2003 and I assumed the chairmanship. He continues to serve the Group as Honorary Chairman and Chairman of Temel Ticaret, Koç Holding's largest shareholder.

Two new directors were appointed to the Board of Directors: İnan Kıraç, a former CEO of the Group who is related by marriage to the Koç Family, and Alessandro Profumo, CEO of Unicredito. Vice-Chairman Temel Atay was appointed Director of the "Family Office," which conveys the views of the Koç Family to the Board of Directors. The establishment of a "Family Office" sets a precedent in Turkey for the administration of family-owned, professionally-managed corporations.

While 2003 was a good one for business, it was a time of loss for the Koç Family and Koç Holding. Erdoğan Gönül, a Board member of Koç Holding and husband of Sevgi Gönül, daughter of Vehbi Koç, passed away on July 19 at the age 70 after a battle with cancer. On September 12, less than two months after her husband's death, Sevgi Gönül also lost her life to cancer. A Member of the Board of Directors of Koç Holding since 1964, she was active as a Director of the Vehbi Koç Foundation, Chairman of the Sadberk Hanım Museum, and Member of the Advisory Council of Koç University. Both are sorely missed by their family, friends and colleagues.

Corporate citizenship has been a key component of Koç since the establishment of the Vehbi Koç Foundation 34 years ago. Koç Group takes a leading role in raising the quality of life in Turkey by establishing model institutions in education, healthcare and cultural heritage and through a variety of other philanthropic endeavors. Fulfilling our responsibilities to the community is a fundamental part of the way we do business.

Koç Group is 54,000 people strong and growing. With the guidance of the Board of Directors, the vision of management and the energy of our workforce, we have the commitment and momentum to increase our sales and further improve our earnings performance in 2004 and beyond.

**Mustafa V. Koç**

# CEO'S LETTER

*Our vision is to become one of Europe's leading companies through rapid and profitable growth.*

Dear shareholders,

2003 has been a year of success for Koç Group. The quality and diversity of our business range, strong distribution channels and operating efficiency enabled Koç Group to benefit from revitalized local consumer demand while at the same time compete successfully in export markets.

- Consolidated revenues rose by 20% to $11.1 billion.
- Combined revenues totaled $17.9 billion, up 27% from $14.0 million the previous year.
- Consolidated pre-tax income soared to $676 million, 219% higher than a year earlier.
- Combined pre-tax income increased by 268% to $1,114 million, compared to $303 million the preceding year.
- Consolidated net income totaled $274 million, an increase of 725% over 2002.
- Combined net income amounted to $932 million, an increase of 161% over 2002.
- Combined exports of Group companies increased by 60% to $3.7 billion, accounting for 8% of Turkey's total export volume.
- International revenues reached $5 billion, 56% higher than the preceding year.
- Koç Holding market value more than doubled to reach $4.7 billion.

This exceptional performance has been enabled, to a certain extent, by Turkey's 5.9% economic growth in 2003, supported by current political will and continuing reformist policies. However, I believe we have achieved this performance to an equal extent, if not greater, due to Koç Group's competitive position both in Turkey and in international markets. At home, we are well positioned to reap the benefits of improved economic conditions due to our well-established and respected market-leader brands, supported by an unparalleled distribution network. Our emphasis on product and production technology innovations has improved our performance both at home and outside Turkey. Finally, our favorable cost structure, and access to neighboring emerging markets, as well as Europe, supported by a strengthening distribution network, makes it possible for us to succeed outside Turkey.

**These record results signal the success of the strategic plan adopted in late 2002.**

We redesigned our strategic management approach in 2002 and developed a new strategic plan, of which 2003 has been the first year of implementation. Our vision is to become one of Europe's leading companies through rapid and profitable growth.

We will pursue aggressive and profitable growth with a business portfolio united by a common theme: "closeness to the consumer". By focusing on a common theme and emphasizing our identity as a consumer-oriented group, we will generate cross business opportunities and create value by cross-business competence transfers.

While reshaping our portfolio around this theme, we adhere to certain principles:

- Expand in global markets to earn a significant part of our revenue from overseas operations.
- Focus on business areas where we have a differential competitive advantage and are close to the consumer.
- Be the market leader or a close second in every area in which we are active.
- Invest further in and leverage our own brands and technologies.

Besides outstanding financial results, we also made significant progress along the lines of our strategic plan in 2003.

**As a result of aggressive growth outside Turkey, international revenues make up a significant and increasing portion of our total sales, decreasing our exposure to domestic market fluctuations.**

We owe this achievement to significant contributions from our Automotive businesses; namely, Ford Otosan, Tofaş, and Türk Traktör, with their high-quality and low-cost production of new export models;
Consumer durables businesses; i.e., Arçelik and Beko Elektronik, with their acquisition of new European brands, as well as aggressive efforts to strengthen European distribution and sales networks;
And our retailing business; where Migros' geographical expansion with Ramstore's continues.
Total exports of consumer durables and electronics have reached $1.3 billion while automotive exports increased by 97% to reach $2 billion. We are proud to note that almost every other motor vehicle exported from Turkey in 2003 was manufactured by a Koç company. Our growth in automotive exports will continue with the addition of new export models, while newly acquired brands such as Grundig will further the growth in consumer durables exports in 2004.

Timely capture of opportunities in developing neighboring markets, as in the case of our energy companies entering Bulgaria, and exporting to Iraq; and steady and continuing expansion of our retail chain operations in CIS and the Balkans, have further boosted the increase in our revenues outside Turkey. Combining our knowledge of the region with our experience of operating in emerging markets, we aim to continue our selective expansion and growth efforts in these regions, concentrating on high potential markets.

**At home, our leadership in core businesses continues, supported with strong brands, extensive distribution network and increased emphasis on technological innovation.**

Our distribution network for both goods and services is constantly expanding while at the same time being reconfigured based on changing customer needs and channel preferences. As of end 2003, all over Turkey, we make contact with Turkish consumers through 12,000 dealers and after sales service points, while our wholesale distribution network serves 120,000 sales points.

Our pursuit of continuous technological innovation is exemplified, in the case of Ford Otosan, with the new 2003 Ford Cargo truck, which was wholly developed utilizing the company's own technology and know-how, including the engine; in the case of Arçelik, which had one of its refrigerators chosen by the EU Commission as “the most energy efficient model in Europe”.

Hence, Koç companies continue to strengthen their position as leaders of their respective sectors in the Turkish automotive, organized retail, consumer electronics, consumer durables, LPG distribution, heating and air conditioning products sectors. We also aim for leadership in neighboring countries in many of these sectors.

**Future growth at home and in the region will focus on current and related sectors leveraging our strong brands, distribution network, and emerging market know-how.**

Growth will take both organic and inorganic forms. Organic expansion and strengthening of our distribution networks will continue, as well as our efforts to develop and produce new products under the existing Koc brand umbrella, especially in consumer durables and electronics. As for inorganic growth, we shall continue pursuing opportunities to acquire new brands or businesses that will leverage or complement our distribution strengths, as we have done this past year in the consumer electronics sector, and the year before in petroleum products distribution and consumer durables.

Besides generating substantial revenue growth, the Opet acquisition also contributed to the expansion of our national distribution network. Our recent partnership with Unicredito has opened the way to becoming one of the first tier banks in Turkey.

In year 2004, we plan to take part in Turkey’s and neighboring countries’ upcoming privatization tenders, to the degree they fit with our competitive advantages and strategic objectives.

**Koç Holding’s strategic parent role has been reinforced to create value for our shareholders, making the value of our portfolio more than the sum of its parts.**

Koç Holding, acting as a strategic partner of Group companies, supports the development of meaningful synergy, cooperation and coordination between companies, and capitalizes on economies of scale through shared systems and resources. The corporate center closely monitors the performance of Group companies, and develops policies and guidelines to evaluate performance against targets that maximize profitability and shareholder value, in line with the strategic plan.

As a result of our commitment to shareholder value creation, profitability and share price performance (in public subsidiaries) have the greatest weight in top management’s performance scorecards. Profitability is measured in what we call “Economic Profit”, a measure which emphasizes, besides operating efficiency, asset utilization and balance sheet management as well, by taking cost of equity into account. Other performance indicators include, along with our strategies, revenue growth, market share, customer satisfaction, dealer satisfaction and technology development.

To achieve our strategic targets, we need capable, motivated people at all levels. To this end, we have totally redesigned our human resource management systems to recognize and reward managers for their performance, create a performance discipline, and attract the most capable professionals to the Group. The corporate center also develops programs to identify and mentor high potential professionals to secure the future of our businesses.

In doing all this, we pay close attention to keep the corporate center slim in order to maximize the net value of the parent role. In line with this thinking, in 2003, we have reduced the number of group presidents from eleven to nine and over the past few years we have merged many of our companies. Following the mergers in consumer durables and automotive sectors in recent years, we merged four food production companies in 2003. We are in the process of creating one tourism company out of a variety of hotel and restaurant businesses by the end of 2004.

Another important development that further strengthens the role of Koc Holding in managing its portfolio, has been Koc Family's decision to make Koç Holding the sole vehicle for its investments. This was signaled by the transfer of 50.8% Migros T.A.Ş. shares, from the fully family owned Temel Ticaret A.Ş., to Koç Holding.

**Our firm belief in good governance for sustained creation of shareholder value and efforts to strengthen our corporate governance practices as well as corporate citizenship responsibilities continues.**

Koç was one of the first domestic companies in Turkey to invite independent members to sit on its Board of Directors. The Koç Board exemplifies good corporate governance practices in that the CEO and the Chairman roles are separate, and all directors are non-management except for the CEO. The Koç Family has only five seats on the Board. The remaining seven seats, excluding the CEO, are filled by three Turkish professionals, and four non-Turkish professionals, all of whom are well respected in their fields.

Koç Holding guarantees transparency in every operation and in all financial responsibilities, producing consolidated, audited IAS reporting since 1998. As always, Koç Group is pledged to observe all law and regulations wherever it does business and to espouse ethical and fair business practices.

We are committed to winning and keeping the confidence of our investors, stakeholders and employees by planned, transparent and coordinated communication regarding the performance of our companies and our future plans.

Looking back into the past year, we have had some changes in our top management as well. Four of our Group Presidents retired at the end of 2003. I would like to take this opportunity to thank these gentlemen -- Cengiz Solakoğlu, Aydın İ. Çubukçu, Mehmet Ali Berkman and Nadir Özşahin -- for the valuable contributions they have made to Koç Group throughout their long and successful careers.

Since 1969 Koç Group has set a model for good corporate citizenship through generous donations and well-planned and executed projects in the areas of education, healthcare and cultural heritage. Koç family members and employees continue to play key roles in the establishment and operations of numerous vital civic organizations.

The Group rigorously applies environmental management practices and has invested heavily in environmental protection programs. Priority is given to health, safety and environmental concerns in all our businesses as a result of our respect for people and the environment.

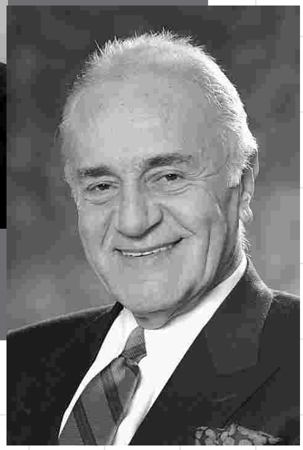
The success of Koç Group in 2003 owes much to the growing sense of stability and prosperity in the country. In this period of change, Koç Group will continue to be an important player in the Turkish economy as it takes its place as one of the leading business groups in Europe.

By remaining focused on our commitment to create value for our shareholders, we are well on our way to making Koç a more profitable business group that delivers value to all its investors.

**F. Bülend Özaydınlı**

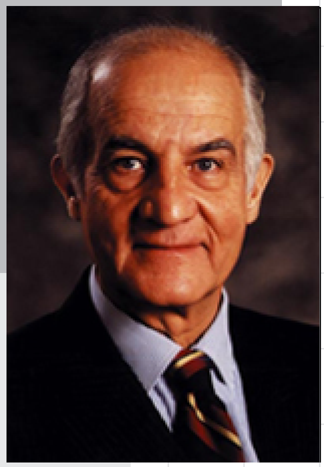
# BOARD OF DIRECTORS

| | |
|---|---|
| **Rahmi M. Koç** | *Honorary Chairman* |
| **Mustafa V. Koç** | *Chairman* |
| **Suna Kıraç** | *Vice Chairman* |
| **Temel Atay** | *Vice Chairman* |
| **Semahat Arsel** | *Member* |
| **İnan Kıraç** | *Member* |
| **Sevgi Gönül*** | *Member* |
| **Erdoğan Gönül*** | *Member* |

**Sevgi Gönül passed away on September 12, 2003 and Erdoğan Gönül on July 19, 2003.*








| | |
|---|---|
| **F. Bülend Özaydınlı** | *Member-CEO* |
| **Hasan Subaşı** | *Member* |
| **Yavuz Alangoya, PhD** | *Member* |
| **W. Wayne Booker** | *Member* |
| **H. Oswald Maucher** | *Member* |
| **John H. McArthur** | *Member* |
| **Alessandro Profumo** | *Member* |
| **Nevzat Tüfekçioğlu** | *Auditor* |

# Our Principle Objective

**Koç aspires to become one of the leading companies in Europe through rapid and profitable growth.**

**We aim to create a Koç Holding, which is;**
- Positioned close to the consumer with all its products and services,
- Active in relatively smaller number of sectors, and competitive at global scale in each of them,
- Market leader or close second in domestic market in each of its businesses,
- Generating at least 50% of its revenues outside Turkey,
- Aiming market leadership also in neighboring markets in all its sectors,
- Creating new technology and developing innovative products and services,
- Owning nationally and internationally recognized brands that are accepted as symbols of quality,
- Attracting the most talented professionals,
- Among the largest, and most rapidly growing companies in Europe,
- Profitable, efficient, creating exceptional shareholder value, highly regarded by investors,
- Setting benchmarks for transparency, integrity and compliance with legal and ethic rules,

**and as a result one of the largest companies in the world in terms of market value.**

# Our Strategies

In 2002 we renewed our strategic management approach and developed a new strategic plan, setting a new vision and new objectives for the Group. The new plan ensures that strategic objectives at business unit and subsidiary level are in line with Group strategies, and all employees' and managers' efforts are directed towards a common goal. For effective application of the plan, we also revamped our human resource management systems and instituted a performance management system that links strategic targets with individual objectives.

During the first year of implementation, we more than achieved our targets in terms of operating performance and strategic realignment. Turkey's economic development progressed parallel to the macro scenario underlying our plan. The progress made in 2003 verified and strengthened our determination to continue implementation of the plan.

The plan rests on the following pillars:

## Growth

Growth is a potent tool for creating shareholder value. Growing to international scale can improve the competitiveness of our businesses. Entry into new businesses to generate growth, will also serve shareholder value creation. Development of new business lines that fit our portfolio theme will be accompanied by divestment of those which do not, thus increasing our strategic focus.

We are striving to achieve double-digit growth in the coming years. The factors driving this growth are:
- Exposure to rapidly growing consumer spending in Turkey
    - Unparalleled distribution network
    - Well established and respected brands
    - Leading market position.
- Potential to increase international sales
    - Access to neighboring emerging markets and Europe
    - Excellent production capabilities

- Favorable cost structure
- Global partners
- Far flung international distribution network.

- New business prospects
    - Privatizations and liberalizations in Turkey and in neighboring emerging markets

## Profitability

Profitability is our #1 performance criterion. To measure profitability, we use “Economic profit” (defined as net income less cost of equity), a measure which emphasizes, operating efficiency as well as asset utilization and balance sheet management.

This criterion has become an important factor in the performance management system. Top management’s performance scorecards assign the greatest weight to Economic Profit, along with change in market value for publicly traded companies.

## Making the Whole Greater Than the Sum of Its Parts

Subsidiaries perform better as part of the Koç portfolio than they would otherwise. Koç Holding adds value to its subsidiaries through

- Performance focused active parenting
- Creation of synergies through shared systems and resources
- Development of cross-business opportunities within the Group

## Focus

Koç Holding prospered with a diversified portfolio in Turkey’s closed economy environment. As Turkey’s transition into a more open economy - a process slowed down by economic crises in 1999 and 2001 - accelerates, we are responding by downscoping our portfolio in order to reduce the number of sectors in which we are active. A more focused portfolio will help us achieve greater management efficiency, optimize resource allocation and maximize cross business synergy opportunities.

## Portfolio Principles

The new portfolio will consist of businesses:

- where we have a differential competitive advantage
- with the power to generate significant revenues through international operations and exports
- where we can leverage our brands and technology
- where we can be the local market leader or a close second.

## A Unifying Theme

We are reshaping our portfolio around a unifying theme: closeness to the consumer. We have defined our area of activity as “manufacturing, marketing and selling goods and services that address the end-consumer.”

A unifying theme ensures that businesses share common competences, which in turn enables us to create value by cross-business competence transfers and synergy opportunities. New business prospects are evaluated according to fit with the portfolio theme, giving us direction and focus as we grow both in size and value.

# BOARD OF DIRECTORS REPORT

# BOARD OF DIRECTOR'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

To our shareholders,

This report, which was presented in Turkish at the General Assembly held on April 29, 2004, reviews our activities in 2003.

At Koç Holding's 40th General Assembly, we presented information regarding developments in Koç Group and Koç Holding. Attached to the report are consolidated financial statements and notes for Koç Holding, the auditor's report and other disclosures in compliance with Capital Markets Board (CMB) regulations.

Koç Holding strives to improve profitability and enhance the performance of its subsidiaries in order to maximize shareholder value and attract new investors.

2003 is the first full year of application of the new strategic plan adopted at the end of 2002. In accordance with the plan, important structural changes have been carried out. Koç Group continued to create shareholder value by improving both its operations and financial structure during the year.

Koç Group's fundamental objective is to further develop its competitive advantages to grow in the domestic and international markets, and become one of the leading companies in terms of revenues not only in Turkey but in Europe.

The financial results included in this report have been prepared on a consolidated basis in compliance with International Financial Reporting Standards (IFRS). Beginning with this year, consolidated IFRS results are also reported to CMB, instead of statutory parent only results as in previous years. Except for foreign currency values, such as export revenues, all values are convenience translations to US Dollars, from Turkish Lira figures that reflect the purchasing power of the TL on 31 December 2003. Percentage increases are given in terms of inflation adjusted TL figures.

## Analysis of Financial Condition and Results of Operations

### (i) Financial Results

Koç Holding closed 2003 with excellent financial results. A positive economic climate, declining interest rates, stronger domestic demand especially in the Automotive and Consumer Durables segments, the further increase in automotive exports, and the acquisition of 50% of OPET at the end of 2002 contributed in a 20% increase in revenues, an 83% increase in operating profit and a 725% increase in net income. An improvement was seen in all consolidated financial ratios compared with 2002.
A summary of the developments which contributed to these results are given below:

Koç Group posted combined revenues of $17.9 billion and consolidated revenues of $11.1 billion. $4.3 billion of the difference comes from JV accounting and $2.5 billion from inter company eliminations. Combined revenues are 27% above 2002. Combined income before tax is $1.1 billion, up 268%.

Thanks to effective cost cutting measures, operating profit increased by 83% to $596 million, compared with $326 million in 2002.

Monetary loss, which shows the effect of inflation on the net monetary

**Selected Consolidated Financial Data:**

| | 2003* ($ in Millions) | 2002* ($ in Millions) | Change (%) |
|---|---|---|---|
| Revenues | 11,107 | 9,230 | 20 |
| Operating costs | (10,511) | (8,904) | 18 |
| Operating profit | 596 | 326 | 83 |
| Loss on net monetary position | (25) | (79) | (69) |
| Financial income-net | 105 | 17 | 518 |
| Net income | 274 | 33 | 725 |
| Basic and diluted earnings per share in full | 358 | 44 | 720 |
| EBITDA | 1,125 | 703 | 60 |
| Operating margin | 5.4% | 3.5% | 1.8* |
| Total assets | 10,421 | 9,794 | 6 |
| Total shareholders' equity | 2,325 | 1,751 | 33 |
| Capital expenditures | 628 | 732 | (14) |
| Depreciation and amortization | 553 | 507 | 9 |
| Total liabilities | 6,523 | 6,499 | - |
| Revenues / Total assets | 1.07 | 0.94 | 0.12* |
| Operating profit / Total assets | 5.7% | 3.3% | 2.4* |
| Return on Equity | 13.3% | 1.9% | 11.4* |
| Current ratio | 1.18 | 1.11 | 0.06* |
| Total liabilities / Equity | 1.67 | 1.97 | (0.30)* |

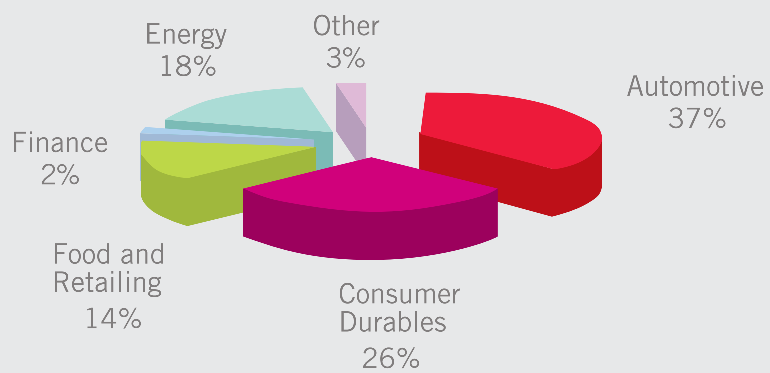
* Convenience translation with year end TL1,395,835 = $1.00 exchange rate
** Difference between the percentages is used to express the change

position of companies operating in an inflationary environment, declined by 69% as a direct result of the decrease in inflation from 30.8% in 2002 to 13.9% in 2003.

The decline in interest rates and the appreciation of the TL against the U.S. dollar and Euro in 2003 reduced financial expenses. Net financial income increased from $17 million in 2002 to $105 million in 2003.

Net income for 2003 jumped to $274 million from $33 million in 2002, the outcome of increases in both operating profit and net financial income, and a decline in net monetary position loss. This represents an increase of 725%.

**Breakdown of Capital Expenditures by Segment (2003)**



A total of $628 million of capital expenditures were made in 2003. The biggest portion of this belongs to investments for capacity increases and new models in our automotive and consumer durable companies. Other significant investments were made in the Energy segment for gas stations and in Food & Retailing segment for new stores in Turkey and abroad.

Total assets of Koç Holding rose by 6% in 2003 to $10.4 billion.

Shareholders' equity increased from $1,751 million in 2002 to $2,325 million in 2003 due to capital increases made during the year, share swaps and profit for the period.

Koç Group focuses on increasing export revenues. Nearly two thirds of international revenues are obtained from the Automotive and Consumer Durables segments. The Group is determined to increase its presence in international markets and enter into new markets. Koç Group has a presence in 23 countries through 20 subsidiaries and 23 offices. In 2003, Koç Group posted $4,994 million in combined international sales, 56% higher than the preceding year on a U.S. dollar basis.

For more detailed information on the consolidated financial statements of Koç Holding A.Ş. prepared in accordance with the International Financial Reporting Standards, please refer to Consolidated Financial Statements.

**Developments in Koç Holding and Koç Group in 2003**

Strategic restructuring continued during the year in line with the strategic plan;

In the Food segment, four production companies -- Tat (tomato products), Maret (meat products), Sek (dairy products) and Pastavilla (pasta) -- merged under Tat. Strengthened by this merger, and in cooperation with Düzey, Tat aims to become Turkey's leading food and distribution company.

In the Energy segment, LPG distributors Mogaz and Lipet were merged in 2003. In the Hospitality segment, the merger of Setur and Inres has been completed and the decision taken to merge Mares and Talya hotels.

We sold our minority share in Matay in the Automotive segment and the majority of our shares in Koç Ece during the year, and our shares in Garanti Balfour Beatty in the contracting segment in January 2004.

Opet, acquired by the end of 2002, had a significant impact on financial results in 2003. Opet and Aygaz formed a 50-50 joint venture company to operate in Bulgarian LPG and fuel markets with the goal of transferring their existing technology and expertise to the developing fuel and auto gas markets in southeastern European countries.

A cooperative effort of our companies to evaluate the business and export opportunities in post-war Iraq resulted in the export of $294 million worth of goods. Opet and Aygaz generated the largest portion of these revenues.

Arçelik achieved significant cost savings by restructuring the companies it acquired in Europe in 2002. To this end, some production lines in Germany and Austria were transferred to production facilities in Turkey.

Beko Elektonik established a company in the U.K. to develop and market Dijital Set Top Box products and related technology. At the beginning of 2004, Beko Elektronik acquired Grundig's brand name, intellectual property, R&D related assets, sales and after sales service networks and part of its inventory, with a 50-50 joint partnership.

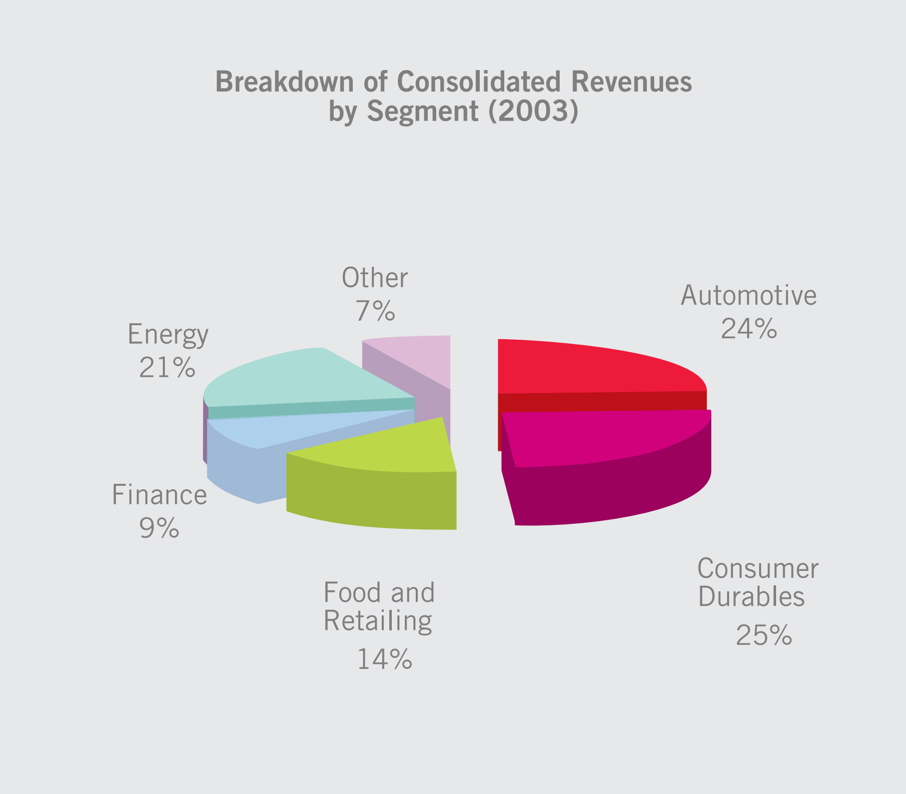
Türk Demir Döküm's radiator factory in China, established with a local partner, started operating. The company also established a trading company in the U.K. to drive sales to European countries, especially to the U.K., France and Germany in order to strengthen its presence in international markets.

Koç Allianz Hayat and Emeklilik added pension funds to their area of activity, reflecting new regulations that took effect during the year.

In line with their decision to use Koç Holding as the sole investment vehicle, Koç Family transferred 50.8% of Migros shares they owned through Temel Ticaret A.Ş to Koç Holding in 2003.

**(ii)Results of operations**

Koç Group's operations are divided into five main business segments: Automotive, Financial Services, Energy, Consumer Durables and Food and Retailing. "Other" business segment comprises Hospitality, Information Technologies, International Trade, Construction and Koç Holding A.Ş., the parent.




The largest contribution to revenue growth in 2003 came from Automotive and Energy segments.

In the Automotive segment, a 127% increase in total motor vehicle sales in Turkey resulted in higher sales to the domestic market. Just as important was the increase in exports. At Ford Otosan, exports of Transit Connect which started in 2002 picked up speed in 2003, raising the company's export revenues, on a U.S. dollar basis, by 155%. Türk Traktör also generated $100 million growth in exports over 2002. Growth was accompanied by a significant improvement in operating profitability. The segment achieved an operating profit of $158 million in 2003, compared to an operating loss in 2002.

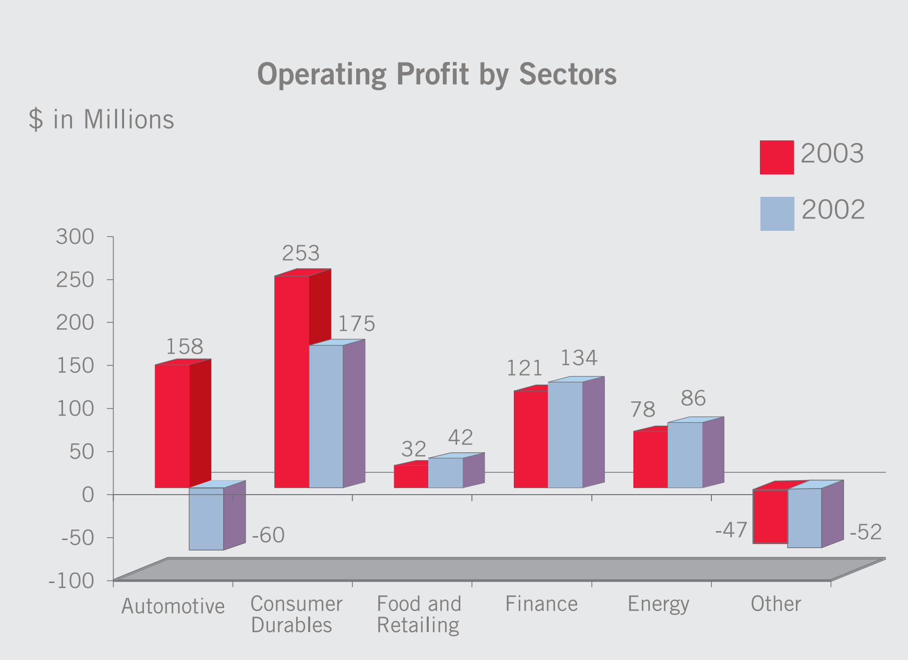
Higher revenues in the Energy segment reflect the contribution of the partnership in OPET, which was finalized in late 2002. LPG and petroleum products exports to Iraq also contributed to the increase in revenues. As profit margins in the sector are determined on a U.S. dollar basis, declining exchange rates in 2003 resulted in a lower operating profit.

In the Consumer Durables segment, sales in both local and international markets increased sharply. However appreciation of the TL meant that international revenues remained steady on a TL basis, limiting total revenue growth to 7.3%. Operating profits, on the other hand, boosted by 25%, as a result of efforts to reduce costs and increase productivity.

In the Food and Retailing segment, international revenues increased only slightly on a TL basis due to the appreciation of the Turkish Lira. Total revenues increased by 7.9%. However, due to one-time costs related to the merger of four food companies and intense competition, operating profit declined.

Finance segment's contribution to consolidated revenues declined reflecting the effect of the partnership with UniCredito Italiano. As a result of the partnership, Koç Financial Services became a JV and is now included 50% in consolidation, as opposed to 100% before. The slowing down in interest rates and exchange rate increases also contributed to the decline in banking revenues, a trend which is expected to continue parallel to the decline in inflation. However, these same factors acted to reduce expenses and as a result of efforts to increase gross profitability, gross margin rose from 26% to 32%. Cost savings boosted operating margin from 8% to 12% despite lower revenues.

In this context, Koç Financial Services performed strongly in 2003, posting a consolidated net profit of $141 million and an average return on equity of 22%.



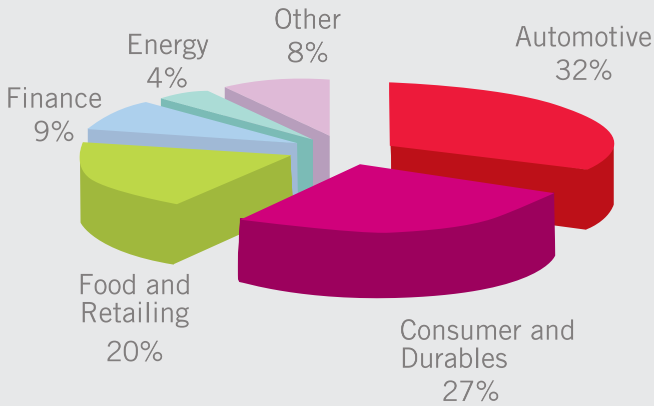

Other business segment comprises of Hospitality, Information Technologies, International Trade, Construction and the parent company Koç Holding A.Ş.. Total revenues of companies in this segment declined as exports previously handled realized through the Group's foreign trade companies started to be handled directly by the operating companies. This change of practice had no impact on Koç Holding consolidated revenues.

### Other Issues

Total employment of Group companies increased by 3,966 people to 53,985 at the end of 2003. On a segment basis, the highest employment is in Automotive, Consumer Durables and Food & Retailing. Nearly 80% of total employment is attributable to these three segments.

During 2003, five companies (Aygaz, Maret, Migros, Şok, RMK Marine) signed collective bargaining agreements, covering 5,334 workers. The collective bargaining agreement at Sek Süt, that was signed before the merger, expired in 2003 and has not been renewed since it will be included in Tat's general agreement.

**Breakdown of Total Employment by Segment (2003)**




The Group has focused on managing various financial risks arising from its operations including the effect of changes in foreign exchange and interest rates, and debt and capital markets prices. The Group intends to minimize the negative effects of market volatility by applying a risk management program. Companies manage their own interest rate, loan and foreign exchange risks according to the policies approved by their respective boards of directors.

### CHANGES IN ARTICLES OF ASSOCIATION AND CAPITAL INCREASE

At the Extraordinary General Assembly on 01.09.2003, amendment of Article 8 of Articles of Association and increase of limit on registered share capital from $179 million to $716 million were accepted.

At the Extraordinary General Assembly on 10.12.2003, amendment of Article 8 of Articles of Association and capital increase from $174,653 thousand to $196,838 thousand were accepted.

Share capital of $146 million as agreed by the Board of Directors on 04.04.2003 has been raised by 16.6%, fully from internal resources. The detail of the funding is as follows:

| | | |
|---|---|---|
| $23,436 | thousand | from Fixed Assets Revaluation Fund |
| $4,938 | thousand | from addition of net income for year 2002 to capital (in accordance with General Assembly decision) |
| $735 | thousand | Addition of real estate sales profit according to Article 28/A of Corporate Tax Law |

The Board of Directors resolved to raise share capital of $196,839 by 187,44 %, on 11.12.2003 to be funded by internal resources.
The detail of the augmentation is as follows:

| | | |
|---|---|---|
| $344,603 | thousand | from Subsidiaries Value Increase Fund |
| $12,826 | thousand | from Fixed Assets Revaluation Fund |
| $11,522 | thousand | from Cost Increase Fund |

As a result, share capital has been increased to $565,790 thousand.

**Dividends Payment Proposal:**

According to the financial results summarized above, of the $273,759 thousand consolidated net income, $152,613 thousand can be distributed as dividends, in compliance with Turkish Commercial Code, CMB, and Articles of Association. We hereby propose the distribution of $152,613 thousand as dividends in the following manner:

| | | |
|---|---|---|
| $7,630 | thousand | as 5% legal reserves |
| $28,997 | thousand | as First dividend to shareholders |
| $1,040 | thousand | as Article 32/c of Articles of Association to Foundation for Pensions and Assistance (as 1% and after deduction of payments made during the year) |
| $2,806 | thousand | to Usufruct Shareholders according to Article 32/d of Articles of Association |
| $1,556 | thousand | as Second Dividend to shareholders and the remaining balance to be allocated as extraordinary reserves. |

Taking into account the excepted cash flow for the year 2004 and in compliance with the Capital Markets Board regulations, we hereby propose the payment of a total of $30,553 thousand as dividends, funded by extraordinary reserves of $29,098 thousand allocated before 1999, and $1,454 thousand of extraordinary reserves allocated between 1999-2002, at the rate of net 54 TL per share as first and second dividends, for the approval of the General Shareholders' Assembly.

We kindly thank you for your interest in and attendance to the General Shareholders' Assembly.

**Chairman**

**Mustafa V. Koç**

# BUSINESS UNITS

AUTOMOTIVE

CONSUMER DURABLES

FOOD&RETAILING

# 2003 PERFORMANCE

ENERGY

FINANCE

OTHER

# AUTOMOTIVE

*Koç Group companies constitute a major part of Turkey's automotive industry. In fact almost every other motor vehicle manufactured in Turkey, and half of vehicle exports were manufactured by Koç Group companies in 2003.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – AUTOMOTIVE

Turkey is becoming a production hub for major global automotive manufacturers, as a result of its high quality – low cost manufacturing and engineering capabilities.

Koç Group companies in the automotive segment maintained their rapid growth in 2003, both in the expanding domestic market and in international markets.

**Major Koç Group companies in the automotive segment:**

| Production | Sales and Distribution | Retailing | Automotive Supplies |
|---|---|---|---|
| Ford Otosan | CNH Trakmak | Otokoç | Döktaş |
| Tofaş | Otoyol Pazarlama | Birmot | Mako |
| Türk Traktör | Otomotiv Lastikleri | | Tekersan |
| Otokar | | | |
| Otoyol | | | |
| Beldeyama | | | |

## Market overview

Domestic demand rose in 2003, recovering from a two-year slump after the economic crisis in 2001. Favorable macro economic developments, declining interest rates, deferred demand and a tax break in the second half of the year resulted in a 127% increase in total motor vehicle sales. Rapid growth and declining F/X rates encouraged imports, which increased their share to 37% in commercial vehicles and 68% in passenger cars.

**Total sales of motor vehicles in Turkey**

| (000 Units) | Total Sales 2003 | Growth (%) | Import Sales 2003 | Growth (%) |
|---|---|---|---|---|
| Light commercial vehicles | 140 | 109 | 59 | 147 |
| Other commercial vehicles | 28 | 67 | 3 | |
| Total commercial vehicles | 168 | 100 | 63 | 180 |
| Passenger cars | 227 | 151 | 154 | 155 |
| Farm tractors | 16 | 158 | - | - |
| Total | 411 | 127 | 217 | 162 |

Source: Automotive Manufacturers Association (OSD)

Production of motor vehicles in Turkey surpassed the record year of 2000 to over 560,000 units. The 205,000 units (57%) increase over 2002 is evenly split between the domestic market and exports.

**Production and exports of motor vehicles in Turkey**

| (000 Units) | Production 2003 | Growth (%) | Exports 2003 | Growth (%) |
|---|---|---|---|---|
| Light commercial vehicles | 209 | 70 | 127 | 57 |
| Other commercial vehicles | 30 | 57 | 6 | -7 |
| Total commercial vehicles | 240 | 68 | 134 | 52 |
| Passenger car | 294 | 44 | 214 | 26 |
| Farm tractors | 29 | 170 | 12 | 186 |
| Total | 562 | 57 | 359 | 37 |

Source: Automotive Manufacturers Association (OSD)

Turkey is becoming a production hub for major global manufacturers, benefiting from its low cost – high quality manufacturing and engineering capabilities and its zero custom access to the EU market. Renault, Ford, Fiat, Toyota and Mercedes Benz are among the global companies which have manufacturing


Doblò Cargo


FocusC-MAX


Mondeo

operations in Turkey through joint ventures or wholly owned subsidiaries. Growth is expected to maintain its momentum. The fact that the local market is far from saturation ensures further growth in domestic demand in the prevailing economic climate. At the same time, projects in the pipeline ensure substantial growth in exports.

## Analysis of Financial Condition and Results of Operations

### (i) Financial Results

| Selected Financial Data | 2003* ($ in Millions) | 2002* ($ in Millions) | Change (%) |
|---|---|---|---|
| External revenues | 2,679 | 1,643 | 63 |
| Inter segment revenues | 57 | 90 | (37) |
| Total Revenues | 2,736 | 1,734 | 58 |
| Cost of sales | (2,349) | (1,576) | 49 |
| Gross profit | 387 | 157 | 146 |
| Operating expenses: | (251) | (235) | 7 |
| Administrative | (120) | (124) | (3) |
| Selling and distribution | (120) | (102) | 17 |
| Research and development | (11) | (9) | 24 |
| Inter segment profit elimination | 22 | 17 | 28 |
| Operating profit /(loss) | 158 | (60) | N/A |
| Gross margin | 14.2% | 9.1% | 5.1* |
| Operating margin | 5.8% | (3.5)% | 9.3* |
| Total assets | 2,091 | 1,795 | 16 |
| Net assets | 982 | 829 | 18 |
| Capital expenditures | 234 | 245 | (4) |
| Depreciation and amortization | 219 | 161 | 36 |

* Convenience translation with year end TL1,395,835 = $1.00 exchange rate
** Difference between the percentages is used to express the change

Total revenues of the Automotive segment increased by 58% to $2,736 million. $2,679 million of this derives from external sales, accounting for 24.1% of Koç Holding’s consolidated revenues.

Gross profit margin increased by 5.1 points and operating profit margin by 9.3 points thanks to higher volumes and increased productivity. Gross profit rose by 146% to $387 million, while operating profit amounted to $158 million compared to a loss of $60 million the previous year.

The segment’s total assets increased by 16% over the previous year; a smaller increase compared to revenues, resulting in higher asset turnover. The increase in net assets (total assets less total liabilities) was 18%.

The segment’s capital expenditures amounted to $234 million, 37.2% of Koc Holding’s consolidated figure.

### (ii) Results of operations

Koç Group companies constitute a major part of Turkey’s automotive industry. In fact almost every other motor vehicle manufactured in Turkey, and half of vehicle exports were manufactured by Koç Group companies in 2003.

**Koç Group role in automotive production of Turkey:**

| (000 Units) | Industry | Koç Group | Koç Group as a % of industry |
|---|---|---|---|
| Commercial vehicles | 240 | 183 | 76 |
| Passenger cars | 294 | 66 | 22 |
| Farm tractors | 29 | 17 | 60 |
| Total | 562 | 266 | 47 |

Source: Automotive Manufacturers Association (OSD)

**Koç Group role in automotive exports of Turkey:**

| (000 Units) | Industry | Koç Group | Koç Group Exports as a % of industry |
|---|---|---|---|
| Commercial vehicles | 134 | 118 | 88 |
| Passenger cars | 214 | 41 | 19 |
| Farm tractors | 12 | 9 | 76 |
| Total | 359 | 168 | 47 |

Source: Automotive Manufacturers Association (OSD)

Our companies capitalized on higher domestic demand, and increased exports as well, mainly due to new models manufactured by Ford Otosan and Türk Traktör.

Koç Group captured 29.3% of the intensely competitive local automotive market in 2003. Combined exports soared to $2 billion.

**Koç Group market shares:**

| (000 Units) | Total Market | Koç Group | Koç Group % | Change vs.'02 % pts. |
|---|---|---|---|---|
| Light commercial vehicles | 140 | 62 | 44.2 | -1.7 |
| Other commercial vehicles | 28 | 7 | 24.3 | 3.2 |
| Total commercial vehicles | 168 | 69 | 40.8 | -0.1 |
| Passenger cars | 227 | 43 | 19.1 | -0.7 |
| Farm tractors | 16 | 8 | 51.4 | -0.7 |
| Total | 411 | 120 | 29.3 | -1.5 |

Source: Automotive Manufacturers Association (OSD)

## Ford Otosan

**Ford Otosan**, a joint venture with Ford Motor Company, is the leader in the total motor vehicle market in Turkey. With the launch of Transit Connect, a light commercial vehicle developed jointly with Ford of Europe towards the end of 2002, and introduction of Fusion, Street Ka, the new Mondeo, Focus C-Max and the all new Cargo (heavy truck), Ford Otosan managed to increase its market share in all segments, boosting its total market share from 13.8% in 2002 to 15.2% in 2003.

**Ford Otosan** is the largest commercial vehicle manufacturer and exporter in Turkey. In 2003, total production rose to 115,000 units (all commercial vehicles), representing 47% of the total Turkish commercial vehicle production. **Ford Otosan** also single handedly realized 56% of Turkey's total commercial vehicle exports.

Total sales increased by 140% (in units), as a result of strong increases in both the domestic and export markets. The Transit Connect model played a significant role in this accomplishment with total sales of more than 137,000 units in 2003.

In 2003, total revenues of **Ford Otosan** reached $2,109 million, $880 million of which stemmed from exports.

A $190 million investment increased annual production capacity of the Kocaeli facility from 140,000 to 200,000 units, following the decision to increase export volume of Transit to Europe.

**Ford Otosan** targets production of 195,000 commercial vehicles in 2004, utilizing almost 100% of capacity. The company anticipates exports of 135,000 units and export revenues of $1.5 billion in 2004.

**Ford Otosan** continues to implement global best practices, including the adaptation of Ford Production Systems. The Kocaeli plant is among the best Ford plants worldwide in terms of manufacturing quality. **Ford Otosan** is also ranked third among the European subsidiaries of Ford Motor Company in terms of after-sale customer satisfaction.

The new Ford Cargo (heavy truck) was launched in September 2003. This new vehicle and its engine were solely designed and engineered by **Ford Otosan**, demonstrating the technology development capability of the company.

The company aims to maintain its leadership position in motor vehicles market in Turkey by widening and refreshing its product range with new vehicle and engine projects.

**Tofaş**

**Tofaş**, a joint venture with Fiat Auto S.p.A., is one of Fiat's four global production centers. Currently the only passenger car producer of the Koç Group, Tofaş increased production in this segment by 29% to 66,000 units in 2003. Total production increased by 17% from 106,000 units in 2002 to 127,000 units in 2003.

Despite a significant increase in imported brands and intense competition especially in the light commercial segment, **Tofaş** mostly maintained its market position with a 12.4% share (passenger cars and light commercial vehicles) in 2003.

Passenger car exports remained steady in 2003 in terms of total units and export revenues totaled  $770 million.

Higher domestic sales were driven by the introduction of Stilo, Palio Van, Palio Go, Doblo Combi, Punto and the new Alfa Romeo 156 models as well as diesel motor versions of various models. **Tofaş** domestic sales increased by 87% in terms of total units in 2003.

In addition to new vehicle launches planned for 2004, Tofaş is also moving towards becoming the global supply base for another Fiat vehicle.

**Türk Traktör**

**Türk Traktör**, a joint venture with Case New Holland, is Turkey's largest farm tractor manufacturer and exporter. The Company led the market with a 51.4% share in 2003.

In 2003 the company successfully launched a new series of farm tractors for Europe and the US market. Developed in cooperation with Case New Holland, the new series meets EU standards and is noteworthy for its economical and easy operation and maintenance.

The 158% boost in domestic demand, and the export volume generated by the new series caused production to more than quadruple to 17,300 units in 2003.

**New Holland Trakmak** acts as the sales and distribution company of Türk Traktör in the domestic market. It posted total revenues of $177 million in 2003.


OTOKAR

## Otoyol

**Otoyol**, a joint venture with Iveco, Fiat’s commercial vehicle subsidiary, leads the domestic market in the mid-size bus and mid-size truck segments. Total production increased by 20% from 3,700 units in 2002 to 4,400 units in 2003.

**Otoyol Pazarlama** acts as the sales and distribution company of Otoyol in the local market. Total revenues amounted to $137 million in 2003.

## Otokar

**Otokar** manufactures commercial, armored and special purpose vehicles, including Land Rover Defender under license. In 2003, revenues increased by 51% to $141 million.

## Other companies

Automotive supplies companies (**Döktaş, Tekersan** and **Mako**) generated total combined revenues of $305 million in 2003, representing a 22% increase.

**Otokoç** and **Birmot**, dealership chains for Ford Otosan and Tofaş respectively, benefited from domestic market growth to increase combined revenues by 64% to $667 million. The two companies have a total retail market share of 8% in passenger cars and 13% in light and medium commercial vehicles.

**Beldeyama**, a joint venture with Yamaha, became the single manufacturing source of mopeds for Yamaha network.

**Oltaş**, distributor of Continental tires, achieved a 5% market share in 2003.

# CONSUMER DURABLES

*Demand for household appliances in Turkey is expected to continue to show strong increases due to a number of important demographic factors.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – CONSUMER DURABLES

In the last decade, Turkey has become a major exporter of consumer durables. In 2003 a total of 20 million units (major appliances and televisions) were exported, mostly to Europe.

**Major Koç Group companies in the consumer durables segment:**

| White Goods Mfg. | Consumer Electronics Mfg. | HVAC Mfg. | Int'l Sales and Dist. |
|---|---|---|---|
| Arçelik<br>Arctic (Romania)<br>Blomberg Werke (Germany) | Beko Elektronik<br>Fusion Digital | Arçelik LG<br>Demirdöküm | Beko UK<br>Beko France<br>Beko Deutschland<br>Beko Espana<br>Beko Polska<br>Blomberg<br>Elektra Bregenz<br>DD Heating |

## Market overview

Historically domestic demand for consumer durables has been indexed to the economic climate. Favorable macro economic performance, lower inflation, declining interest rates and deferred demand made 2003 a year of strong growth for the consumer durables industry.

Demand for household appliances increased by 21%. Growth in refrigerators and washing machines sales, which account for 79% of the total market, has been even higher. Dishwasher sales declined, reflecting the low priority given to this product by most consumers.

**Total sales of major household appliances in Turkey:**

| (000 Units) | Total Sales 2003 | Growth (%) | Imports 2003 | Growth (%) |
|---|---|---|---|---|
| Refrigerators | 1,362 | 25 | 41 | (19) |
| Washing machines | 1,076 | 31 | 191 | 20 |
| Dishwashers | 261 | (7) | 102 | 4 |
| Ovens | 378 | 11 | 26 | (11) |
| Total | 3,076 | 21 | 360 | 7 |

Source: White Goods Producers Association (BESD)

Imports constituted about 12% of total sales. Despite the high growth potential of the market, the fact that the majority of sales are realized through dealer networks, rather than multi-brand retail chains, is critical for new entrances.

Production increased by 31% as a result of the strong growth in domestic demand and even higher growth in exports. Exports exceeded 6 million units and represented 69% of total production.

**Production and export of major household appliances in Turkey:**

| (000 Units) | Production 2003 | Growth (%) | Exports 2003 | Growth (%) |
|---|---|---|---|---|
| Refrigerators | 4,286 | 29 | 3,034 | 35 |
| Washing machines | 2,459 | 49 | 1,550 | 57 |
| Dishwashers | 399 | 15 | 239 | 61 |
| Ovens | 1,574 | 17 | 1,189 | 19 |
| Total | 8,718 | 31 | 6,012 | 37 |

Source: White Goods Producers Association (BESD)

Demand for household appliances in Turkey is expected to continue to show strong increases due to a number of important demographic factors. Overall population growth, high marriage rates, the young age of the population, low penetration rates compared to Europe, increase in the number of small families and the higher number of working women all contribute to rising demand.

Turkey is the top television producer in Europe, with production volume of 15.3 million units, up from 12.4 million units in 2002. In 2003, Turkey accounted for 39% of total TV production in Europe, compared to 30% a year earlier. 90% of production is exported, more than 70% of which is sold to European countries.

2003 also witnessed vibrant domestic demand, with sales increasing by 71% to 1,7 million units. The increase was a result of deferred demand in previous years, and replacements triggered by price decreases in larger screen sizes, especially in 28" sets.

Air-conditioner demand has grown by an average of 30% annually since 2001. The increasing presence of retail distributors and inexpensive Far Eastern products have contributed to this trend.

The extension of natural gas infrastructure in Turkey's cities spurred demand for individual combustion boilers. Sales increased by 74% in 2003. Environmental regulations triggered replacement demand for boilers in Europe, which created an opportunity for Turkey's industry, at a time when foundry operations are moving out of Europe. Growth in both domestic demand and exports is expected to continue.

## Analysis of Financial Condition and Results of Operations

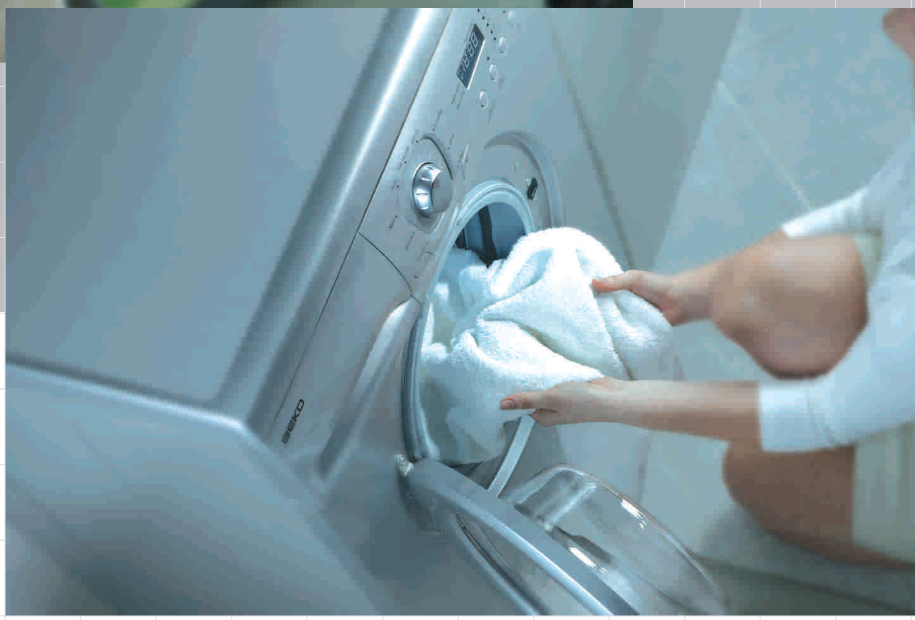
### (i) Financial Results

**Selected Financial Data:**

| | 2003* ($ in Millions) | 2002* ($ in Millions) | Change (%) |
|---|---|---|---|
| External revenues | 2,757 | 1,815 | 52 |
| Inter segment revenues | 400 | 1,128 | (65) |
| Total Revenues | 3,157 | 2,943 | 7 |
| Cost of sales | (2,344) | (2,245) | 4 |
| Gross profit | 814 | 698 | 16 |
| Operating expenses: | (565) | (528) | 7 |
| Administrative | (234) | (209) | 12 |
| Selling and distribution | (299) | (287) | 4 |
| Research and development | (32) | (33) | (2) |
| Inter segment profit elimination | 5 | 5 | 15 |
| Operating profit/(loss) | 253 | 175 | 45 |
| Gross margin | 25.8% | 23.7% | 2.0* |
| Operating margin | 8.0% | 5.9% | 2.1* |
| Total assets | 2,789 | 2,592 | 8 |
| Net assets | 1,315 | 1,245 | 6 |
| Capital expenditures | 163 | 165 | (1) |
| Depreciation and amortization | 154 | 141 | 9 |

* Convenience translation with year end TL1,395,835 = $1.00 exchange rate
** Difference between the percentages is used to express the change

Total revenues of the Consumer Durables Segment rose by 7% to $3,157 million. Of this, $2,757 million are external revenues, constituting 24.8% of Koç Holding's consolidated revenues. Inter segment revenues consist mainly of exports made through Ram (the Group's foreign trade company). As the ratio of direct exports rose in 2003, inter segment revenues decreased and external revenues jumped by 52%.



Gross margin and operating margin increased by two percentage points each. Gross profit rose by 16% to $814 million while operating profit was up 45% to $253 million.

The segment's total assets and net assets (total assets less total liabilities) increased by 8% and 6% respectively, in line with the 7% revenue increase.

The segment's capital expenditures amounted to $163 million, 25.9% of Koç Holding's consolidated figure.

### (ii) Operational results

### Arçelik

**Arçelik** is the undisputed leader of Turkey's consumer durables sector, representing 52% of domestic sales and 62% of Turkey's exports of major household appliances. Revenues reached $2,394 million, up by 10% versus 2002. This increase includes the effect of the acquisitions completed in 2002. Approximately one half of revenues were derived from international operations and exports.

**Arçelik market shares:**

| (000 Units) | Total Market | Arçelik | Arçelik % |
|---|---|---|---|
| Refrigerators | 1,362 | 634 | 46.5 |
| Washing Machines | 1,076 | 582 | 54.1 |
| Dishwashers | 261 | 162 | 62.2 |
| Ovens | 378 | 215 | 56.8 |
| Total | 3,076 | 1,592 | 51.8 |

Source: White Goods Producers Association (BESD)

Subsidiaries acquired in 2002 are being restructured, with the aim of reducing costs and improving competitiveness. The cooking appliance manufacturing facility of **Electra Bregenz** was transferred from Austria to Bolu, Turkey and the water heater manufacturing facility of **Blomberg** was transferred from Germany to **DemirDöküm**'s Bozüyük manufacturing facility.

Consolidated capital expenditures amounted to $90 million in 2003, including capacity increases in refrigerators and washing machines. New model and capacity increase investments will continue in 2004 parallel to growth in domestic and international markets.

**Arçelik** is continuing its search for potential acquisition targets and new investments. In accordance with this strategy, the management is currently evaluating several potential greenfield investment opportunities in new markets.

**Arçelik** is also planning to enter new product categories to increase sales and further enhance the strength of its dealership network. Cellular phones and furniture will be introduced in 2004.

### Beko Elektronik

**Beko Elektronik**, manufacturer of consumer electronics, maintained its growth in exports in 2003, and also benefited from the boom in the domestic market. Total revenues reached $874 million, 13% higher than 2002.


BEKO


BEKO
DVD-6000
POWER
STANDBY
DOLBY
DIGITAL
dts
MP3
JPEG
Kodak

Beko Elektronik manufactured 5.2 million TVs and exported 4.5 million of them. The 700,000 units sold domestically correspond to a 41% market share.

| Beko Elektronik in Turkey ('000 Units) | Industry 2003 | Beko Elektronik | Beko Elektronik as a % of industry |
|---|---|---|---|
| Domestic sales | 1,695 | 694 | 41 |
| Exports | 13,559 | 4,473 | 33 |
| Total | 15,524 | 5,167 | 33 |

Source: Electronic Equipment Producers Association (ECİD)

Television manufacturing capacity was increased by 1.3 million units to 6 million units per year in 2003 and investment for an additional 1 million unit/year capacity is underway.

Early in 2004, **Beko Elektronik** acquired Grundig's brand name, intellectual property (717 patents), R&D related assets, sales and after sales service networks and part of its inventory, with a 50-50 joint partnership with Alba Plc., a UK-based consumer electronics company. The acquisition will propel **Beko Elektronik** from OEM/ODM manufacturing to the high-end brand league in Europe.

The Company intends to become a pioneer in digital technology. In line with this strategy, **Beko Elektronik** established an R&D and marketing company in the UK, **Fusion Digital** to develop advanced digital video technology and market digital video products manufactured by **Beko Elektronik**.

### Türk DemirDöküm

**Türk DemirDöküm** is a leading producer of water heating appliances, individual combustion boilers, panel radiators and cast iron radiators and boilers in Turkey.

**Türk DemirDöküm** is pursuing an international growth strategy in order to reduce dependence to the highly volatile domestic construction sector. In 2003 two trading companies in UK and China (DD Heating and Tianjin Demrad); and a joint venture in China to manufacture electrical powered oil radiators (Chung Mei Industries) were established.

At home **Türk DemirDöküm** made a strategic alliance with York for sales and after-sales services of York central air-conditioning systems.

### Arçelik-LG

**Arçelik-LG** is a 50-50 JV with LG Electronics and manufactures room air conditioners. In 2003 total sales increased by 34% to 162,000 units.

# FOOD&RETAILING



*Koç Group grew considerably in 2003, not only in the domestic food and retail market, but also the international retailing markets*

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – FOOD AND RETAILING

In 2003, the Food and Retailing sector in Turkey began to recover from a prolonged market downturn. In 2001 and 2002 adverse macro economic conditions reduced real incomes and diminished confidence, thus dampening consumer demand. The entry of international retail giants into the sector, together with lower inflation rates, is expected to impact the sector in the coming years. Koç Group grew considerably in 2003, not only in the domestic food and retail market, but also in international retailing markets.

**Major Koç Group companies in the food and retailing segment:**

| Food | Retailing | Distribution |
|---|---|---|
| Tat | Migros | Düzey |
| Tat Tohumculuk | Ramenka (Russia) | |
| Koç Ata | Rambutya (Kazakhstan) | |
| | Ramstore Azerbaijan | |
| | Ramstore Bulgaria | |

## Market overview

Diminishing purchasing power after the 2001 economic crisis caused a shift to consumption of unbranded foods purchased through unregistered distribution channels. Improved economic conditions in 2003 reversed this trend. Changing market conditions present new opportunities and risks for the food and retailing sector.

Although organized retailers are gradually taking over from traditional corner groceries, the three largest retailers control only around 10% of the entire Turkish FMCG retail market. This is far below the above 50% average in Western Europe. Moreover, the number of stores per one million people in Turkey is far below that of other European countries. These figures, considered together with Turkey's rapid rate of urbanization, population growth, young population and increasing number of working women, indicate that there is significant room for growth of organized retailing in Turkey.

During the economic recovery period after the crisis, real prices decreased, squeezing profit margins. Turkey's decreasing rate of inflation has lowered margins and diminished the importance of financial gains, forcing companies to concentrate on operating efficiency and profitability.

Interest of international retailers in the Turkish market is on the rise. Tesco's acquisition of Kipa in 2003 is a case in point. Increasing pressure from international competitors is expected to cause mergers and acquisitions among domestic competitors.

The food market follows the global trend of mergers and acquisitions. The number of transactions has increased sharply since 2000. Global or international companies started to take positions in the unsaturated domestic market through their investments in well-known domestic brands.

Although food consumption is less likely to be affected by fluctuations in the economy, the 2001 crisis caused a 25% decline in the registered food consumption of Turkey, reflecting the shift to unbranded and unregistered food products. Lower priced products by unbranded, and sometimes unregistered, companies and unpackaged goods are still a major competition for the packaged goods industry.

Food production in Turkey is fragmented, with over 27,000 enterprises in all categories and only around 7% with modern facilities. An improvement in the general economic condition of the country will create substantial growth potential for the packaged and branded food industry.


tat
Hardal
MISIR
MANTAR


YUMURTALI
Papardelle
PASTAVILLA
NAPOLITEN
PASTAVILLA
Puding

## Analysis of Financial Condition and Results of Operations

### (i) Financial Results

**Selected Financial Data**

| | 2003 ($ in Millions) | 2002 ($ in Millions) | Change (%) |
|---|---|---|---|
| External revenues | 1,598 | 1,471 | 9 |
| Inter segment revenues | 3 | 13 | (78) |
| Total Revenues | 1,601 | 1,483 | 8 |
| Cost of sales | (1,272) | (1,156) | 10 |
| Gross profit | 329 | 328 | 0 |
| Operating expenses: | (312) | (298) | 5 |
| Administrative | (233) | (227) | 3 |
| Selling and distribution | (79) | (71) | 12 |
| Research and development | (0) | (0) | - |
| Inter segment profit elimination | 16 | 13 | 25 |
| Operating profit/(loss) | 33 | 42 | (23) |
| Gross margin | 20.6% | 22.1% | (1.5)* |
| Operating margin | 2.0% | 2.9% | (0,8)* |
| Total assets | 1,200 | 1,083 | 11 |
| Net assets | 598 | 569 | 5 |
| Capital expenditures | 89 | 155 | (42) |
| Depreciation and amortization | 52 | 56 | (7) |

* Convenience translation with year end TL1,395,835 = $1.00 exchange rate
** Difference between the percentages is used to express the change

Total revenues of the Food and Retailing segment rose by 8% to $1,601 million. Of this, $1,598 million are external revenues, constituting 14.4% of Koç Holding's consolidated revenues.

Gross margin declined by 1.5 points and operating margin fell by 0.8 point in 2003 due to intense competition in the sector and one-time costs related to the merger of food companies. Gross profit inched up to $329 million while operating profit declined by 23% to $33 million.

The segment's total assets and net assets (total assets less total liabilities) increased by 11% and 5% respectively, roughly in line with the 8% revenue increase.

The segment's capital expenditures amounted to $89 million, 14.2% of Koç Holding's consolidated figure.

### (ii) Results of operations

### Migros

**Migros** is the largest and most profitable supermarket chain in Turkey. **Migros** is the leader with 23% share in Turkey's organized retail market and ranks second in the discount segment through its ŞOK network, with a market share of 32% in this segment. **Migros** serves 11 million customers monthly.

**Migros** continued to grow at home and abroad in 2003. Total sales area reached 396,300 m$^2$ as of year end and total number of stores increased to 484. Acquisition of an 11 store chain, Oypa, at the beginning of 2003 contributed to this expansion.


MİGROS
Alışveriş Merkezi
Migros,
çağdaş, kaliteli,
ekonomik, güvenilir
alışveriş...
M
Dürüst
Satıcı
MİGROS
ŞARKÜTERİ

Operations cover 38 cities in Turkey. Migros also manages four shopping centers in Turkey. During 2003 Migros achieved 4% increase in the number of transactions and 7% increase in revenues to $1.3 billion in the domestic market.

| Domestic Locations | '03 year end | '02 year end |
|---|---|---|
| Supermarkets (Migros) | 173 | 152 |
| Discount markets (Şok) | 273 | 273 |
| Wholesale outlets | 1 | 1 |
| Hypermarkets | 3 | 3 |
| Total | 450 | 429 |

### Ramenka (Russia), Rambutya (Kazakhstan), Ramstore Azerbaijan, Ramstore Bulgaria

Operations continued to expand internationally through **Migros**' subsidiaries, especially in Russia. Store openings in Siberia and Kazan, the capital of Tatarstan created a presence for Ramstore outside Moscow.

At year-end 2003, **Migros**' subsidiaries had a total of 34 **Ramstores** in four countries, consisting of 27 supermarkets and 7 hypermarkets. The 7 hypermarkets are located in shopping malls operated by **Migros**.

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Super-markets | Hyper-markets | Total | Super-markets | Hyper-markets | Total |
| Russia | 19 | 6 | **25** | 10 | 5 | **15** |
| Kazakhstan | 2 | 1 | **3** | 2 | 1 | **3** |
| Bulgaria | 3 | 0 | **3** | 2 | 0 | **2** |
| Azerbaijan | 3 | 0 | **3** | 3 | 0 | **3** |
| Total | 27 | 7 | **34** | 17 | 6 | **23** |

### Tat

In 2003, four production companies -- **Tat** (tomato products), **Maret** (meat products),**Sek** (dairy products) and **Pastavilla** (pasta) -- merged under **Tat**.

The merger is aimed at pursuing sustainable growth in the food sector, ensuring stronger channel and brand management, optimizing resources and improving innovation capability. Following the merger, general and administrative expenses were reduced by 20% as a result of improved efficiency.

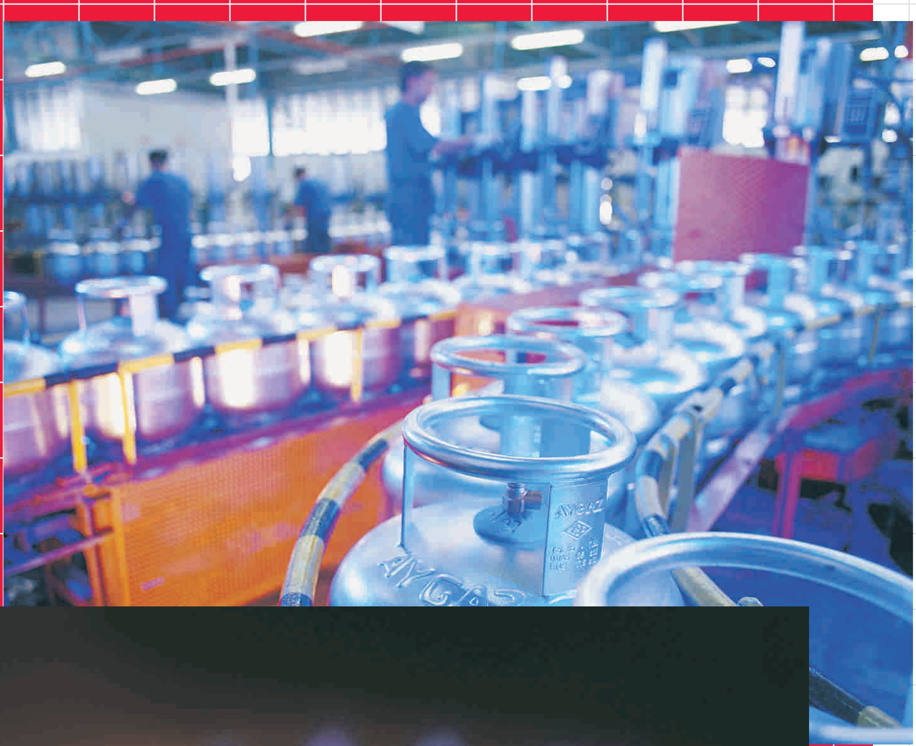
Tat entered new categories in 2003, such as bottled water and poultry, and launched several new products in existing categories. As a result, revenues increased to $235 million.

### Düzey

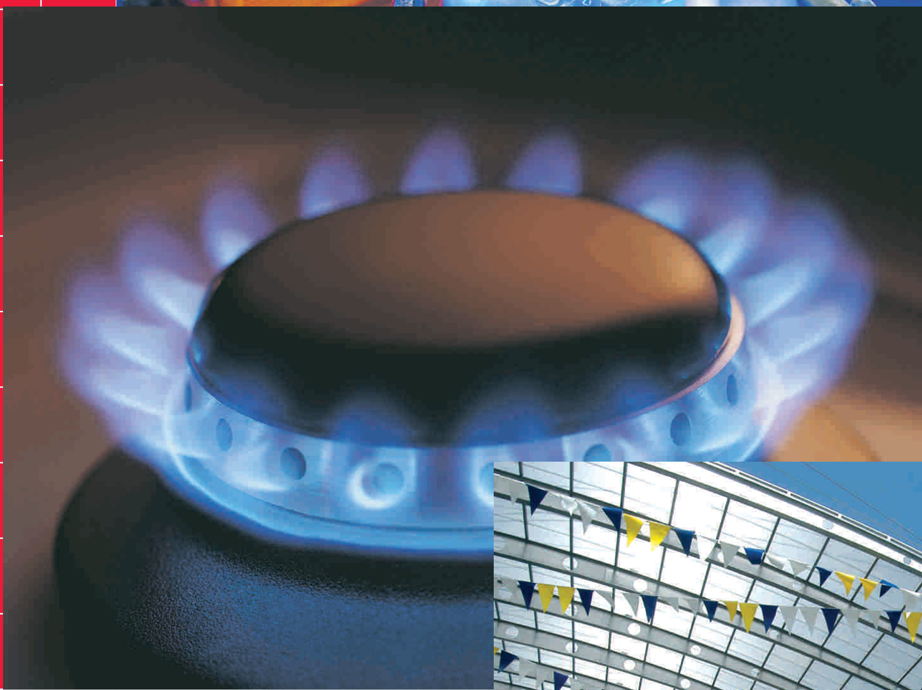
**Düzey**, a sales and distribution company, is sole distributor of **Tat** food products and BAT (British American Tobacco) products in Turkey. **Düzey** also distributes various other fast moving consumer goods. During 2003, **Düzey** was restructured to increase penetration, serve different retail channels and better control the network. Number of distribution points increased from 24,000 at year end 2002 to 104,000 at the end of 2003.

**Düzey** groups its customers under three categories, and each of them is served with a different organization; Key accounts (retail chains), Out of Home Channel (catering) and groceries and local markets.

**Düzey** makes effective use of its new information technology infrastructure to standardize operations, increase efficiency, revenues and customer satisfaction.









# ENERGY

*In 2003, Aygaz Group, with its total sales of 1.2 million tons of LPG, obtained 34.7% market share. OPET, increasing its total market share from 10.6% to 12.5%, reached a sales amount of $2.0 Billion.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – ENERGY

Turkey's energy sector is in the process of liberalization and privatization. Koç Group has a significant presence in this sector with its long standing leadership in LPG distribution and its recent acquisition of **Opet**, a petroleum products distribution company. The Group has selected energy as a key growth area, in particular natural gas and electricity, and closely monitors liberalization and privatization activities in those markets in Turkey and neighboring countries.

**Major Koç Group companies in the energy segment:**

| LPG Distribution and Trade | Petroleum Products Distribution | Industrial Gases | Power Generation | Mining |
|---|---|---|---|---|
| Aygaz<br>Mogaz<br>Bursa Gaz | Opet | BOS | Entek | Demir Export |

## Market overview

Liberalization of the energy market is likely to gain pace in 2004 and 2005. Accelerated regulatory efforts in the Turkish natural gas and electricity markets are likely to attract both foreign and local investors.

The Petroleum Market Law enacted in 2003 constitutes an important step to liberalize the Turkish petroleum market, set standards and regulate the sector.

LPG consumption declined 3% in 2003 to 3.5 million tons, reflecting the spread of natural gas usage and higher taxation. In contrast, consumption of auto LPG expanded at a rate of 8.8% and is expected to continue to increase. The overall LPG market, however, will remain stable in 2004.

**Consumption of LPG Products in Turkey**

| 2003 | Consumption (000 tons) | Growth (%) |
|---|---|---|
| Cylinder | 1,650 | -3.5 |
| Bulk | 570 | -21.3 |
| Auto | 1,250 | 8.8 |
| **Total** | **3,470** | **-3.1** |

Consumption of petroleum products dropped from a total of 17.5 million tons in 2002 to 16.4 million tons in 2003. Turkey consumed 11.9 million tons of white petroleum products in 2003 for a market size of $11.9 billion.
Consumption of black products market totaled 4.5 million tons in 2003, amounting to $1.5 billion.

**Consumption of Petroleum Products in Turkey**

| 2003 | Consumption (million tons) | Growth (%) |
|---|---|---|
| White Products | 11.9 | -4.0 |
| Black Products | 4.5 | -10.0 |
| **Total** | **16.4** | **-6.3** |

The total electricity market showed an increase of 2% from 130twh to 133twh, while the market share of the private companies increased to 45% from 41% a year earlier.

### Analysis of Financial Condition and Results of Operations

### (i) Financial Results

Selected Financial Data:

| | 2003* ($ in Millions) | 2002* ($ in Millions) | Change (%) |
|---|---|---|---|
| External revenues | 2,294 | 1,247 | 84 |
| Inter segment revenues | 66 | 72 | (9) |
| Total Revenues | 2,360 | 1,320 | 79 |
| Cost of sales | (2,161) | (1,141) | 89 |
| Gross profit | 199 | 179 | 11 |
| Operating expenses: | (137) | (102) | 34 |
| Administrative | (89) | (47) | 89 |
| Selling and distribution | (47) | (55) | (14) |
| Research and development | (1) | 0 | N/M |
| Inter segment profit elimination | 15 | 10 | 58 |
| Operating profit/(loss) | 78 | 86 | (10) |
| Gross margin | 8.4% | 13.5% | (5.1)* |
| Operating margin | 3.3% | 6.5% | (3.3)* |
| Total assets | 1,120 | 1,117 | 0 |
| Net assets | 749 | 611 | 22 |
| Capital expenditures | 111 | 75 | 48 |
| Depreciation and amortization | 68 | 73 | (8) |

* Convenience translation with year end TL1,395,835 = $1.00 exchange rate
** Difference between the percentages is used to express the change

Total revenues of the Energy Segment increased by 79% to $2,360 million. $2,294 million of this derives from external revenues, accounting for 20.7% of the Group's consolidated revenues. Higher revenues reflect the contribution of the partnership in **Opet**, which was finalized in late 2002.

Profit margins in the energy sector are calculated on a U.S. dollar basis. The decline in the exchange rate in 2003 resulted in lower profit margins. Gross profit in absolute terms rose by 11% to $199 million while operating profit declined by 10% to $78 million.

Since the effect of the partnership with **Opet** on the consolidated balance sheet was reflected at the end of 2002, the changes in the income statement items in 2003 could not be observed in the balance sheet. The segment's total assets remained the same as the previous year while net assets (total assets less total liabilities) increased by 22%.

The segment's capital expenditures amounted to $111 million, or 17.6% of Koç Holding's consolidated figure.

### (ii) Results of operations

Koç Group remained the leader of the domestic LPG market with a 34.7% share. Entry into the petroleum products distribution business through acquisition of 50% of **Opet** improved the performance of the Koç Group in the energy segment compared with the previous year.

The inclusion of **Opet** into Koç Group through the 50-50 partnership resulted in a significant increase in Group revenues over the preceding year. In addition, the export of approximately $270 million of LPG and fuel products to Iraq contributed to the increase in revenues in the segment.

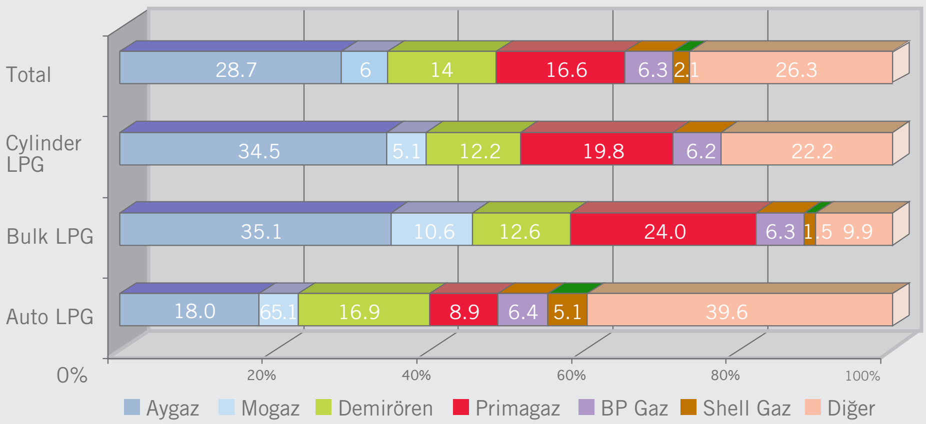
## Aygaz

**Aygaz** ranks as the largest LPG distributor in Turkey and Europe's second largest in a single country with sales volume around one million tons. **Aygaz** is active in LPG sourcing, storage, filling and distribution services to residential, commercial and industrial markets. **Aygaz** also produces cylinders, valves, regulators, LPG storage tanks, heaters and patio heaters, and markets these services and products in domestic and international markets.

**Aygaz** sold 995,000 tons of LPG through its 1,500 dealers in 81 cities, to capture 28.7% of Turkey's highly fragmented LPG market in which 57 companies compete.

The Company increased its market share in cylinder LPG from 33.9% to 34.5%, while maintaining its market share in auto LPG.

**LPG Market Shares in Turkey in 2003**




Source: LPG Association

**Aygaz** increased exports by selling to Iraq, a contract that will continue until April 2004. In line with the international expansion strategy of Koç Group, Opet and Aygaz formed a 50%-50% joint venture company, **Opet-Aygaz Bulgaria EAD**. Operating in Bulgarian LPG and fuel retail markets, the joint venture targets obtaining a 6.5% market share in petroleum products and gaining 16% of the LPG market in Bulgaria within five years. Studies are being carried out for similar investments in southeastern Europe.

## Mogaz

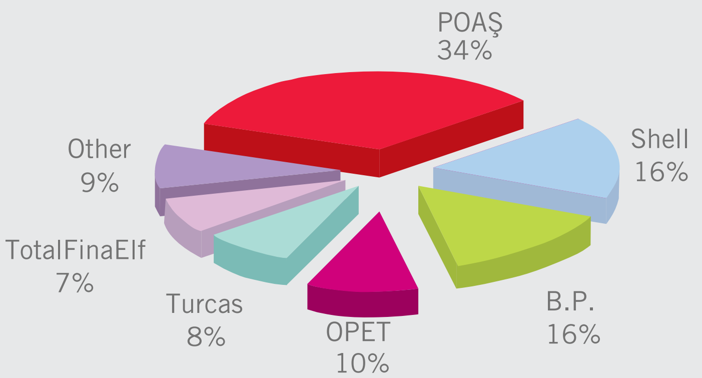
Mogaz sells cylinder, bulk and auto LPG through its network of 600 dealers. A merger with **Lipet** at the end 2003 helped to increase total market share of **Mogaz** from 5.7% (including Lipet's market share) in 2002 to 6% in 2003, on total sales of 208,000 tons.

In 2003, the overall market share of the Koç Group in LPG reached 34.7%.

### OPET

**OPET** increased its market share in the overall petroleum market from 10.6% in 2002 to 12.5% in 2003, reflecting the positive impact of Koç's partnership at the end of 2002.

**Market Shares in the Turkish Petroleum Market in 2003 - White Products**

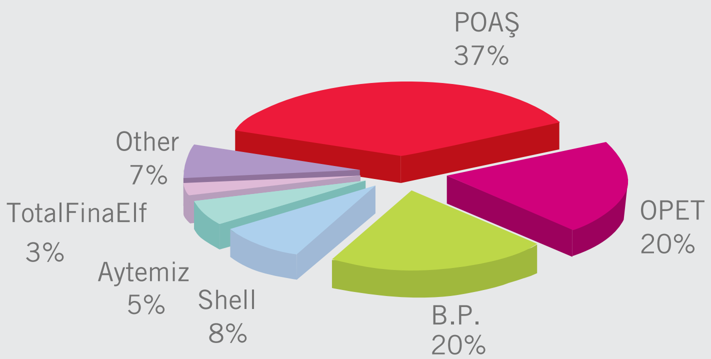



Source: Petroluem Association (PETDER), Fuel Distributors' Association (ADER)

At the end of 2003, **OPET** ranks fourth in white products (gasoline and diesel oil) with 10% of the market and number second in black products (fuel-oil) with a 20% market share. Its terminal capacity of 330,000 $m^3$ is the second largest in Turkey.

Investments in gasoline stations in 2003 accelerated. Opening of 100 new stations gives OPET 1,116 stations, 610 of which operate under the SUNPET brand.

**Market Shares in the Turkish Petroleum Market in 2003 - Black Products**




Source: Petroluem Association (PETDER), Fuel Distributors' Association (ADER)

Export of 500, 000 tons of fuel to Iraq generated additional revenues of $210 million. Another 340,000 tons was exported during the first quarter of 2004, for $160 million. The award of a new tender to supply 150,000 tons of gasoline to Iraq for the period of April-June 2004 means this extra source of revenue will continue until mid-2004.

## Entek

Entek, Koç Group's cogeneration power plant in Bursa, added 36MW of capacity in 2003, increasing its total capacity to 140 MW. Recently, **Entek** signed a share transfer agreement to purchase 84.8% of Türk Edison, a cogeneration power plant in Izmit with a capacity of 64 MW, for 50.5 million. With this acquisition, **Entek**'s capacity reached 204 MW in 2004.

A new company, **Eltek**, was established to operate in the wholesale electricity market.

## BOS

**BOS**, Koç Group's 50-50 joint venture with BOC of UK, kept its market share of 19.2% in industrial and special gases in 2003. In February 2004, Aygaz purchased all the shares belonging to BOC for 15.25 million, thus making Koç Group the sole owner of the company.

## Bursa Gaz

Bursa Gaz is a retail company active in LPG distribution and consumer durables retailing. 2003 revenues of the company amounted to $138 million.

## Demir Export

**Demir Export,** although managed by Koç Holding is not a subsidiary of the Holding, and thus is not included in the financial indicators given above. Demir Export, a long established supplier and extractor of coal and iron ore, continued its activities at three different sites. In 2003, it produced 3.7 million tons of coal for the State Electricity Production Company. **Demir Export** took over operation of a stone quarry in the United Arab Emirates, the company's first international venture.

## Natural Gas Business Unit

In 2000, Koç Energy Group signed a Partnership Agreement with Statoil with the goal of becoming a major player in Turkey's liberalized gas sector in the future. Statoil, the Norwegian oil and natural gas state company, is one of the major investors in the Caspian Region and the biggest shareholder with BP in the Shah Deniz Project with a 25.5% share. Importation of natural gas from this field to Turkey is scheduled to start in 2006.

**Koç/Statoil Gas**, a 50-50 joint venture company, will be established in 2004 in order to carry out natural gas marketing activities in Turkey.

# FINANCE



*Koç Financial Services (KFS)-the only case to date of a joint venture between a Turkish group and a major international financial institution*

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – FINANCE

Koç Holding offers banking and financial services through **Koç Financial Services ("KFS")** companies, consumer financing through **Koçfinans** and **Koç Fiat** and insurance through **Koç Allianz** companies. Koç Holding has established a strategic cooperation and partnership agreement with foreign investors in the finance sector.

2003 is the first full business year for **KFS** as a 50-50% joint venture between Koç Holding and UniCredito Italiano SpA following signing of the partnership agreement on October 22, 2002. KFS -- the only case to date of a joint venture between a Turkish group and a major international financial institution -- controls seven companies: **Koçbank**, **Koç Yatırım**, **Koç Portföy**, **Koç Factoring**, **Koç Lease**, **Koçbank Nederland** and **Koçbank Azerbaijan**.

**Major Koç Group companies in finance segment:**

| Banking | Leasing & Factoring | Portfolio Management | Insurance | Consumer Finance |
|---|---|---|---|---|
| Koçbank<br>Koçbank Nederland<br>Koçbank Azerbaijan | Koç Lease<br>Koç Faktoring | Koç Yatırım<br>Koç Portföy | Koç Allianz Sigorta<br>Koç Allianz Hayat ve Emeklilik | Koçfinans |

## Market overview

### Banking & Finance

A comprehensive reform program implemented in 2001 has restructured the Turkish banking sector, eliminating weaker players, rationalizing the operations of state banks and setting new standards for audit, accounting and risk management.

This process has reduced the number of banks in the sector from 79 at the end of 2000 to 50 at the end of 2003.

In 2003, the macroeconomic environment improved rapidly in the second half of the year. A sharp drop in interest rates, strong local currency and growth in retail loans revived the banking industry after more than two years of depressed earnings.

The better business climate enhanced asset quality at many banks. A 13% increase in the total loan portfolio raised the loans-to-assets ratio from 23% in 2002 to 26% in November 2003. The marketable securities portfolio expanded from 40% of total assets in 2002 to 43% in 2003. Consumer loans were up by 118% in real terms. Total retail loans accounted for 12% of total loans at the end of 2003, compared to 6% at end-2002.

In the current low inflation environment, narrower margins allow for the generation of commission income crucial for long-term profitability. In 2003, commission income of the banks grew by 100% compared with the previous two years. However, the reliance of many banks on interest income from securities makes it inevitable that the market will see considerable mergers and acquisitions activity in the coming years.

Although the Turkish Banking Sector is successful in competing with global banks in terms of service and technology, it is not in the same league when comparing branch numbers, asset size, loans, and deposit volumes. Compared to European Union member countries, where the average number of branches per bank is 25, Turkey's 50 banks have an average of 119 branches each, reflecting the very high number of branches operated by the largest players in the sector.

| | Number of banks | Number of branches |
|---|---|---|
| Germany | 2,370 | 37,259 |
| France | 1,067 | 25,874 |
| Austria | 907 | 4,546 |
| Italy | 821 | 29,259 |
| Finland | 342 | 1,282 |
| Spain | 281 | 38,676 |
| Belgium | 112 | 12,173 |
| Turkey | 50 | 5,963 |

Source: OECD Bank Profitability 2002

At the end of the third quarter of 2003, total loans in the system equaled 19% of GDP, well below Turkey's emerging market peers. In Poland, the Czech Republic and Hungary, for instance, the loan-to-GDP ratios were 27%, 35% and 35% respectively. A prolonged period of economic growth spurred by lower interest rates and inflation will increase loan demand in future years, moving Turkey closer to the loan-to-GDP ratios of its peers.

**Insurance**

Fifty-seven insurance companies and three reinsurance companies operate in Turkey. The top five companies account for nearly 55% of total premiums collected in 2003, reflecting the very high concentration in the sector.

In 2003, the insurance sector in Turkey produced a total of $3.6 billion in premium income, a 35% increase over the previous year.

The improving macroeconomic environment and more stable financial markets had a positive effect on the activities and earnings of insurance companies during the year. Price competition remained at a high level, despite the fact that investment income did not compensate for lower underwriting income.

Asset management is also becoming increasingly important, as declining interest rates have highlighted the need for professional fund management. In the medium term, it is expected that well-structured and efficient insurance companies will be the dominant players in the sector.

**As the table below demonstrates, premium production as a percentage of GDP is considerably lower than other countries.**

| | Premium/GDP % | Premium in per Capita $ |
|---|---|---|
| Sweden | 6.6 | 1,792 |
| Greece | 2.1 | 253 |
| Argentina | 2.4 | 63 |
| Turkey | 1.3 | 35 |
| Romania | 1.1 | 22 |

Source: Swiss Re, as of 2002

The young average age of Turkey's population and increasing demand for insurance products offer a significant potential for the sector.

The private pension business, which was launched in 2003, is considered to be the most promising segment for the future growth of the insurance sector. It is expected to be an important contributor to the economy through increasing saving rates and developing capital markets. At present, 11 insurance companies offer pension schemes.

## Analysis of Financial Condition and Results of Operations

### (i) Financial Results

| Selected Financial Data: | 2003* ($ in Millions) | 2002* ($ in Millions) | Change (%) |
|---|---|---|---|
| External revenues | 995 | 1,657 | (40) |
| Inter segment revenues | 39 | 38 | 2 |
| Total Revenues | 1,034 | 1,696 | (39) |
| Cost of sales | (704) | (1,258) | (44) |
| Gross profit | 331 | 438 | (24) |
| Operating expenses: | (193) | (323) | (40) |
| Administrative | (193) | (323) | (40) |
| Inter segment profit elimination | (16) | 19 | (184) |
| Operating profit/(loss) | 121 | 134 | (10) |
| Gross margin | 31.9% | 25.8% | 6.1* |
| Operating margin | 11.7% | 7.9% | 3.8* |
| Total assets | 4,534 | 4,341 | 4 |
| Net assets | 1,008 | 877 | 15 |
| Capital expenditures | 14 | 30 | (52) |
| Depreciation and amortization | 36 | 37 | (4) |

* Convenience translation with year end TL1,395,835 = $1.00 exchange rate
** Difference between the percentages is used to express the change

Total revenues of the Finance Group decreased by 39% to $1,034 million. $995 million of this derives from external revenues, accounting for 9% of the Group's consolidated revenues. The decline in revenues stemmed from changes in the consolidation method used for **Koç Financial Services** following the partnership with UniCredito Italiano and the declining trend in interest and exchange rates.

Despite lower revenues, gross margin increased by 6 points and operating margin by 3.8 points thanks to effective management of costs and general administrative expenses. However, because of the change in consolidation method, the segment's contribution to Koç Holding's consolidated gross profit fell by 24% to $331 million while its contribution to operating profit declined by 10% to $121 million.

The segment's total assets increased by 4% while net assets (total assets less total liabilities) increased by 15%.

The segment's capital expenditures amounted to $14 million, or 2.3% of Koç Holding's consolidated figure.

### (ii) Results of operations

### (a) KFS Group

**KFS** performed positively in 2003, posting a consolidated net profit of $141 million to achieve a return on equity of 20%.

The positive performance of **KFS** is attributable to strict cost control. The cost / income ratio declined despite a conservative provisioning policy. Asset size reached $6.7 billion, 2% above the preceding year thanks to expansion of core banking activities.

**KFS** focused on risk management activities during the year, concentrating on effective management of its market, operational and credit risks.

Market Risk -- defined as the value fluctuations of positions resulting from unexpected changes in prices and market factors -- is measured by VaR analysis and through stress testing.

Operational Risk is defined as "the variation in a Company's profitability due to mistakes, violations, and damages deriving from internal processes, persons, and systems or from external events, in accordance with cause-and-effect logic". A specific project was started in Koçbank in June 2003 to comply with the new Basel requirements by 2007.

Credit risk management focused on proper assessment of potential risks at any given level of profitability and minimizing cost of risk by implementing the appropriate tools. During 2003 a new organization was set-up to increase the effectiveness of **KFS** in asset quality optimization.

### Koçbank

**Koçbank** closed the year 2003 with a net profit of $69 million compared to a loss the preceding year, net revenues of $425 million and ROE of 18%.

**Koçbank** is the eighth largest bank in asset size and deposits (5th among privately owned banks) in Turkey, although it has a relatively smaller branch network (12th in the sector) and fewer employees (14th in the sector).

**Koçbank** has a strong asset and liability structure. Deposits make up a large share of liabilities, reflecting the bank's commercial profile. 94% of the bond portfolio is held to maturity, eliminating earnings volatility. The comparatively lower capital base has higher comparative value creation.

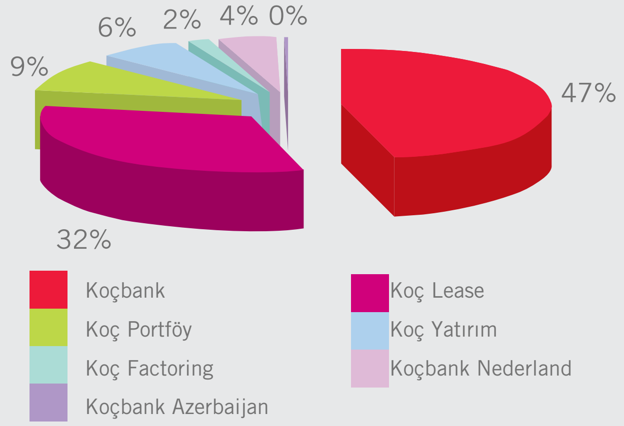
Total assets of **Koçbank** constitute 73% of total assets of **KFS Group**. **Koçbank** currently has a broad client base and excellent distribution capacity consisting of 143 branches, access to around 4,412 ATMs (263 of them owned by **Koçbank**), 23,000 POS machines and 117 telephone agents.

During 2003, **Koçbank** obtained $400 million in two internationally syndicated loan facilities at the most favorable pricing available to Turkish Banks.

### Koç Lease

**Koç Lease** maintained its leadership position as Turkey's biggest leasing company with a 14% market share in 2003. Koç Lease posted a net profit of $49 million, an increase of 137% over the previous year. Asset size grew 5% to $353 million.

**Contribution of KFS Group companies to the combined profit of KFS**




### Koç Portföy

**Koç Portföy** started its operations in June 2002. It manages mutual funds, pension funds and discretionary portfolios for institutions, individuals and endowments. is the 3rd biggest asset management company in Turkey with a market share of 13% in 2003. **Koç Portföy** reported a net profit of $13,5 million with $2,1 billion in assets under management.

### Koç Yatırım

**Koç Yatırım** is a successful brokerage firm with a 2.7% share in equity trading volume.

**Koç Yatırım** generated a net profit of $10 million in 2003. Asset size increased by 20% to $59 million.

### Koç Factoring

**Koç Factoring** is Turkey's most prominent factoring company, handling 12% of total volume and 30% of international transactions. **Koç Factoring** reported net profit of $2.7 million compared with a loss of $0.5 million the previous year.

### Koçbank Nederland

**Koçbank Nederland** is active in Amsterdam and Frankfurt in trade finance and other correspondent banking activities. **Koçbank Nederland** posted a net profit of $6.5 million and total assets of $699 million for 2003.

### Koçbank Azerbaijan

**Koçbank Azerbaijan**, a joint venture with International Finance Corporation, reported total assets of $24 million and a net profit of $0.5 million in 2003.

### (b) Koç Allianz Group

In the insurance sector, **Koç Allianz Sigorta** is active in non-life branches while **Koç Allianz Hayat ve Emeklilik**, operates in life insurance and pension funds. Koç Holding, Allianz Group, Tokyo Marine and Fire Insurance Co. Ltd. are shareholders in **Koç Allianz** Group.

Koç Allianz ranks as the 3rd largest insurer in Turkey with a market share of 10.3%. In 2003, premium production was up by 25.2%, contributing to the highest profit increase in the insurance sector in Turkey before taxes.

This increase is mainly attributable to the increased technical contribution of the non-life business of **Koç Allianz**.

| Top 5 Companies | 2003 TL in Trillions | 2003 $ in Millions | Market Share (%) |
|---|---|---|---|
| Anadolu (İş Bank) | 868 | 581 | 17.2 |
| Axa Oyak (Oyak Group) | 541 | 362 | 10.7 |
| Koç Allianz (Koç Group) | 518 | 347 | 10.3 |
| Yapı Kredi (Yapı Kredi Bank) | 423 | 283 | 8.4 |
| Ak Sigorta (Akbank) | 391 | 262 | 7.8 |

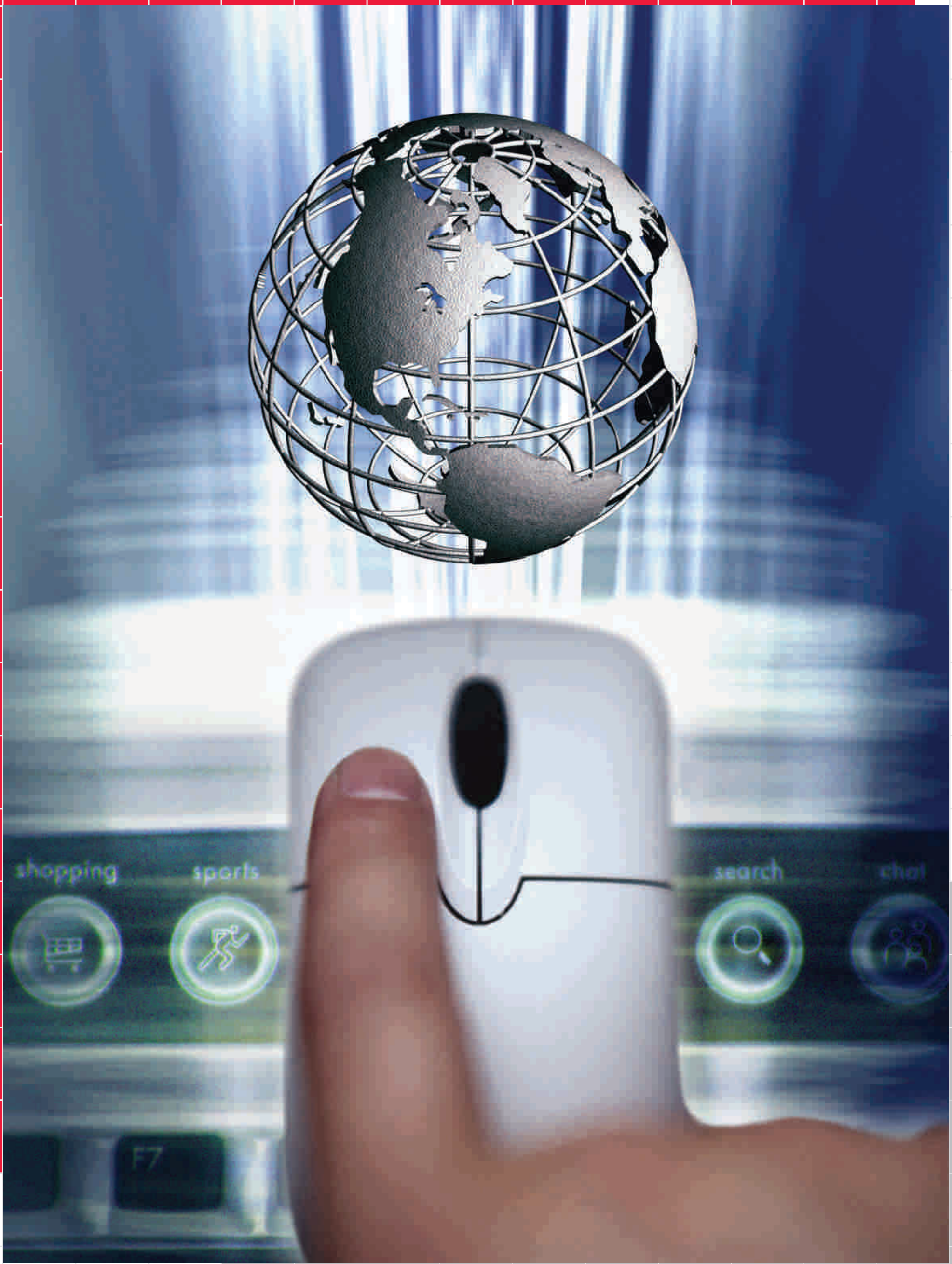
**Koç Allianz Hayat ve Emeklilik** leads the health insurance market with a 25% share and has an overall market share of 13.3% for life and health. **Koç Allianz Sigorta** is the market leader in industrial risk insurance, has an overall market share of 9%

**Koç Allianz Hayat ve Emeklilik** became one of the few companies to offer services in the private pension business. The company started to collect premiums in the private pension system in October 2003.

**Koç Allianz** works with 800 agents and operates 12 regional headquarters and a branch in the Turkish Republic of Northern Cyprus. The Group leverages **Koçbank** branches as distribution channels and has more than 400 direct sales representatives.

### Koçfinans

**Koçfinans** competed successfully in the difficult sector of consumer finance in 2003, increasing its loan volume by 28%. During 2003, **Koçfinans** increased efficiency through cost savings.




OTHER

*Koç Group has been a respected player in the hospitality industry since the establishment of Divan Hotel in 1956.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – OTHER

**Major Koç Group companies under the "Other" heading:**

| Hospitality | Information Technologies | Others |
|---|---|---|
| Setur | Koç Sistem | İzocam |
| Mares | Koçnet | Tek-iz |
| Tütaş | Biletix | Koçtaş Yapı Market |
| Ayvalık Marina | Promena | RMK Marine |
| Tek-Art Marina | Bilkom | Ram Dış Ticaret |
| Setoto-Avis | Ultra Kablo | Ram Pacific |
| | | Kofisa Trading |
| | | TNT Lojistik |
| | | Kav Danışmanlık |

**Analysis of Financial Condition and Results of Operations**

**(i) Financial Results**

**Selected Financial Data**

| | 2003* ($ in Millions) | 2002* ($ in Millions) | Change (%) |
|---|---|---|---|
| External revenues | 784 | 1,398 | (44) |
| Inter segment revenues | 532 | 635 | (16) |
| Total Revenues | 1,315 | 2,033 | (35) |
| Cost of sales | (1,153) | (1,847) | (38) |
| Gross profit | 162 | 186 | (13) |
| Operating expenses: | (179) | (211) | (15) |
| Administrative | (144) | (151) | (4) |
| Selling and distribution | (35) | (61) | (43) |
| Research and development | - | - | - |
| Inter segment profit elimination | (30) | (26) | 16 |
| Operating profit/(loss) | (47) | (52) | (9) |
| Gross margin | 12.3% | 9.1% | 3.2 |
| Operating margin | (3.6)% | (2.5) | (1.0) |
| Total assets | 3,247 | 2,961 | 10 |
| Net assets | 2,604 | 2,238 | 16 |
| Capital expenditures | 17 | 63 | (72) |
| Depreciation and amortization | 25 | 39 | (38) |

* Convenience translation with year end TL1,395,835 = $1.00 exchange rate
** Difference between the percentages is used to express the change

Total revenues of companies classified as "Other" fell by 35% to $1,315 million. Of this, $784 million are external revenues, constituting 7.1% of Koç Holding's consolidated revenues. The decline in revenues is largely due to a change in the Group's export practices, as an increasing portion of exports are handled directly by operating companies, rather than going through **Ram** (the Group's foreign trade company). While revenues of **Ram** decreased, external revenues in related segments (primarily Consumer Durables) increased, thus eliminating any impact on Koç Holding consolidated revenues.

Gross profit margin increased by 3 points while operating profit margin decreased by 1 point. Gross profit fell by 13% to $162 million while operating profit posted a loss of $47 million.

Total assets increased by 10% and net assets (total assets less total liabilities) rose by 16%. The parent company (Koç Holding A.Ş.) is also under this heading, explaining the high level of total assets and net assets.

Capital expenditures amounted to $17 million, 2.8% of Koç Holding's consolidated figure.

**(ii) Operational results**

**Hospitality**

Koç Group has been a respected player in the hospitality industry since the establishment of Divan Hotel in 1956. Over the years, the Group has expanded its activities to include ticketing, duty free shop operation, marina chain operation, rental cars, and restaurant and patisserie chains. The operations in this segment are being restructured. The merger of **Setur** and **Inres** has been completed and the decision taken to merge **Mares** and **Talya** hotels.

**Setur**'s duty free operations, which registered 24% growth over previous year, made the largest contribution to revenue in 2003. The operation includes 30 shops and in-flight sales on Turkish Airlines and several charter carriers. **Setur** also maintained its leadership in ticketing with an 11% market share.

Hotel revenues declined as a result of depressed demand in the first half of the year due to the uncertainties associated with the situation in Iraq. Group companies own and/or manage five highly regarded five star properties: **Talya** in Antalya on the Mediterranean, **Mares** and **Divan Palmira** on the southern Aegean, and in Istanbul, **Divan Hotel** and **Taxim Suites**.

Patisserie, restaurant and catering revenues increased, as a result of aggressive expansion and entry to new product categories. Efforts will be made in 2004 to promote Divan as a brand for all of Koç Group's activities in the hospitality industry.

**Information Technologies**

Koç Group has a presence in the IT sector through **KoçSistem**, one of the largest system integrators in Turkey, **Koç.net**, a leading e-business solutions provider, **Bilkom**, the exclusive distributor of Apple computers in Turkey, and various technology focused start-ups.

Telecommunications has been identified as one of the principal areas of growth for Koç Holding. The IT Group is actively monitoring the telecom liberalization and privatization opportunities both in Turkey and in neighboring countries. Preparations continue for the privatization of Türk Telekom, Turkey's state owned telecom operator.

Software and hardware revenues declined in 2003. Many government tenders were either postponed or cancelled due to Public Procurement Law which was enacted in 2003 causing Public Sector IT expenditures to reach only half of the size of that of previous year. Financial services companies, comprising another important customer segment in the IT segment, went through a sector wide restructuring, downsized and reduced their IT budgets. Moreover; depreciation of the US Dollar had a negative effect on the Group's financial results as the US Dollar is widely used in customer billing.

The outlook for 2004 is more optimistic, as deferred demand materializes.
Koç IT Group launched a number of innovative IT applications in 2003. **Tanı/Paro**,

uses creative CRM techniques to design and implement personalized promotions based on a digital marketing platform with a patented business model. **Koç.net**, introduced a 24 hour wireless internet access in Beyoğlu, a popular shopping and entertainment district in Istanbul in a joint project with Cisco.

**Biletix**, Turkey's first electronic ticket provider, joined forces with Ticketmaster to sell tickets for European events in Turkey and for Turkish events in Europe.

**Promena** has strengthened its leading position in electronic trade market in Turkey during 2003. Total transaction volume in e-procurement and e-auctions has reached $75 million. Although procurement through e-auctions is a new model, it is well accepted in a relatively short time frame in Turkish market thanks to **Promena's** efforts.

In financial consolidation, **Tanı** and **Biletix** have been considered as participations. **Promena** has not been included in the financials, as Koç Holding, although active in its management, has no shareholding.

**Other**

**İzocam**, producer of glass wool, rock wool and foamboard insulation materials, maintained its domestic market leadership in glass-wool and rock-wool, while increasing exports by 22%.

**Koçtaş**, a 50-50 JV with the Kingfisher/B&Q group, is one of three international Do-It-Yourself retailing chains in Turkey, and has five stores with 22,000 m2 total selling space. Revenues increased by 20% in 2003 to $54 million. Contributing to this growth was the launch of nationwide telephone orders.

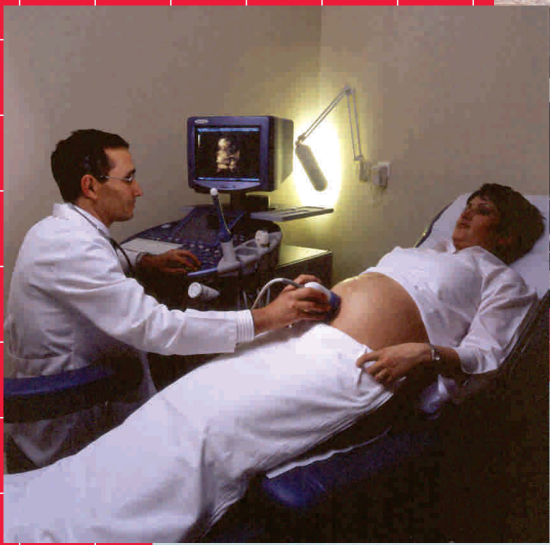
Koç Holding reduced its exposure to the construction industry at the beginning of 2004, by selling its shares in **Garanti Balfour Beatty**, a general contractor and a JV with Balfour Beatty.

**RMK Marine**, is Turkey's largest privately owned shipyard. The capacity, which doubled in 2003, is fully booked for 2004 and 2005.

**Ram Dış Ticaret** is an international business provider for both Koç and non-Koç companies, with special interest in developing and facilitating business in the Balkans, Russia, Central Asian Republics, the Middle East and North Africa.

**Ram Pacific**, Koç Group's gateway to the Asia-Pacific Rim, promotes new investment opportunities for Koç Group in Asia. It played an important role in finalizing the joint venture of Turk Demir Döküm with Chung Mei to manufacture electrical radiators in China.

**Kofisa**, based in Geneva, significantly increased its trade finance volume. Contribution to consolidated revenue is limited however, as a majority of customers are Group companies.



*Sensitivity to environmental and social issues is a major component of Koç's business strategy*

# Corporate Citizenship

As Turkey's largest and best known private sector corporation, Koç Group plays an important role, not just in terms of the people it employs, value it creates and taxes it pays, but by setting an example for ethical and responsible corporate behavior. It actively contributes to the wellbeing of society through a variety of projects and initiatives funded and supported by **Vehbi Koç Foundation, Rahmi M. Koç Museum and Cultural Foundation, Suna-İnan Kıraç Foundation for Mediterranean Studies,** members of the Koç family and Koç companies.

Established in 1969, Vehbi Koç Foundation has concentrated its activities in the areas of education, health care and cultural heritage. **Koç University** and **Koç School** are among the finest educational facilities in the country. The 13 elementary schools built by the Foundation in 1999-2000 in various areas of the country, although operated by the Ministry of Education, continue to benefit from the support of nearby Koç factories and the Foundation. The Foundation also supports secondary and university education through a generous scholarship program.

Vehbi Koç Foundation is dedicated to increasing the number of medical centers as well as improving the quality of health care in the country. **American Hospital** and its two satellite clinics provide a high standard of medical care to the community. **SANERC**, founded as part of the American Hospital in 1992, provides service to all nurses and health care personnel in Turkey with the goal of improving medical services and the quality of health care. Koç University's School of Health Sciences, operating from its premises next to American Hospital, makes a valuable contribution to nursing education in Turkey.

**Vehbi Koç Foundation Award** presents an award each year for extraordinary achievement in the fields of cultural heritage, education or health care. The 2003 award was given to AÇEV-Mother Child Education Foundation.

**Sadberk Hanım Museum**, the first private museum in Turkey, occupies a special place in the contribution it has made to Turkish cultural life. The museum houses first rate Ottoman, Islamic and archaeological collections. **Rahmi M Koç Museum** is the first major museum in Turkey dedicated to the history of Transport, Industry and Communications. **Suna & İnan Kıraç Research Institute on Mediterranean Civilizations** supports research projects and helps to preserve cultural heritage. Many Koç Group companies, in particular Aygaz and Koçbank, have been instrumental in publishing superb books on Ottoman art and organizing outstanding exhibitions of Ottoman and foreign painters.

In addition, Aygaz won an Award for Excellence in the 2003 Golden World Award organized by the International Public Relations Association in the category Corporate Social Responsibility for its "Careful Child" project, which aimed to inform and educate elementary school-level students about accidents.

Turkish Educational Foundation, one of the first NGOs to be established in Turkey, has made a substantial contribution to the dynamics of social change with civic organizations such as Turkish Family Planning Association and Turkish Volunteers for Education Foundation.

**Koç-Yönder**, established by top managers who have retired or resigned from the Group, provides consulting and training services on a voluntary or professional basis to companies in various sectors.

Sensitivity to environmental and social issues, not only in Turkey but in all the countries in which it does business, will continue to guide Koç Group in the years ahead, as it follows through on its commitment to make a difference to society.

**Since 1926 ...**

The origins of Koç Group stretch back to the first years of the Turkish Republic. In 1926 Vehbi Koç took over the family store in Ankara, the nation's new capital, listing it on the Trade Register. In 1938, Vehbi Koç transformed his firm into a joint stock company, making Koç Ticaret A.Ş. the first company in Turkey to make managers shareholders.

Thanks to the broad vision and hard work of Vehbi Koç, the enterprise expanded rapidly through the years to become the biggest conglomerate in Turkey.

From the early years, Vehbi Koç developed relations with leading international companies, making license agreements in order to obtain know-how and technologies. In the post-world War II era, the government started to give priority to development of privately owned industries in order to reduce imports, industrialize the economy and raise the standard of living.

In line with this policy, the Group entered the manufacturing sector in **the late 1940s**. A joint venture agreement with General Electric was signed in 1948 and Turkey's first electric light bulb factory was opened in 1951. **During the 1950s** Koç Group started to invest in a variety of manufacturing enterprises and trading firms to distribute and sell their products. Türk Traktör (farm tractors), Otosan (trucks), Arçelik (washing machines, refrigerators, water heaters), Türk Demir Döküm (cast iron radiators) and Divan Hotel are among the businesses that date from the 1950s.

**In the 1960s**, as the production range of Koç Group continued to grow, Koç Holding was established. Turkey's first locally-made car, the Anadol, was produced by Otosan in 1966. Tofaş was established in 1968 in partnership with Fiat to manufacture passenger cars. Beldesan was established in 1966 to manufacture shock absorbers. Arçelik produced its first refrigerator in 1960 and first vacuum cleaner in 1966. A joint venture with General Electric was established to produce electric motors and compressors for household appliances. Tat, Turkey's first tomato paste factory, started production in 1967. Aygaz was established in 1963 to distribute and store LPG and produce cylinders. Izocam pioneers the glass fiber insulation industry. Setur started operation of duty free shops and travel agencies in 1964. Koç -Burroughs was founded in 1962 to operate in the computer field.

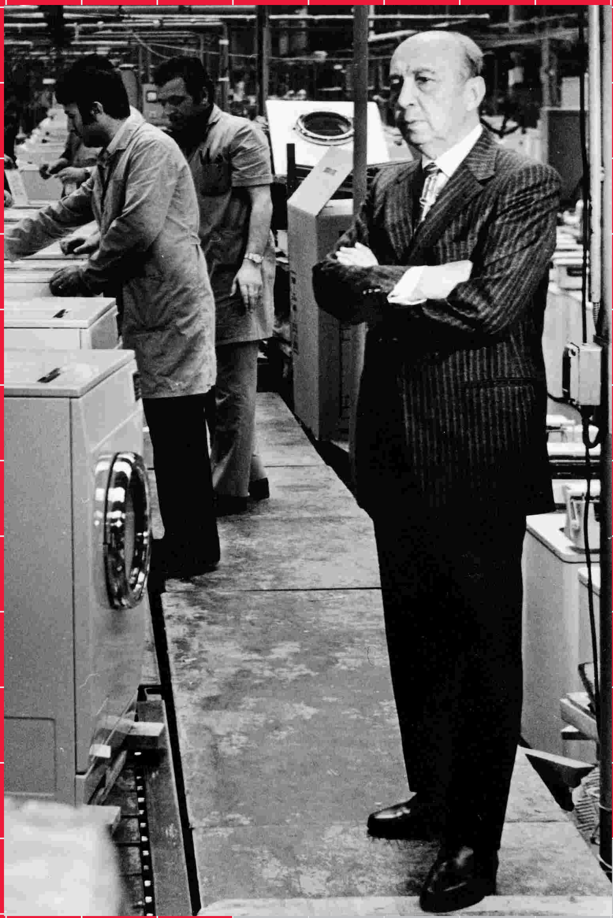
**The 1970s** witnessed the launch of the Murat 124, Turkey's first steel-bodied car, produced under Fiat license, and the establishment of automotive component manufacturing. In 1974, Bekoteknik started manufacturing TV sets, Arçelik produced Turkey's first automatic washing machine and Koç took over the Migros chain of supermarkets. Manufacture of kitchen ranges began in 1977 and instant water heaters and steel panel radiators in 1979. Ram International Trading Co. was founded in 1970 as the first Turkish general foreign trade company, followed in 1973 by the establishment of Kofisa in Switzerland. Koç became a shareholder in one of Turkey's oldest insurance companies, Şark Sigorta in 1975. In the same year, Talya, Antalya's five star hotel opened as part of a pioneering project to develop tourism on the Mediterranean coast.

**In the 1980s**, responding to the liberalization of the economy, Otosan manufactured the first Ford passenger car in Turkey and started producing diesel motors. Otokar, under a license with Land Rover, began manufacturing station wagons and pickups in 1988. Beko Teknik began to produce color televisions and Arcelik started manufacturing dishwashers and clothes dryers. Maret was established to produce meat products in 1984. BOS, a joint venture with BOC, was established to produce industrial gases in 1987. Trading companies are opened in Germany, France and the United States.

# HISTORY

## Milestones

| | |
|---|---|
| **1926** | The business life of Vehbi Koç starts |
| **1928** | First Ford dealership |
| **1938** | Turkey's first joint stock company, Koç Ticaret A.Ş. is established |
| **1948** | First industrial venture in partnership with General Electric |
| **1951** | Turkey's first electric light bulb manufactured |
| **1955** | Arçelik is established |
| **1957** | First Migros store is opened |
| **1960** | The first refrigerator in Turkey is produced by Arçelik |
| **1962** | Aygaz brings liquid gas to domestic use for the first time |
| **1963** | Koç Holding is established, Turkey's first Holding company |
| **1966** | Turkey's first locally made car, the Anadol, takes to the road |
| **1967** | Tat, Turkey's first tomato paste factory is established |
| **1968** | Tofaş is established to manufacture passenger cars with Fiat licence |
| **1970** | Turkey's first international trade firm, Ram is founded |
| **1974** | First automobile export (Murat 124) to Egypt is realized |
| **1980** | Turkey's first private museum, Sadberk Hanım Museum is established |
| **1986** | Koç American Bank is formed |
| **1987** | Vehbi Koç is named as the "Businessman of the Year" by ICC |
| **1995** | Rahmi M. Koç, Chairman of the Board, is elected Director of ICC |
| **1996** | The first Ramstore is opened in Baku, Azerbaijan |
| **1997** | Turkey's first on-line grocery store by Migros |
| **1998** | Consumer Durables distributor Beko Ticaret, is awarded both the EFQM European Quality Award's Grand Prize and the national TÜSİAD-KalDer Quality Award Grand Prize |
| **2001** | Ford Otosan Factory is opened in Kocaeli |
| **2002** | Entrance into fuel distribution with acquisition of 50% of Opet |
| **2002** | Koç Holding and Unicredito Italiano SpA become a 50-50 of a partners in Koç Financial Services |



*Koç Group is committed to providing world-class goods and services that ensure consumer satisfaction, strengthen the Turkish economy and create the resources necessary to sustain continuous growth*

A joint venture with American Express Company created Koç-American Bank. Koç-Burroughs was renamed Koç-Unisys in 1987. Vehbi Koç appointed his son Rahmi M. Koç as the chairman of the board in 1984, acting as honorary chairman until his death in 1996.

Tremendous growth and change marked the **1990s** as Turkey entered customs union with the European Union and exports gained importance. Koç put priority on manufacturing higher quality, more competitive products at world standards. Investment was made in new manufacturing facilities and processes, enabling the Group to export many of its products while maintaining a dominant position in the local market. Koç acquired all shares in Koç-American Bank, renaming it Koçbank in 1992 and establishing leasing and consumer finance subsidiaries in 1995. In the insurance field, Şark Sigorta was relaunched as Koç Allianz Sigorta. Restructuring led to mergers of companies in related fields and divestitures.

**Over the last three years**, Koç Group has engineered impressive growth in revenues and profits by reshaping and optimizing its business portfolio around the theme of closeness to the consumer, to draw full benefit from the millions of people who use and trust Koç products and services on a daily basis. Arçelik's acquisitions in Europe, entrance into petroleum products distribution with Opet acquisition, UniCredito partnership in banking, large scale export projects in automotive companies and aggressive international expansion in retailing, and the recent Grundig acquisition are among the most noteworthy developments in the 2000's.

In 2003, Mustafa. V. Koç took over as chairman as Rahmi M. Koç assumed the position of honorary chairman.

**Today, Koç Group continues to play a central role in the Turkish economy** with activities ranging from automotive manufacturing to household appliances, from food and retail to energy, from tourism to financial services. The Group numbers 96 consiladated subsidiaries with 54,000 employees and 12,000 dealers, agencies and after sales service points. Five of its companies -- Arçelik, Tofaş, Aygaz, Beko Elektronik and Ford Otosan—rank among the 10 largest private sector industrial corporations in Turkey. Shares of Koç Holding (parent company) and 13 of its subsidiaries are traded on the Istanbul Stock Exchange (ISE), making up 18% of ISE's market capitalization. 8% of Turkey's total exports in 2003 were realized by Koç Holding's subsidiaries.

Koç Group is committed to providing world-class goods and services that ensure consumer satisfaction, strengthen the Turkish economy and create the resources necessary to sustain continuous growth. The Group provides value to all its stakeholders by applying the best international practices in corporate governance, social responsibility, environmental protection, customer satisfaction and human resource management.

# EXECUTIVE MANAGAMENT

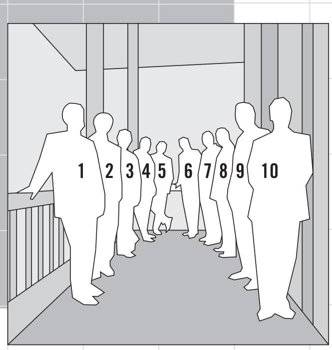
## *CEO - Chief Executive Officer*

**F. Bülend Özaydınlı**

## *Group Presidents**

| | |
|---|---|
| Auditing Group | **Ali Tarık Uzun***** |
| Information Technologies Group | **Ali Y. Koç** |
| Consumer Durables and Construction Group | **Bülent Bulgurlu, PhD** |
| Corporate Communications and Foreign Relations | **Hasan Bengü** |
| Food & Retailing and Tourism Group | **H. Hasan Yılmaz***** |
| Energy Group | **Ömer M. Koç** |
| Finance Group | **Rüşdü Saraçoğlu, PhD** |
| Supplies and Other Automotive Companies Group | **Selçuk Gezdur** |
| Strategic Planning Group | **Tamer Haşimoğlu** |

* The Group Presidents are listed in alphabetical order.




| | |
|---|---|
| Ali Tarık Uzun | 1 |
| Ali Y. Koç | 2 |
| Rüşdü Saraçoğlu, PhD | 3 |
| Bülent Bulgurlu, PhD | 4 |
| H. Hasan Yılmaz | 5 |
| F. Bülend Özaydınlı | 6 |
| Selçuk Gezdur | 7 |
| Tamer Haşimoğlu | 8 |
| Hasan Bengü | 9 |
| Ömer M. Koç | 10 |




Group Presidents retired as of December 31, 2003 **

| | |
|---|---|
| Tofaş Group | **Aydın İ. Çubukçu** |
| Consumer Durables Group | **Cengiz Solakoğlu** |
| Strategic Planning Group | **Mehmet Ali Berkman** |
| Auditing & Accounting Group | **Nadir Özşahin** |

** In alphatecal order

*** As of January 1, 2004, Bülent Bulgurlu, PhD is appointed as Consumer Durables and Construction Group President, Hasan Yılmaz is appointed as Food & Retailing and Tourism Group President, Ali Tarık Uzun appointed as Auditing Group President reporting to the Chairman.

# ORGANIZATIONAL CHART

**CEO**
F. Bülend Özaydınlı

**CORPORATE DIVISIONS**

**Auditing**
Ali Tarık Uzun

**Finance**
Rüşdü Saraçoğlu, PhD

**Legal Affairs**
Kemal Erol, PhD

**Human Resources**
Neslihan Tözge

**Corporate Communication**
Hasan Bengü*

**Strategic Planning**
Tamer Haşimoğlu

**GROUP PRESIDENTS**

**Information Technologies**
Ali Y. Koç

**Consumer Durables & Construction**
Bülent Bulgurlu, PhD

**Energy**
Ömer M. Koç

**Finance**
Rüşdü Saraçoğlu, PhD

**Food-Retailing & Tourism**
H.Hasan Yılmaz

**Foreign Relations**
Hasan Bengü*

**Supplies and Other Automotive**
Selçuk Gezdur

* Dual Role.

# AUDITOR'S REPORT

To: Koç Holding A.Ş. General Assembly

| | | |
|---|---|---|
| **Name of Company** | : | Koç Holding A.Ş. |
| **Headquarters** | : | Istanbul |
| **Registered Capital** | : | 1,000,000,000,000,000 TL |
| **Paid-in Capital** | : | 789,750,000,000,000 TL |
| **Area of Activity** | : | To participate in companies that are or will be established for commercial, industrial, agricultural and financial purposes. |
| **Name and Term of the Auditor and whether he is a shareholder** | : | Nevzat Tüfekçioğlu, from 04.04.2003 until the Ordinary General Assembly to be held for the purpose of reviewing 2003 accounts. He is not a company shareholder. |
| **Number of Board Meetings attended** | : | Attended three Board Meetings. |
| **The scope, dates and results of audits of shareholder accounts, books and documents** | : | The books of Koç Holding A.Ş. that are kept in accordance with CMB legislation have been audited. Meetings were held with internal audit officials and independent auditors with regard to the financial statements prepared in accordance with IFRS under the CMB Communiqué Series XI and no. 25. |
| **The number and result of controls of the company cash cashier in accordance with Article 353, paragraph 1 and sub paragraph 3 of the Turkish Commercial Code** | : | The cash cashier of Koç Holding A.Ş. was counted four times and the results of the counting process were found to be in accordance with the current cash records. |
| **The results of the audit carried out in accordance with Article 353, paragraph 1 and sub paragraph 4 of the Turkish Commercial Code** | : | It was noted that the shares of Board Members lodged as collateral in accordance with Article 313 of the Turkish Commercial Code, and the shares that are not yet taken by the shareholders were present in the Company's securities cashier |
| **Complaints, claims of impropriety and relevant action** | : | No complaints or claims of impropriety have been communicated regarding the 2003 accounting period. |

I have audited the accounts and transactions of Koç Holding A.Ş. covering the 01.01.2003-31.12.2003 period according to the Company Articles of Association, the Turkish Commercial Code and the Capital Markets legislation as well as the generally accepted accounting principles and standards.

The individual financial statements of Koç Holding A.Ş. are based on records kept in accordance with the CMB legislation. The consolidated financial statements, including inflation-adjusted figures according to CMB Communiqué series XI. no. 25 requirements, and in accordance with the International Financial Reporting Standards have been prepared. These consolidated financial statements were audited by the independent auditors, PriceWaterhouseCoopers, and the subsequent independent audit report was presented to the Board of Directors.

The proposal of the Board of Directors with regard to distributing 2003 profits is in accordance with the principles stated in Section A of the Attachment to the Capital Markets Board Announcement dated 11.03.2004, numbered OFD-439/4290 and published by the Istanbul Stock Exchange; and the Capital Markets Board letter dated 23.03.2004, numbered MSD-10/182 and addressed to Koç Holding A.Ş.

I present for your consideration the approval of the Board of Directors proposal to distribute profits and the discharge of obligations of the Board of Directors.

**Auditor**
**Nevzat Tüfekçioğlu**

# FINANCIAL STATEMENTS

PRICEWATERHOUSECOOPERS

**Başaran Nas Serbest Muhasebeci**
**Mali Müşavirlik A.Ş.**
**a member of PricewaterhouseCoopers**
BJK Plaza, Süleyman Seba Caddesi
No:48 B Blok Kat 9 Akaretler
Beşiktaş 34357 İstanbul-Turkey
www.pwcglobal.com/tr
Telephone +90 (212) 326 6060
Facsimile +90 (212) 326 6050

## AUDITOR'S REPORT

To the Board of Directors of Koç Holding A.Ş.

1. We have audited the accompanying consolidated balance sheet of Koç Holding A.Ş. ("Koç Holding" or "the Group") at 31 December 2003 and the related consolidated statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish Lira ("TL") as at 31 December 2003. These consolidated financial statements are the responsibility of Koç Holding's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Koç Holding A.Ş. at 31 December 2003 and the consolidated results of its operations, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw your attention to the following matters:

4. As explained in Note 3 to the consolidated financial statements, the statements include the accounts of the parent company, its Subsidiaries, Joint Ventures and the Associate. Subsidiaries are companies in which Koç Holding has power to control the financial and operating policies for the benefit of Koç Holding through the exercise of voting power relating to the shares held by Koç Holding and its Subsidiaries together with the voting power which Koç Holding effectively exercises relating to the shares held by Koç family members and enterprises controlled by them. Joint Ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by Koç Holding and its Subsidiaries (through the "control basis") and one or more other parties. In effect the Koç family members allow Koç Holding to exercise the voting power in respect of their shares held in these companies. In the consolidated financial statements, the shares held by Koç family members are treated as minority interest.

5. As explained in Note 2 to the consolidated financial statements, Euro ("EUR") and US Dollar ("USD") amounts shown in the accompanying consolidated financial statements have been included solely for the convenience of the reader of the consolidated financial statements and are translated from TL, as a matter of arithmetic computation only, at the official EUR and USD bid rates announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2003. Such translation should not be construed as a representation that the TL amounts have been or could be converted into EUR and USD at these or any other rates.

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of PricewaterhouseCoopers

Z Uras

**Zeynep Uras, SMMM**
Istanbul, 12 April 2004

## KOÇ HOLDİNG A.Ş.

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

| | Notes | 2003 EUR'000 (*) | 2003 USD'000 (*) | 2003 TL billion | 2002 TL billion |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | 6 | 1,069,315 | 1,336,856 | 1,866,031 | 1,807,954 |
| Investments: | | | | | |
| - held-for-trading | 7.a | 993 | 1,241 | 1,732 | 980 |
| - available-for-sale | 7.b | 305,782 | 382,288 | 533,611 | 423,819 |
| - held-to-maturity | 7.c | 244,946 | 306,231 | 427,448 | 162,443 |
| Reserve deposits with the Central Banks | 8 | 123,531 | 154,438 | 215,570 | 246,719 |
| Loans and advances to customers | 9 | 820,936 | 1,026,334 | 1,432,593 | 1,625,640 |
| Trade receivables | 10 | 1,369,525 | 1,712,179 | 2,389,920 | 2,120,489 |
| Due from related parties | 11 | 11,291 | 14,116 | 19,703 | 58,502 |
| Inventories | 12 | 804,774 | 1,006,128 | 1,404,388 | 1,158,333 |
| Other current assets | 13 | 161,845 | 202,338 | 282,431 | 363,378 |
| **Total current assets** | | **4,912,938** | **6,142,149** | **8,573,427** | **7,968,257** |
| **Non-current assets:** | | | | | |
| Loans and advances to customers | 9 | 381,969 | 477,537 | 666,563 | 473,661 |
| Investments: | | | | | |
| - available-for-sale | 7.b | 173,087 | 216,393 | 302,049 | 241,118 |
| - held-to-maturity | 7.c | 459,821 | 574,867 | 802,420 | 687,548 |
| Investment in associated undertaking | 14 | 1,011 | 1,264 | 1,765 | 1,849 |
| Investment property | 17 | 34,396 | 43,002 | 60,023 | 70,645 |
| Property, plant and equipment | 15 | 2,046,050 | 2,557,970 | 3,570,504 | 3,716,248 |
| Intangible assets | 16 | 291,355 | 364,252 | 508,436 | 412,664 |
| Other non-current assets | | 34,926 | 43,664 | 60,948 | 98,450 |
| **Total non-current assets** | | **3,422,615** | **4,278,949** | **5,972,708** | **5,702,183** |
| **Total assets** | | **8,335,553** | **10,421,098** | **14,546,135** | **13,670,440** |

(*) Euro ("EUR") and US Dollar ("USD") amounts presented above are translated from Turkish Lira ("TL") for convenience purposes only, at the official TL exchange rate announced by the Central Bank of the Republic of Turkey ("CBRT") at 31 December 2003, and therefore do not form part of these consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") (Note 2.c).

These consolidated financial statements as at and for the year ended 31 December 2003 have been approved for issue by the Board of Directors on 12 April 2004 and signed on its behalf by Rüşdü Saraçoğlu, President of Financial Services Group, and by Emine Alangoya, Accounting Manager.

The accompanying notes form an integral part of these consolidated financial statements.

**KOÇ HOLDİNG A.Ş.**

**CONSOLIDATED BALANCE SHEETS**
**AT 31 DECEMBER**

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

| | Notes | 2003 EUR'000 (*) | 2003 USD'000 (*) | 2003 TL billion | 2002 TL billion |
|---|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| **Current liabilities:** | | | | | |
| Customer deposits | 18 | 1,455,966 | 1,820,247 | 2,540,765 | 2,659,851 |
| Bank borrowings | 19 | 1,058,273 | 1,323,053 | 1,846,763 | 1,769,692 |
| Bonds issued | | 468 | 585 | 817 | 5,579 |
| Insurance technical reserves | 21 | 102,419 | 128,045 | 178,729 | 169,984 |
| Trade payables | 20 | 1,012,644 | 1,266,006 | 1,767,136 | 1,640,598 |
| Due to related parties | 11 | 14,174 | 17,715 | 24,730 | 32,618 |
| Taxes on income | 23 | 46,631 | 58,298 | 81,374 | 90,282 |
| Other current liabilities | 22 | 482,296 | 602,967 | 841,642 | 791,906 |
| **Total current liabilities** | | **4,172,871** | **5,216,916** | **7,281,956** | **7,160,510** |
| **Non-current liabilities:** | | | | | |
| Customer deposits | 18 | 121,306 | 151,656 | 211,687 | 172,859 |
| Bank borrowings | 19 | 648,155 | 810,323 | 1,131,077 | 1,174,292 |
| Insurance technical reserves | 21 | 147,921 | 184,931 | 258,133 | 188,010 |
| Provision for employment termination benefits | 24 | 72,681 | 90,865 | 126,833 | 115,820 |
| Deferred tax liabilities | 23 | 11,318 | 14,150 | 19,751 | 176,808 |
| Other non-current liabilities | | 43,380 | 54,232 | 75,699 | 82,861 |
| **Total non-current liabilities** | | **1,044,761** | **1,306,157** | **1,823,180** | **1,910,650** |
| **Total liabilities** | | **5,217,632** | **6,523,073** | **9,105,136** | **9,071,160** |
| Minority interest | | | | | |
| - Koç family members | 33 | 525,083 | 656,459 | 916,308 | 949,742 |
| - Other | 33 | 733,354 | 916,839 | 1,279,756 | 1,205,439 |
| **Minority interest** | **33** | **1,258,437** | **1,573,298** | **2,196,064** | **2,155,181** |
| **Shareholders' equity:** | | | | | |
| - Share capital | 25 | 452,560 | 565,790 | 789,750 | 203,156 |
| - Adjustment to share capital | 25 | 431,829 | 540,382 | 753,675 | 914,756 |
| Total paid-in share capital | | 884,389 | 1,106,172 | 1,543,425 | 1,117,912 |
| Share premium | | 2,449 | 2,553 | 4,172 | 4,172 |
| Translation reserve | 3.f | (4,571) | (5,714) | (7,976) | 1,971 |
| Cumulative loss on hedging | 30 | (10,613) | (13,269) | (18,521) | (44,227) |
| Retained earnings | 26 | 987,830 | 1,234,985 | 1,723,835 | 1,364,271 |
| **Total shareholders' equity** | | **1,859,484** | **2,324,727** | **3,244,935** | **2,444,099** |
| **Total liabilities and shareholders' equity** | | **8,335,553** | **10,421,098** | **14,546,135** | **13,670,440** |
| **Commitments and contingent liabilities** | **30** | | | | |

(*) EUR and USD amounts presented above are translated from TL for convenience purposes only, at the official TL exchange rate announced by the CBRT at 31 December 2003, and therefore do not form part of these consolidated financial statements prepared in accordance with IFRS (Note 2.c).

The accompanying notes form an integral part of these consolidated financial statements.

**KOÇ HOLDİNG A.Ş.**

**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE YEARS ENDED 31 DECEMBER**
(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

| | Notes | 2003 EUR'000 (*) | 2003 USD'000 (*) | 2003 TL billion | 2002 TL billion |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Non-finance | 5 | 8,088,334 | 10,112,030 | 14,114,725 | 10,570,945 |
| Finance | 5 | 795,929 | 995,070 | 1,388,953 | 2,313,047 |
| | | **8,884,263** | **11,107,100** | **15,503,678** | **12,883,992** |
| **Operating costs:** | | | | | |
| Non-finance | 5 | (7,708,273) | (9,636,878) | (13,451,492) | (10,303,647) |
| Finance | 5 | (698,867) | (873,724) | (1,219,574) | (2,125,388) |
| | | **(8,407,140)** | **(10,510,602)** | **(14,671,066)** | **(12,429,035)** |
| **Operating profit:** | | | | | |
| Non-finance | 5 | 380,061 | 475,152 | 663,233 | 267,298 |
| Finance | 5 | 97,062 | 121,346 | 169,379 | 187,659 |
| | | **477,123** | **596,498** | **832,612** | **454,957** |
| Share of result of associate | 14 | (48) | (60) | (84) | (2) |
| Financial income-net | 27 | 83,652 | 104,581 | 145,978 | 23,627 |
| Other income/(expense)-net | | 306 | 383 | 534 | (71,608) |
| Loss on net monetary position | 2 | (19,993) | (24,996) | (34,890) | (110,891) |
| **Income before taxes on income and minority interest** | | **541,040** | **676,406** | **944,150** | **296,083** |
| Taxes on income | 23 | (86,365) | (107,973) | (150,713) | (71,957) |
| **Income before minority interest** | | **454,675** | **568,433** | **793,437** | **224,126** |
| Income attributable to minority interest: | | | | | |
| - Koç family members | 33 | (61,056) | (76,332) | (106,547) | (50,707) |
| - Other | 33 | (174,645) | (218,341) | (304,768) | (127,104) |
| **Net income** | | **218,974** | **273,760** | **382,122** | **46,315** |
| Weighted average number (000's) of shares with face value of TL1,000 value each | 4.ag | 763,943,497 | 763,943,497 | 763,943,497 | 758,782,196 |
| Basic and diluted earnings per share in full | 4.ag | 287 | 358 | 500 | 61 |

(*) EUR and USD amounts presented above are translated from TL for convenience purposes only, at the official TL exchange rate announced by the CBRT at 31 December 2003, and therefore do not form part of these consolidated financial statements prepared in accordance with IFRS (Note 2.c).

The accompanying notes form an integral part of these consolidated financial statements.

**KOÇ HOLDİNG A.Ş.**

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

| | | | | | | Retained Earnings | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Adjustment to share capital | Share Premium | Translation reserve | Cumulative loss on hedging | General and legal reserves | Unappropriated net income/(loss) | Retained earnings total | Shareholders' equity total |
| **Balances at 1 January 2002** | **101,578** | **989,368** | **4,172** | **47,759** | **(31,605)** | **2,011,985** | **(669,052)** | **1,342,933** | **2,454,205** |
| Decrease in retained earnings due to additions to scope of consolidation | - | - | - | - | - | (2,811) | - | (2,811) | (2,811) |
| Increase in retained earnings due to disposals from scope of consolidation | - | - | - | - | - | 4,800 | - | 4,800 | 4,800 |
| Transfers | - | - | - | - | - | (669,052) | 669,052 | - | - |
| Increase in share capital | 101,578 | (74,612) | - | - | - | (26,966) | - | (26,966) | - |
| Currency translation differences | - | - | - | (45,788) | - | - | - | - | (45,788) |
| Cumulative loss on hedging | - | - | - | - | (12,622) | - | - | - | (12,622) |
| Income for the year | - | - | - | - | - | - | 46,315 | 46,315 | 46,315 |
| **Balances at 31 December 2002** | **203,156** | **914,756** | **4,172** | **1,971** | **(44,227)** | **1,317,956** | **46,315** | **1,364,271** | **2,444,099** |
| Decrease in retained earnings due to additions to scope of consolidation | - | - | - | - | - | (856) | - | (856) | (856) |
| Increase in retained earnings due to disposals from scope of consolidation | - | - | - | - | - | 2,474 | - | 2,474 | 2,474 |
| Transfers | - | - | - | - | - | 46,315 | (46,315) | - | - |
| Increase in share capital | 586,594 | (161,081) | - | - | - | (24,176) | - | (24,176) | 401,337 |
| Currency translation differences | - | - | - | (9,947) | - | - | - | - | (9,947) |
| Cumulative gain on hedging | - | - | - | - | 25,706 | - | - | - | 25,706 |
| Income for the year | - | - | - | - | - | - | 382,122 | 382,122 | 382,122 |
| **Balances at 31 December 2003** | **789,750** | **753,675** | **4,172** | **(7,976)** | **(18,521)** | **1,341,713** | **382,122** | **1,723,835** | **3,244,935** |

The accompanying notes form an integral part of these consolidated financial statements.

## KOÇ HOLDİNG A.Ş.

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

| | Notes | 2003 EUR'000 (*) | 2003 USD'000 (*) | 2003 TL billion | 2002 TL billion |
|---|---|---|---|---|---|
| **Operating activities:** | | | | | |
| Net income | | 218,974 | 273,760 | 382,122 | 46,315 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | | | | |
| Net income attributable to minority interest | 33 | 235,701 | 294,673 | 411,315 | 177,811 |
| Dilution loss due to the restructuring in finance sector | | - | - | - | 64,219 |
| Depreciation and amortisation - net | | 449,324 | 561,744 | 784,102 | 825,866 |
| Changes in reserves and provisions | 4.ad | 22,819 | 28,528 | 39,821 | (38,033) |
| Gain on sale of tangible and intangible assets | | (2,423) | (3,029) | (4,228) | (2,941) |
| Net interest income | 4.ad | (273,644) | (342,109) | (477,528) | (503,730) |
| Fair value (gain)/loss on financial assets | | (4,854) | (6,069) | (8,471) | 20,036 |
| Banking sector interest income | | 434,641 | 543,387 | 758,479 | 1,652,983 |
| Banking sector interest expense | | (244,648) | (305,859) | (426,929) | (1,172,880) |
| Taxation expenses | | 86,365 | 107,973 | 150,713 | 71,957 |
| Dividend income | 11 | (1,184) | (1,480) | (2,066) | (707) |
| **Net cash provided from operating activities before changes in operating assets and liabilities** | | **921,071** | **1,151,519** | **1,607,330** | **1,140,896** |
| Net changes in operating assets and liabilities | 4.ad | (529,570) | (662,068) | (924,140) | (1,309,265) |
| Income taxes paid | | (91,471) | (114,357) | (159,621) | (52,607) |
| **Net change in operating assets and liabilities** | | **(621,041)** | **(776,425)** | **(1,083,761)** | **(1,361,872)** |
| **Net cash provided/(used in) by operating activities** | | **300,030** | **375,094** | **523,569** | **(220,976)** |
| **Investing activities:** | | | | | |
| Purchase of tangible and intangible assets | | (508,341) | (635,528) | (887,092) | (1,203,784) |
| Cash provided from sale of tangible and intangible assets | | 181,192 | 226,526 | 316,193 | 105,337 |
| Net assets of subsidiaries acquired | 31 | 152,325 | 190,437 | 265,818 | 153,596 |
| Changes in other non-current assets and other non-current liabilities | 4.ad | 17,386 | 21,736 | 30,340 | 121,524 |
| Effect of changes in minority shares | 33 | (156,889) | (196,143) | (273,783) | (2,452) |
| Increase in retained earnings from the companies included and excluded from the scope of consolidation | | 927 | 1,159 | 1,618 | 1,989 |
| Effect of restructuring in finance segment | | - | - | - | (1,158,369) |
| Acquisition of subsidiaries | 31 | (237,354) | (296,739) | (414,199) | (263,420) |
| Dividend income | 11 | 1,184 | 1,480 | 2,066 | 707 |
| **Net cash used in investing activities** | | **(549,570)** | **(687,072)** | **(959,039)** | **(2,244,872)** |
| **Financing activities:** | | | | | |
| Capital increase | | 229,983 | 287,525 | 401,337 | - |
| Share capital increase attributable to minority interest | 33 | 51,837 | 64,807 | 90,460 | 1,364,767 |
| Dividend paid attributable to minority interest | 33 | (99,638) | (124,567) | (173,875) | (119,815) |
| Increase / (decrease) in short-term borrowings | | 44,162 | 55,215 | 77,071 | (252,720) |
| (Decrease) / increase in long-term borrowings | | (24,764) | (30,960) | (43,215) | 324,622 |
| Proceeds from issuance of bonds | | 468 | 585 | 817 | 11,157 |
| Repayment of bonds | | (3,197) | (3,997) | (5,579) | (28,643) |
| Non-banking financial income | | 399,135 | 498,999 | 696,520 | 517,663 |
| Non-banking financial expense | | (315,484) | (394,418) | (550,542) | (494,036) |
| **Net cash used in financing activities** | | **282,502** | **353,189** | **492,994** | **1,322,995** |
| Cumulative gain / (loss) on hedging | | 14,731 | 18,416 | 25,706 | (12,622) |
| Cumulative gain on hedging on attributable to minority interest | 33 | 551 | 688 | 961 | - |
| Translation difference | | (5,700) | (7,126) | (9,947) | (45,788) |
| Translation difference attributable to minority interest | 33 | (8,134) | (10,170) | (14,195) | 52,188 |
| Net increase / (decrease) in cash and cash equivalents | | 34,410 | 43,019 | 60,049 | (1,149,075) |
| Cash and cash equivalents at the beginning of the year | | 1,018,904 | 1,273,833 | 1,778,060 | 2,927,135 |
| **Cash and cash equivalents at the end of the year** | **6** | **1,053,314** | **1,316,852** | **1,838,109** | **1,778,060** |

(*) EUR and USD amounts presented above are translated from TL for convenience purposes only, at the official TL bid rate announced by the CBRT at 31 December 2003, and therefore do not form part of these consolidated financial statements prepared in accordance with IFRS (Note 2.c).

The accompanying notes form an integral part of these consolidated financial statements.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Koç Holding A.Ş. ("Koç Holding") was established on 11 December 1963 as a corporation to coordinate the activities of, and liaise between, companies operating in different fields including trade, manufacturing, agriculture, finance and retailing, and is registered in Turkey.

As of 31 December 2003, the number of people employed by Koç Holding, Subsidiaries and Joint Ventures (collectively referred as the "Group") in 2003 is 53,985 (2002: 50,019).

The address of the registered office is as follows:

Nakkaştepe Azizbey Sok. No: 1
Kuzguncuk-İSTANBUL

Koç Holding is registered with the Capital Markets Board ("CMB") and its shares have been quoted on the Istanbul Stock Exchange ("ISE") since 10 January 1986. At 31 December 2003, the shares quoted on the ISE represent some 19.72% of the total shares. At 31 December 2003, the principal shareholders and their respective shareholdings in the Company are as follows (Note 25):

| | % |
|---|---|
| Companies owned by Koç family members | 43.63 |
| Koç family members | 27.51 |
| Vehbi Koç Vakfı | 7.17 |
| Other | 21.69 |
| | **100.00** |

Koç Holding is organised mainly in Turkey into six main business segments:

- Automotive
- Finance
- Consumer durable
- Food and retailing
- Energy
- Other (*)

(*) Other operations of Koç Holding mainly comprise foreign trade, tourism, information technologies and construction, none of which is of a sufficient size to be reported separately.

Geographical segment information has not been included in the consolidated financial statements since geographical segments other than Turkey are not material enough to be reported separately.

## NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

The Subsidiaries ("Subsidiary") of the Group, their country of incorporations, nature of businesses and their respective business segments, are as follows:

| Subsidiary | Country of incorporation | Nature of business | Segment |
|---|---|---|---|
| Beldesan Otomotiv Yan Sanayii ve Tic. A.Ş. ("Beldesan") | Turkey | Production | Automotive |
| Beldeyama Motorlu Vasıtalar San. A.Ş. ("Beldeyama") | Turkey | Production | Automotive |
| Birmot Birleşik Motor Sanayi ve Tic. A.Ş. ("Birmot") | Turkey | Trading | Automotive |
| Döktaş Ticaret ve San. A.Ş. ("Döktaş") | Turkey | Production | Automotive |
| Mako Elektrik Sanayi ve Ticaret A.Ş. ("Mako") | Turkey | Production | Automotive |
| Otokar Otobüs Karoseri Sanayi A.Ş. ("Otokar") | Turkey | Production | Automotive |
| Otokoç Otomotiv Tic. ve San. A.Ş. ("Otokoç") | Turkey | Trading | Automotive |
| Otomotiv Lastikleri Tevzi A.Ş. ("Otomotiv Lastikleri") | Turkey | Trading | Automotive |
| Otoyol Pazarlama A.Ş. ("Otoyol Pazarlama") | Turkey | Trading | Automotive |
| Otoyol Sanayi A.Ş. ("Otoyol") | Turkey | Production | Automotive |
| Tekersan Jant Sanayi A.Ş. ("Tekersan") | Turkey | Production | Automotive |
| Trakmak Traktör ve Ziraat Makinaları A.Ş. ("Trakmak") | Turkey | Trading | Automotive |
| Türk Traktör ve Ziraat Makinaları A.Ş. ("Türk Traktör") | Turkey | Production | Automotive |
| Koç Allianz Hayat Sigorta A.Ş. ("Koç Allianz Hayat") | Turkey | Life insurance | Finance |
| Koç Allianz Sigorta T.A.Ş. ("Koç Allianz Sigorta") | Turkey | Insurance | Finance |
| Koç Tüketici Finansmanı ve Kart Hizmetleri A.Ş. ("Koç Finans") | Turkey | Consumer finance | Finance |
| Arçelik A.Ş. ("Arçelik") | Turkey | Production | Consumer durable |
| Ardutch B.V. ("Ardutch") | The Netherlands | Holding | Consumer durable |
| Artesis Teknoloji Sistemleri A.Ş. ("Artesis") | Turkey | Technology, development | Consumer durable |
| Beko Deutschland GmbH ("Beko Deutschland") | Germany | Trading | Consumer durable |
| Beko Electronics Espana S.L. ("Beko Espana") | Spain | Trading | Consumer durable |
| Beko Elektronik A.Ş. ("Beko Elektronik") | Turkey | Production | Consumer durable |
| Fusion Digital Technology Ltd. ("Fusion") | The U.K. | Technology, development | Consumer durable |
| Beko France S.A. ("Beko France") | France | Trading | Consumer durable |
| Beko Polska S.A. ("Beko Polska") | Poland | Trading | Consumer durable |
| Beko Ticaret A.Ş. ("Beko Ticaret") | Turkey | Trading | Consumer durable |
| Beko UK Ltd. ("Beko UK") | The U.K. | Trading | Consumer durable |
| Blomberg Werke GmbH ("Blomberg GmbH") | Germany | Production | Consumer durable |
| Blomberg Vertriebsgesellschaft GmbH ("Blomberg mbH") | Germany | Distribution | Consumer durable |
| Elektra Bregenz AG ("Elektra AG") | Austria | Trading | Consumer durable |
| Raupach Wollert GmbH ("Raupach") | Germany | Holding | Consumer durable |
| SC Arctic SA ("Arctic") | Romania | Production | Consumer durable |
| Sherbrook International Ltd. ("Sherbrook") | The U.K. | Trading | Consumer durable |
| Türk Demir Döküm Fabrikaları A.Ş. ("TDDF") | Turkey | Production | Consumer durable |
| Demrad Döküm Ürünleri Sınai ve Tic. A.Ş. ("Demrad") | Turkey | Production | Consumer durable |
| DD Heating Limited ("DD Heating") | The U.K. | Trading | Consumer durable |
| Panel Radyatör Sanayi ve Ticaret A.Ş. ("Panel") | Turkey | Production | Consumer durable |
| Düzey Tüketim Malları Pazarlama A.Ş. ("Düzey") | Turkey | Trading | Food and retailing |
| Limited Liability Company Rambutya ("Rambutya") | Kazakhstan | Retail | Food and retailing |
| Migros Türk T.A.Ş. ("Migros") | Turkey | Retail | Food and retailing |
| Ramstore Bulgaria A.D. ("Ramstore Bulgaria") | Bulgaria | Retail | Food and retailing |
| Ramstore Sınırlı Sorumlu Türk Gıda Müessesesi ("Ramstore Azerbaijan") | Azerbaijan | Retail | Food and retailing |
| Tat Konserve Sanayi A.Ş. ("Tat Konserve") | Turkey | Food and beverage | Food and retailing |
| Tat Tohumculuk A.Ş. ("Tat Tohumculuk") | Turkey | Agriculture | Food and retailing |
| Aygaz A.Ş. ("Aygaz") | Turkey | LPG | Energy |
| Opet Aygaz Bulgaria E.A.D. ("Opet Aygaz Bulgaria") | Bulgaria | Distribution | Energy |
| Opet Aygaz BV ("Opet Aygaz BV") | The Netherlands | Distribution | Energy |
| Bursa Gaz ve Ticaret A.Ş. ("Bursa Gaz") | Turkey | Trade | Energy |
| Entek Elektrik Üretimi A.Ş. ("Entek") | Turkey | Power generation | Energy |
| Mogaz Petrol Gazları A.Ş. ("Mogaz") | Turkey | LPG | Energy |

## NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)

| Subsidiary | Country of incorporation | Nature of business | Segment |
|---|---|---|---|
| Ayvalık Marina ve Yat İşletmeciliği San. ve Tic. A.Ş. ("Ayvalık Marina") | Turkey | Tourism | Other |
| Bilkom Bilişim Hizmetleri A.Ş. ("Bilkom") | Turkey | Trading | Other |
| Bozkurt Tarım ve Gıda San. A.Ş. ("Bozkurt") | Turkey | Agriculture | Other |
| İzocam Ticaret ve Sanayi A.Ş. ("İzocam") | Turkey | Production | Other |
| Kav Danışmanlık Pazarlama ve Ticaret A.Ş. ("Kav Danışmanlık") | Turkey | Consultancy | Other |
| Koçnet Haberleşme Teknoloji ve İletişim Hizm. A.Ş. ("Koçnet") | Turkey | Information Technology | Other |
| Koç Sistem A.Ş. ("Koç Sistem") | Turkey | Technology | Other |
| Koçtaş Yapı Malzemeleri Ticaret A.Ş. ("Koçtaş") | Turkey | Trade | Other |
| Marmaris Altınyunus Turistik Tesisleri A.Ş. ("Mares") | Turkey | Tourism | Other |
| Ram Dış Ticaret A.Ş. ("Ram Dış Ticaret") | Turkey | Foreign trade | Other |
| Ram Pacific Ltd.("Ram Pacific") | China | Foreign trade | Other |
| RMK Gemi Yapım Sanayi A.Ş. ("RMK Marine") | Turkey | Production | Other |
| Set Oto Ticaret ve Turizm A.Ş. ("Setoto-Avis") | Turkey | Car Rental | Other |
| Setur Servis Turistik A.Ş. ("Setur") | Turkey | Tourism | Other |
| Tek-Art Kalamış ve Fenerbahçe Marmara Turizm Tesisleri A.Ş. ("Tek-Art Marina") | Turkey | Tourism | Other |
| Tek-iz İzolasyon ve Yapı Elemanları San. A.Ş. ("Tek-iz") | Turkey | Production | Other |
| Tütaş Türk Turizm A.Ş. ("Talya Tütaş") | Turkey | Tourism | Other |

For the purposes of segment information in these consolidated financial statements, Koç Holding's stand-alone financial statements were included within the "Other" segment (Note 5).

The Joint Ventures ("Joint Ventures"), their main operations, sectors and joint venture partners of Koç Holding are explained below (Note 3.c):

| Joint Venture | Nature of business | Segment | Joint Venture Partner |
|---|---|---|---|
| Ford Otomotiv Sanayi A.Ş. ("Ford Otosan") | Production | Automotive | Ford Motor Co. |
| Tofaş Türk Otomobil Fabrikası A.Ş. ("Tofaş") | Production | Automotive | Fiat Auto S.p.A. |
| Koç Fiat Kredi Tüketici Finansmanı A.Ş. ("Fiat Finans") | Finance | Finance | Fiat Auto S.p.A. |
| Koç Finansal Hizmetler A.Ş. ("Koç Finansal Hizmetler" or "KFS") | Holding | Finance | UniCreditoItaliano |
| Koçbank A.Ş. ("Koçbank") | Banking | Finance | UniCreditoItaliano |
| Koçbank Azerbaijan Ltd. ("Koçbank Azerbaijan") | Banking | Finance | UniCreditoItaliano |
| Koç Faktoring Hizmetleri A.Ş. ("Koç Faktoring") | Factoring | Finance | UniCreditoItaliano |
| Koç Finansal Kiralama A.Ş. ("Koç Lease") | Leasing | Finance | UniCreditoItaliano |
| Koçbank Nederland N.V. ("Koçbank Nederland") | Banking | Finance | UniCreditoItaliano |
| Koç Asset Management S.A. ("KAM Swiss") | Portfolio Management | Finance | UniCreditoItaliano |
| Stiching Custody Services KBN ("Stiching Custody") | Custody | Finance | UniCreditoItaliano |
| Koç Portföy Yönetimi A.Ş. ("Koç Portföy") | Portfolio management | Finance | UniCreditoItaliano |
| Koç Yatırım Menkul Değerler A.Ş. ("Koç Menkul") | Brokerage | Finance | UniCreditoItaliano |
| Arçelik LG Klima San. ve Tic. A.Ş. ("Arçelik LG Klima") | Production of air conditioners | Consumer durable | LG Electronics Inc. |
| Limited Liability Company Ramenka ("Ramenka") | Retail | Food and retailing | Enka İnş. ve San. A.Ş. |
| Birleşik Oksijen Sanayi Gazlar A.Ş. ("BOS") | Chemicals | Energy | BOC Group |
| Opet Petrolcülük A.Ş. ("Opet") | Petroleum products | Energy | Öztürk family |
| Opet Dış Tic. ve Nakliyat A.Ş. (Opet Dış Ticaret) | Import | Energy | Öztürk family |
| Opet Gıda ve İhtiyaç Mad. Tur. San İç ve Dış Ticaret A.Ş. ("Opet Gıda") | Food Distribution | Energy | Öztürk family |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS (Continued)**

| Joint Venture | Nature of business | Segment | Joint Venture Partner |
|---|---|---|---|
| Opet International Limited (Opet International) | Trading | Energy | Öztürk family |
| Opet Trade BV ("Opet Trade BV") | Trading | Energy | Öztürk family |
| Opet Trade Ireland ("Opet Trade Ireland") | Trading | Energy | Öztürk family |
| Rom Madeni Yağ ve Katkıları San. ve Tic. A.Ş. ("Rom") | Production and Distribution | Energy | Öztürk family |
| TBS Denizcilik ve Petrol Ürünleri Ticaret A.Ş. ("TBS") | Marine fuel supplier | Energy | Öztürk family |
| Garanti Balfour Beatty İnşaat Sanayi ve Ticaret A.Ş. ("Garanti Balfour") | Construction | Other | Balfour Beatty Overseas Limited |
| Koçtaş Yapı Marketleri Sanayi ve Ticaret A.Ş. ("Koçtaş Yapı Market") | Construction and housing equipment | Other | B & Q Holding BV |
| Kofisa Trading Company S.A. ("Kofisa Trading") | Foreign trade | Other | Koratrade S.A. |
| TNT Lojistik ve Dağıtım Hizmetleri A.Ş. ("TNT") | Logistic | Other | TNT Group |
| Ultra Kablo Televizyon ve Telekomünikasyon San. ve Tic. A.Ş. ("Ultra Kablo") | Media and Communication | Other | Doğan Yayın Holding A.Ş. |

All Joint Ventures of Koç Holding, except for Kofisa Trading and KAM Swiss (under liquidation) which are registered in Switzerland, Koçbank Azerbaijan which is registered in Azerbaijan, Koçbank Nederland and Opet Trade BV, which are registered in the Netherlands, Opet Trade Ireland which is registered in Ireland, Opet International which is registered in the U.K. and Ramenka which is registered in the Russian Federation, are registered in Turkey. No geographical segment reporting is prepared as the majority of the Group's main sales, purchases and assets are in Turkey.

The Group went under a significant restructuring process in its finance segment in years 2001 and 2002 where all major financial service subsidiaries, namely, Koçbank, Stiching Custody, KAM Swiss (under liquidation), Koç Lease, Koç Faktoring, Koç Menkul, Koç Portföy, Koçbank Nederland and Koçbank Azerbaijan have been combined under KFS. On 12 October 2002, the Group entered into a joint strategic partnership with Unicredito Italiano SPA ("UCI") in KFS (Note 35). As the effective control of UCI over KFS and its subsidiaries commenced on 31 December 2002, the financial results of KFS and its relevant subsidiaries were consolidated by proportionate method from that date on.

On 17 December 2002, the Group acquired 45.33% of the issued capital of Opet and entered a joint strategic partnership with the Öztürk family. The Koç family also acquired 4.67% of Opet in the same deal (Note 31).

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 2 - BASIS OF PREPARATION

### a) Turkish Lira financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including the International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). Koç Holding and its Subsidiaries and Joint Ventures registered in Turkey maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in TL in accordance with the Turkish Commercial Code (the "TCC"), tax legislation, and the Uniform Chart of Accounts issued by the Ministry of Finance, applicable Turkish insurance laws for insurance companies and Banking law and accounting principles promulgated by the Banking Regulation and Supervising Agency for banks and for listed companies; accounting principles issued by the CMB of Turkey ("CMB Principles"). The foreign Subsidiaries and Joint Ventures maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements are based on the statutory records, which are maintained under the historical cost conversion (except for the revaluation of the property plant and equipment, as discussed in Note 15), with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with IFRS (including the restatement of the TL to match the purchasing power at the balance sheet date).

The restatement for the changes in the general purchasing power of the TL at 31 December 2003 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish nationwide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). Such indices and conversion factors used to restate the financial statements at 31 December are given below:

| Dates | Index | Conversion factors | Cumulative 3-year % |
|---|---|---|---|
| **31 December 2003** | **7,382.1** | **1.000** | **181.1** |
| 31 December 2002 | 6,478.8 | 1.139 | 227.3 |
| 31 December 2001 | 4,951.7 | 1.491 | 307.5 |

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.

- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant conversion factors.

- Comparative financial statements are restated using general inflation indices at the currency purchasing power at the latest balance sheet date.

- All items in the consolidated statements of income are restated by applying the relevant (monthly) conversion factors.

- The effect of inflation on the net monetary asset position of Koç Holding, the Subsidiaries and Joint Ventures is included in the consolidated statements of income as loss on net monetary position in the consolidated financial statements.

**NOTE 2 - BASIS OF PREPARATION (Continued)**

**b) Financial statements of Foreign Subsidiaries and Joint Ventures**

Financial statements of subsidiaries operating in foreign countries are prepared according to the legislation of the country in which they operate, and adjusted to the IFRS to reflect the proper presentation and content. The assets and liabilities of foreign subsidiaries are translated into TL from the foreign exchange rate at the balance sheet date. The income and expenses of foreign subsidiaries are translated into TL at the average foreign exchange rate and expressed in current purchasing power of TL adjusted by relevant period's conversion factor as at balance sheet date. Exchange differences arising from the retranslation of the opening net assets of foreign undertakings and differences between the average and year-end rates are included in the "translation reserve" under the shareholders' equity.

**c) Euro ("EUR") and US Dollar ("USD") translation**

EUR and USD amounts shown in the consolidated financial statements have been included solely for the convenience of the reader of the consolidated statements, and are translated from TL, as a matter of arithmetic computation only, at the official EUR and USD bid rates announced by the CBRT on 31 December 2003 of TL1,745,072=EUR1 and TL1,395,835=USD1, respectively. Such translation should not be construed as a representation that the TL amounts have been or could be converted into EUR and USD at these or any other rates.

**NOTE 3 - GROUP ACCOUNTING**

a) The consolidated financial statements include the accounts of the parent company, Koç Holding, its Subsidiaries and its Joint Ventures (collectively referred as the "Group") on the basis set out in sections (b) to (h) below. The financial statements of the companies included in the scope of consolidation have been prepared as of the date of the consolidated financial statements and are based on the statutory records, which are maintained under the historical cost convention (except for the statutory revaluation of property, plant and equipment as discussed in Note 15), with adjustments and reclassifications including restatement for changes in the general purchasing power of the TL, for the purpose of fair presentations in accordance with IFRS and applying uniform accounting policies and presentation.

b) Subsidiaries are companies over which Koç Holding has power to control the financial and operating policies for the benefit of Koç Holding, either (a) through the power to exercise more than 50% voting rights relating to shares in the companies as a result of ownership interest owned directly and indirectly by itself, and/or as a result of agreements by certain Koç family members and companies owned by them (collectively referred as the "Koç family members") whereby Koç Holding exercises control over the ownership interest of (but does not have the economic benefit of) the shares held by them; or (b) although not having the power to exercise more than 50% of the ownership interest, otherwise has power to exercise control over the financial and operating policies.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 3 - GROUP ACCOUNTING (Continued)**

The table below sets out all Subsidiaries included in the scope of consolidation and shows their ownership and effective interests as of 31 December 2003:

| Subsidiary | Proportion of effective interest (%) | Direct and indirect ownership interest by Koç Holding and its Subsidiaries (%) | Ownership interest shares held by Koç family members (%) | Total ownership interest (%) |
|---|---|---|---|---|
| Beldesan | 79.13 | 79.13 | 14.29 | 93.42 |
| Beldeyama | 63.30 | 79.99 | 0.01 | 80.00 |
| Birmot | 99.10 | 99.25 | 0.75 | 100.00 |
| Döktaş | 51.10 | 51.10 | 2.57 | 53.67 |
| Mako | 40.00 | 40.00 | 1.00 | 41.00 (*) |
| Otokar | 44.02 | 45.26 | - | 45.26 (*) |
| Otokoç | 99.10 | 99.25 | 0.75 | 100.00 |
| Otomotiv Lastikleri | 46.42 | 46.63 | 41.42 | 88.05 |
| Otoyol Pazarlama | 40.00 | 40.00 | 15.59 | 55.59 |
| Otoyol | 60.00 | 60.00 | 7.83 | 67.83 |
| Tekersan | 51.28 | 62.57 | 0.11 | 62.68 |
| Trakmak | 39.38 | 39.38 | 17.50 | 56.88 |
| Türk Traktör | 62.50 | 62.50 | - | 62.50 |
| Koç Allianz Hayat | 49.87 | 51.00 | - | 51.00 |
| Koç Allianz Sigorta | 43.41 | 43.41 | 3.68 | 47.09 (*) |
| Koç Finans | 64.62 | 100.00 | - | 100.00 |
| Arçelik | 39.14 | 39.14 | 13.56 | 52.70 |
| Ardutch | 39.14 | 100.00 | - | 100.00 |
| Artesis | 25.44 | 65.00 | - | 65.00 |
| Beko Deutschland | 39.14 | 100.00 | - | 100.00 |
| Beko Espana | 39.13 | 100.00 | - | 100.00 |
| Beko Elektronik | 46.47 | 67.65 | 4.64 | 72.29 |
| Fusion | 30.21 | 65.00 | - | 65.00(**) |
| Beko France | 39.12 | 99.94 | - | 99.94 |
| Beko Polska | 39.14 | 100.00 | - | 100.00 |
| Beko Ticaret | 39.00 | 64.71 | 34.29 | 99.00 |
| Beko UK | 19.57 | 100.00 | - | 100.00 |
| Bloomberg GmbH | 39.14 | 100.00 | - | 100.00 |
| Bloomberg mbH | 39.14 | 100.00 | - | 100.00 |
| Elektra AG | 39.14 | 100.00 | - | 100.00 |
| Raupach | 39.14 | 100.00 | - | 100.00 |
| Arctic | 37.12 | 94.85 | - | 94.85 |
| Sherbrook | 23.54 | 80.00 | - | 80.00 |
| TDDF | 46.10 | 46.10 | 24.57 | 70.67 |
| Demrad | 46.10 | 100.00 | - | 100.00 |
| DD Heating | 23.05 | 100.00 | - | 100.00(**) |
| Panel | 34.57 | 100.00 | - | 100.00 |
| Düzey | 31.69 | 32.27 | 60.89 | 93.16 |
| Rambutya | 26.04 | 51.00 | - | 51.00 |
| Migros | 51.06 | 51.06 | 0.02 | 51.08(***) |
| Ramstore Bulgaria | 51.06 | 100.00 | - | 100.00 |
| Ramstore Azerbaycan | 40.72 | 79.75 | - | 79.75 |
| Tat Konserve | 47.54 | 52.87 | 9.08 | 61.95 |
| Tat Tohumculuk | 17.26 | 33.00 | 3.00 | 36.00 (*) |
| Aygaz | 40.68 | 40.68 | 10.50 | 51.18 |
| Opet Aygaz Bulgaria | 29.78 | 100.00 | - | 100.00(**) |
| Opet Aygaz BV | 29.78 | 100.00 | - | 100.00(**) |
| Bursa Gaz | 65.78 | 87.74 | 10.63 | 98.37 |
| Entek | 26.64 | 64.22 | - | 64.22 |
| Mogaz | 38.33 | 88.03 | 0.94 | 88.97 |
| Ayvalık Marina | 49.13 | 96.00 | 4.00 | 100.00 |
| Bilkom | 82.28 | 99.94 | 0.06 | 100.00 |
| Bozkurt | 73.92 | 83.89 | 16.11 | 100.00 |
| İzocam | 20.36 | 20.36 | 42.21 | 62.57 |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 3 - GROUP ACCOUNTING (Continued)**

| Subsidiary | Proportion of effective interest (%) | Direct and indirect ownership interest by Koç Holding and its Subsidiaries (%) | Ownership interest shares held by Koç family members (%) | Total ownership interest (%) |
|---|---|---|---|---|
| Kav Danışmanlık | 18.98 | 18.98 | 30.64 | 49.62 (*) |
| Koçnet | 86.06 | 100.00 | - | 100.00 |
| Koç Sistem | 41.14 | 41.14 | 50.94 | 92.08 |
| Koçtaş | 33.79 | 43.18 | 46.34 | 89.52 |
| Mares | 38.35 | 38.35 | 36.10 | 74.45 |
| Ram Dış Ticaret | 42.63 | 83.44 | 14.66 | 98.10 |
| Ram Pacific | 36.07 | 84.62 | - | 84.62 |
| RMK Marine | 47.77 | 66.90 | 33.10 | 100.00 |
| Setoto-Avis | 36.57 | 100.00 | - | 100.00 |
| Setur | 47.14 | 81.07 | 18.67 | 99.74 |
| Tek-Art Marina | 27.43 | 29.26 | 67.26 | 96.52 |
| Tek-iz | 7.92 | 18.33 | 34.67 | 53.00 |
| Talya Tütaş | 45.57 | 45.57 | 30.12 | 75.69 |

(*) The ownership interest in these subsidiaries is less than 50%; however, Koç Holding has power to exercise control over financial and operating policies of these companies.

(**) These subsidiaries were established in 2003 and have been included in the scope of consolidation at 31 December 2003.

(***) The Group has increased its share in Migros to 51.06% (2002: 0.25%) through acquiring 50.81% of the Migros shares from its shareholder Temel Ticaret ve Yatırım A.Ş. (Note 31).

Tunusdan S.A. was sold in 2003 and has been excluded from the scope of consolidation at the date that control ceases.

The balance sheets and statements of income of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by Koç Holding and its Subsidiaries is eliminated against the related shareholders' equity. Intercompany transactions and balances between Koç Holding and its Subsidiaries are eliminated during the consolidation. The cost of, and the dividends arising from, shares held by Koç Holding in its Subsidiaries are eliminated from shareholders' equity and income for the year, respectively.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Where necessary, accounting policies for Subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

c) Joint Ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by Koç Holding and one or more other parties. Koç Holding exercises such joint control through the power to exercise voting rights relating to shares in the companies as a result of ownership interest directly and indirectly by itself and/or as a result of written agreements by certain Koç family members and companies, whereby Koç Holding exercises control over the voting rights of (but does not have the economic benefit of) the shares held by them. The Group's interest in Joint Ventures is accounted for by way of proportionate consolidation. According to this method the Group includes its share of the assets, liabilities, income and expenses of each joint venture in the relevant components of the financial statements.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 3 - GROUP ACCOUNTING (Continued)**

The table below sets out the Joint Ventures and shows their shareholding structure at 31 December 2003:

| Joint ventures | Proportion of effective interest (%) | Direct and indirect ownership interest by Koç Holding and its Subsidiaries (%) | Ownership interest shares held by Koç family members (%) | Total ownership interest (%) |
|---|---|---|---|---|
| Ford Otosan | 38.01 | 38.46 | 0.67 | 39.13 |
| Tofaş | 37.59 | 37.59 | 0.27 | 37.86 |
| Fiat Finans | 37.59 | 37.59 | 0.27 | 37.86 |
| Koç Finansal Hizmetler | 30.56 | 40.58 | 9.42 | 50.00 |
| Koçbank | 30.41 | 50.00 | - | 50.00 |
| Koçbank Azerbaycan | 24.45 | 50.00 | - | 50.00 |
| Koç Faktoring | 30.54 | 50.00 | - | 50.00 |
| Koç Lease | 30.64 | 50.00 | - | 50.00 |
| Koçbank Nederland | 30.56 | 50.00 | - | 50.00 |
| KAM Swiss | 30.56 | 50.00 | - | 50.00 |
| Stiching Custody | 30.56 | 50.00 | - | 50.00 |
| Koç Portföy | 30.50 | 50.00 | - | 50.00 |
| Koç Menkul | 30.52 | 50.00 | - | 50.00 |
| Arçelik LG Klima | 22.61 | 50.00 | - | 50.00 |
| Ramenka | 25.53 | 50.00 | - | 50.00 |
| BOS | 20.90 | 50.00 | - | 50.00 |
| Opet | 18.87 | 45.33 | 4.67 | 50.00 |
| Opet Dış Ticaret | 18.87 | 50.00 | - | 50.00 |
| Opet Gıda | 18.87 | 50.00 | - | 50.00 |
| Opet International | 18.87 | 50.00 | - | 50.00(*) |
| Opet Trade BV | 18.87 | 50.00 | - | 50.00(*) |
| Opet Trade Ireland | 18.87 | 50.00 | - | 50.00 |
| Rom | 18.87 | 50.00 | - | 50.00 |
| TBS | 9.44 | 25.00 | - | 25.00 |
| Garanti Balfour | 23.52 | 33.05 | 16.12 | 49.17 |
| Koçtaş Yapı Market | 33.79 | 49.89 | 0.11 | 50.00 |
| Kofisa Trading | 50.00 | 50.00 | - | 50.00 |
| TNT | 46.13 | 49.00 | 1.00 | 50.00 |
| Ultra Kablo | 26.72 | 50.00 | - | 50.00 |

(*) These Joint Ventures were established during 2003 and have been included in the scope of consolidation at 31 December 2003.

d) Available-for-sale investments, in which the Group, together with Koç family members, have a significant influence with 20% or more, are considered as investment in the associated undertaking and are accounted under the equity method based on the financial statements restated to the equivalent purchasing power at 31 December 2003. In the equity method, the portion of the minority interest of the profit and loss of the investment is presented in the consolidated statement of income. The Group's interest in the associates is carried in the balance sheet at an amount that reflects its share of the net assets of the associates. Provisions are recorded for long-term impairment in value (Note 7).

   Takosan Otomobil Göstergeleri Sanayii ve Ticaret A.Ş. ("Takosan") is accounted by using the equity method for the years ending 31 December 2003 and 2002 (Note 14).

e) Available-for-sale investments, in which the Group, together with Koç family members, have ownership interests below 20%, or over which the Group do not exercise a significant influence or which are immaterial and that do not have quoted market prices in active markets and whose fair values cannot be reliably measured, are carried at cost, and restated to the equivalent purchasing power at 31 December 2003, less any provision for diminution in value (Note 7).

   Available-for-sale investments, in which the Group, together with Koç family members, have ownership interests below 20%, or over which the Group do not exercise a significant influence and that have quoted market prices in active markets and whose fair values can be reliably measured, are carried at fair value in the consolidated financial statements.

**NOTE 3 - GROUP ACCOUNTING (Continued)**

f) The results of the foreign Subsidiaries and Joint Ventures are translated into TL at the average exchange rate for the year and then restated from the date of the transaction. The assets and liabilities of foreign undertakings of the Group are translated into TL at the closing rate for the year. Exchange differences arising on retranslation of the opening net assets of foreign Subsidiaries and Joint Ventures and differences between the average and year-end rates are included in translation reserves.

g) The minority shareholders' share in the net assets and operating results for the year for Subsidiaries are separately classified in the consolidated balance sheets and statements of income as "minority interest". Certain Koç family members and companies controlled by them have interests in the share capital of certain Subsidiaries. In the consolidated financial statements their interests are treated as minority interest and are not included in the Group's net assets and profits attributable to shareholders of Koç Holding A.Ş..

h) All balances and transactions of/with the Joint Ventures in the notes to the consolidated financial statements are presented with the effective interest rates of such Joint Ventures.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Where necessary, accounting policies for Subsidiaries and Joint Ventures have been changed to ensure consistency with the policies adopted by the Group. The significant accounting policies, other than Group accounting which is described in Note 3, followed in the preparation of these consolidated financial statements are summarised below:

**a) Related parties**

For the purpose of these consolidated financial statements, shareholders, key management personnel and Board members, in each case together with their families and themselves and Subsidiaries excluded from the scope of consolidation are considered and expressed as "related parties". A number of transactions are entered into with related parties in the normal course of business. These transactions are priced predominantly at market rates (Note 11).

**b) Investments**

The Group classifies its investments in debt and equity securities as trading, held-to-maturity and available-for-sale.

*"Trading investments"* are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit making exists. Trading securities are initially recognised at cost and subsequently re-measured at fair value based on quoted bid prices trading securities for which or fair values cannot be measured reliably based on prices announced by the CBRT in the Official Gazette. All related realised and unrealised gains and losses are included in operating profit for the Joint Ventures in the banking sector and in financial income for companies in other sectors.

Debt securities with fixed maturity, where management have both the intent and the ability to hold to the maturity excluding the financial assets classified as originated loans and advances to customers classified as *"held-to-maturity investments"*.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as *"available-for-sale"*. These are included in non-current assets unless management has the intention of holding these investments for less than 12 months from the balance sheet date, or unless they will need to be sold to raise operating capital, in which case they are included in current assets. The appropriate classification of investments is determined at the time of the purchase and re-evaluated by management on a regular basis.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading investments and available-for-sale investments that have quoted market prices in active markets and whose fair values can be reliably measured are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Available-for-sale investments that do not have quoted prices in active markets are initially recognised at cost and subsequently remeasured at transaction/companies prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power at 31 December 2003.

Available-for-sale investments, in which the Group has attributable interests of 20% or less or Subsidiaries which are either immaterial, or where a significant influence is not exercised by Koç Holding, are carried at cost less provision for diminution in value and restated to equivalent purchasing power at 31 December 2003.

Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

**c) Repurchase and resale transactions**

Securities sold subject to linked repurchase agreements ("repo") are retained in the consolidated financial statements as held-to-maturity or available-for-sale investments and the counter party liability is included in customer deposits. The portion for the current year of the difference between sale and repurchase price of these agreements is treated as interest expense and accrued over the life of the repurchase agreement.

Securities purchased under agreements to resell ("reverse repurchase agreements") are recorded as loans to banks in the consolidated financial statements. The difference between the purchase and resale price of these repurchase agreements is treated as interest income and accrued over the life of the reverse repurchase agreement.

**d) Trade receivables and provision for doubtful receivables**

Trade receivables that are created by the Group by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables, net of unearned financial income, are measured at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount. The recoverable amount is the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to other income.

**e) Loans and advances to customers originated by the Group and provisions for loan impairment**

Loans originated by the Group by providing money directly to the borrower are categorised as loans originated by the Group and are carried at amortised cost, less any provision for loan losses.

*i) Loans and advances to customers*

All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all the amounts due. The amount of the provision for impaired loans and loans under legal follow-up are the difference between the carrying amount and the recoverable amount. The recoverable amount being the net present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The provision for loan also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the internal credit risk rating of the borrowers and current economic climate in which the borrowers operate. The level of provision is also in line with the applicable Banking Legislation.

The movement in provision is charged against the income for the year. When a loan is deemed uncollectible, it is written off against the related provision for impairment. The loan is written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Subsequent recoveries are credited to the income statement if previously written off. Provisions are reversed, in part or as a whole, if the reason that originated them ceases to exist.

*ii) Debt securities*

Debt securities issued by the Undersecretariat of Treasury of the Prime Ministry of the Republic of Turkey and originated by the Group at original issuance by transferring the funds directly to the borrower are categorised as loans originated by the Group and are carried at amortised cost using the effective yield method less any provision for impairment.

**f) Factoring receivables / Factoring fees and commissions**

Receivables from factoring are recorded net of provisions and are carried at amortised cost. The level of the provision is based on management's evaluation of the portfolio including such factors as the volume and character of receivables, past pattern of losses and general economic conditions. The movement in provision made during the year is charged against the income for the year. Receivables that cannot be recovered are written off and charged against the provision for losses. These receivables are written off after all the necessary legal proceedings have been completed and amount of the loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction of the charge for provision for factoring receivables for the year.

**g) Credit finance income/charges**

Credit finance income / charges represent imputed finance charges on credit sales and purchases. Such income and charges are recognised on a straight-line basis over the period of credit sales and purchases, and included under financial income and expenses (Note 27).

**h) Inventories**

Inventories are valued at the lower of cost, restated to equivalent purchasing power at 31 December 2003 or net realizable value. Cost elements included in inventories are materials, labor and an appropriate amount of factory overheads (based on normal operating capacities). The cost of inventories is determined by the moving average, whereas the merchandise stocks is determined by the weighted average and the lubricants inventory is determined by the first-in first-out ("FIFO") method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses (Note 12).

**i) Investment property**

Land and buildings that are held in the production or supply of goods or services or for administrative purposes or for long-term rental yields or for capital appreciation or both rather than for the sale in the ordinary course of business are classified as "investment property". Investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses restated to the equivalent purchasing power at 31 December 2003. Investment properties (except for land) are depreciated with the straight-line depreciation method over their useful lives (Note 17).

Investment properties are reviewed for impairment losses and where the carrying amount of the investment property, is greater than the estimated recoverable amount, it is written down to its recoverable amount. Recoverable amount of the investment property is the higher of asset net selling price or value in use.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Property, plant and equipment and related depreciation**

Property, plant and equipment are carried at cost less accumulated depreciation in each case restated to equivalent purchasing power at 31 December 2003. Depreciation is provided on the restated amounts for property, plant and equipment on a straight-line basis. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

| | |
|---|---|
| Buildings | 6-50 years |
| Land improvements | 4-50 years |
| Machinery and equipment | 4-20 years |
| Furniture and fixtures | 4-20 years |
| Motor vehicles | 4-10 years |
| Leasehold improvements | Shorter of lease period or useful lives |
| Other fixed assets | 5-10 years |

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of asset net selling price or value in use. Recoverable amount of the investment property is the higher of asset net selling price or value in use.

Repairs and maintenance are charged to the statements of income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related assets.

Machinery and equipments are capitalised and amortised when their capacity is fully available for use and their physical situations meet the determined production capacities.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with their restated carrying amounts and are included in the related income and expense accounts, as appropriate (Note 15).

**k) Leases**

***(1) The Group as the lessee***

*Finance leases*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other current/non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

*Operating leases*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***(2) The Group as the lessor***

*Finance leases*

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

*Operating leases*

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

**l) Intangible assets including amortization**

Intangible assets comprise of expenditures to acquire usage rights, information systems, research and development costs and other identified rights. They are recorded at acquisition cost and restated to the purchasing power at 31 December 2003 and amortised on a straight-line basis over their estimated useful lives for a period not exceeding 10 years from the date of acquisition. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount (Note 16).

**m) Goodwill including amortization**

Goodwill arising on consolidation, which represents the difference between the acquisition price and the attributable share of Koç Holding and its Subsidiaries and Joint Ventures in the fair value of the underlying net assets of the company acquired, is capitalised and amortised. Goodwill is amortised using the straight-line method over its estimated useful life, generally 5 to 20 years, and is included in intangible assets. The carrying value of goodwill is reviewed annually and adjusted for permanent impairment where it is considered necessary (Notes 16 and 31). The negative goodwill amount that does not exceed the market price of the identifiable non-monetary assets purchased is netted off from the related identifiable amortization or recorded as income on a straight-line basis over their remaining estimated useful lives.

**n) Deferred income taxes**

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Currently enacted tax rates are used to determine deferred income tax. When different tax rates apply to different levels of taxable income, an average tax rate is used for measuring deferred tax liabilities and assets (Note 23).

The principal temporary differences arise from the restatement of property, plant and equipment and inventory over their tax bases, unused tax credits, provision for employment termination benefits and carry forward tax losses.

Deferred tax liabilities are recognised for all taxable temporary differences, whereas deferred tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority are offset accordingly.

## NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### o) Employment termination benefits

Reserve of employment termination benefits, as required by Turkish Labour Law, is recognised in these financial statements as they are earned. The total provision represents the present value of the future probable obligation of the Group arising from the retirement of its employees (Note 24).

### p) Foreign currency transactions and translation reserve

Transactions in foreign currencies have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from settlement and translation of foreign currency items have been included in the consolidated statement of income as net sales in companies operating in the finance sector and as financial income in other sectors.

### r) Provisions

Provisions are recognised when the Group, as of the balance sheet date, has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

### s) Revenue recognition

**Finance**

Banking

Interest income and expenses are recognised in the income statement on an accrual basis. When loans and advances to customers are considered doubtful of collection by management, they are written down to their recoverable amount, and interest income is thereafter recognised based in the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Interest income includes coupons earned on fixed income investment securities and amortised discount and premium on treasury bills and government bonds.

Fee and commission income and expense on banking services are recorded as income or expense at the time of effecting the transactions to which they relate.

Insurance

*Life insurance:*

Premium income represents premiums on policies written during the year, net of cancellations for the life, health and personal accident branches.

*Non-life insurance:*

Premium income represents premiums on policies written during the year, net of cancellations.

Other Segments

Revenues are recognised on an accrual basis at the time deliveries or acceptances are made, at the invoiced values for Group companies operating in the automotive, consumer durables, food and retailing, energy and other segments. Net sales represent the invoiced value of goods shipped less sales returns and commission and excluding sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as financial income (Note 27).

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**t) Recognition of revenue and costs relating to construction contracts**

Revenue and costs associated with construction contracts are recognised as revenue and expenses respectively by reference to the *"stage of completion"* of the contract activity at the balance sheet date when the outcome of the contract is estimated reliably. Any expected loss on the construction contract is recognised as an expense immediately.

Revenue from construction contracts is recognised on the percentage of completion method measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

**u) Insurance reserves**

Life mathematical reserves

Mathematical reserves are the difference between the net present values of premiums written in return of the risk covered by the Company and the liabilities to policyholders. In policies where the accumulation premium is written additionally, life insurance provision is the sum of the remainder of collected premiums and accumulated life insurance provision. Mathematical reserves are computed on the basis of actuarial mortality assumptions as approved by the Treasury Department, which are applicable for Turkish Insurance Companies.

Claims and claim provisions

Non-life insurance claims are recorded in the period in which they occur, based on reported claims or on the basis of estimates when not reported. Differences between estimates at the end of successive accounting periods are recognised in claims expenses for the periods in which these differences are identified.

Outstanding claim provision is booked for all claims that are incurred but not paid as of year-end. Full provision is made for outstanding claims, including claim settlements, reported at the year-end. Incurred but not reported ("IBNR") claims are included under claim provisions.

Unearned premium reserves

Unearned premiums set aside to provide for the period of risk extending beyond the date of the balance sheets, are determined from premiums written during the period, less reinsurance, on the basis that premiums are written over the year for the life branch.

**v) Share capital and dividends**

Ordinary shares are classified as equity. Pro-rata capital increases to existing shareholders are accounted for at par value as approved. Dividends distributed on ordinary shares are recognised in equity in the period in which they are declared.

**y) Research and development costs**

Research and development costs are recognised and expensed in the statement of income in the period in which they are incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably (Note 16). Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over five years.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**z) Licence fees**

Licence fees paid to Joint Venture partners for certain products are recognised in accordance with the substance of the agreement and expensed over the useful life of the agreement, which is estimated by management to be five years.

**aa) Warranties**

Warranty costs are recorded at amounts estimated by management based on the relevant past experience on the level of repairs and returns.

**ab) Government grants**

Turkish Government investment grants in the form of Resource Utilisation Support Premium ("RUSP") are accounted for on an accrual basis for estimated amounts are expected to realise under grant claims filed by the Group. These grants are accounted for as deferred income in the balance sheet and amortised over the depreciation period of the relevant assets on a straight-line basis.

**ac) Borrowing costs**

Borrowing costs are charged to the statement of income as they are incurred and recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ad) Reporting of cash flows

Cash and cash equivalents are carried in the balance sheet at amortised cost (Note 6).

Analysis of cash and cash equivalents included in the consolidated statements of cash flows for the years ended 31 December is as follows:

| | 2003 | 2002 |
|---|---|---|
| **Changes in reserves and provisions:** | | |
| Changes in deferred taxes | (157,057) | (167,002) |
| Changes in provision for diminution in value for unlisted entities | 21,384 | 23,621 |
| Changes in provision for doubtful receivables | (21,242) | 48,255 |
| Changes in provision for loan losses | 26,205 | 29,102 |
| Changes in warranty provision | 69,528 | (17,099) |
| Changes in provision for employment termination benefits | 11,013 | 14,133 |
| Changes in insurance reserves | 78,868 | 20,105 |
| Changes in impairment for inventories | 11,122 | 10,852 |
| | **39,821** | **(38,033)** |
| **Add back net interest income:** | | |
| Non-banking interest income | (696,520) | (517,663) |
| Banking interest income | (758,479) | (1,652,983) |
| Non-banking interest expenses | 550,542 | 494,036 |
| Banking interest expenses | 426,929 | 1,172,880 |
| | **(477,528)** | **(503,730)** |
| **Net changes in the operating assets and liabilities:** | | |
| *Changes in operating assets and liabilities:* | | |
| Inventories | (257,177) | (148,730) |
| Trade receivables | (248,189) | (345,676) |
| Other current assets | 80,947 | 553,395 |
| Trade payables | 126,538 | 211,593 |
| Other current liabilities | (19,792) | 67,015 |
| Balances with related parties, net | 30,911 | 143,934 |
| Investments | (564,181) | (1,104,270) |
| | **(850,943)** | **(622,739)** |
| *Changes in finance segment current assets and liabilities:* | | |
| Cash and cash equivalents with original maturities of more than 3 months | 1,972 | (59,788) |
| Reserve deposits with the Central Bank | 31,149 | 16,358 |
| Loans and advances to customers, short-term | 193,047 | (1,170,077) |
| Loans and advances to customers, long-term | (219,107) | 468,636 |
| Customer deposits | (80,258) | 58,345 |
| | (73,197) | (686,526) |
| | **(924,140)** | **(1,309,265)** |
| **Changes in other non-current asset and liabilities:** | | |
| Changes in other non-current assets | 37,502 | 101,676 |
| Changes in other non-current liabilities | (7,162) | 19,848 |
| | **30,340** | **121,524** |

## NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ae)Accounting for derivative financial instruments, embedded derivatives and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. The derivative instruments of the Group mainly consist of foreign exchange forward contracts and currency swap instruments. These derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, "Financial Instruments: Recognition and Measurement", and are therefore treated as derivatives held for trading.

In addition, on the date a derivative contract is entered into, the Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability ("fair value hedge"), or (2) a hedge of a forecasted transaction or of a firm commitment ("cash flow hedge").

Changes in the fair value of derivatives that are designated as being and qualify as cash flow hedges and that are highly effective, are recognised in equity as "cumulative loss on hedging". Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously booked under equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts booked under equity are transferred to the statement of income and classified as revenue or expense in period in which the hedged firm commitment or forecasted transaction affects the statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the statement of income. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

### af) Financial instruments and financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by individual Subsidiaries and Joint Ventures under policies, which are approved by their own Board of Directors.

***Interest rate risk***

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial instruments. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

***Funding risk***

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

***Credit risk***

*Advances and loans given to customers*

Holding the financial instruments can be defined as carrying in the likelihood that the counterparty cannot meet the obligations of the agreement. These risks are monitored by credit ratings and by limiting the aggregate risk to any individual counterparty. It is expected to diversify this risk through funding many companies operating in different sectors.

**NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Trade receivables*

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers who are nationally and internationally dispersed, in the manufacturing and distribution sector and have a variety of end markets in which they sell. The Group's historical experience in collection of account receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

***Foreign currency risk***

The Group is exposed to foreign currency risk through the impact of rate changes on the translation of foreign currency assets and liabilities to local currency. These risks are monitored by management and limited by analysis of the foreign currency position through obtaining positions within the approved limits.

***Fair value of financial instruments***

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group, using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following methods and assumptions are used in the estimation of the fair value of the financial instruments for which it is practicable to estimate fair value:

*Monetary assets*

The fair values of balances denominated in foreign currencies, which are translated at year-end exchange rates, are considered to approximate carrying value.

The fair values of certain financial assets carried at cost, including cash and cash equivalents and marketable securities plus the respective accrued interest are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The fair values of loans and advances to customers are also considered to approximate carrying values and the fair value of the loan portfolio is estimated by assessing the risk components of the portfolio.

The carrying values of trade receivables along with the related allowances for uncollectability are estimated to be their fair values.

The fair values of marketable securities, which have been determined by reference to market value, approximate carrying values.

*Monetary liabilities*

The fair values of customer deposits, funds borrowed and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Trading liabilities, derivatives and foreign exchange instruments have been estimated at their fair values.

Long-term borrowings, which are denominated in foreign currencies at variable rates are translated at year-end exchange rates and accordingly their fair values approximate their carrying values. The carrying values of long-term borrowings in TL along with the related accrued interest are estimated to be their fair values.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ag) Earnings per share

Earnings per share disclosed in the consolidated statement of income are determined by dividing net income by the weighted average number of shares outstanding during the year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings and revaluation surplus (Note 15). For the purpose of earnings per share computations, the weighted average number of shares in existence during the year has been adjusted in respect of bonus share issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year as if the event had occurred at the beginning of the earliest period reported. Bonus shares issued during the year were as follows:

| | Number of shares | | |
|---|---|---|---|
| **Year** | **Retained earnings** | **Revaluation surplus** | **Total** |
| **31 December 2003** | **24,000,658,000** | **531,625,532,000** | **555,626,190,000** |
| 31 December 2002 | 20,078,858,000 | 81,499,146,000 | 101,578,004,000 |

There is no difference between basic and diluted earnings per share for any class of shares for any of these years.

### ah) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### ai) Legal mergers

Legal mergers represent transactions between subsidiaries of the Group and are not dealt with in accordance with IAS 22 "Business Combinations". Consequently, there is no recognition of any new goodwill or negative goodwill. Similarly, the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in preparing the consolidated financial statements (Note 32).

### aj) Comparatives

Where necessary, comparative figures are reclassified to conform to changes in presentation in the current year so that the reclassification will result in a more appropriate presentation of events or transactions.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 5 - SEGMENT INFORMATION

### a) External revenues

| | 2003 | 2002 |
|---|---|---|
| Automotive | 3,739,582 | 2,293,591 |
| Consumer durable | 3,848,593 | 2,533,110 |
| Food and retailing | 2,231,122 | 2,052,591 |
| Finance | 1,388,953 | 2,313,047 |
| Energy | 3,201,551 | 1,740,680 |
| Other | 1,093,877 | 1,950,973 |
| | **15,503,678** | **12,883,992** |

### b) Operating profit/(loss)

| | 2003 | 2002 |
|---|---|---|
| Automotive | 221,197 | (84,352) |
| Consumer durable | 353,752 | 243,984 |
| Food and retailing | 45,592 | 59,152 |
| Finance | 169,379 | 187,659 |
| Energy | 108,191 | 120,578 |
| Other | (65,499) | (72,064) |
| | **832,612** | **454,957** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

### NOTE 5 - SEGMENT INFORMATION (Continued)

**a) Segmental analysis for the year ended 31 December 2003**

| | | | | Finance | | | | | | | Inter segment profit | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Automotive | Consumer Durables | Food and retail | Banking | Insurance | Consumer Finance | Intra segment | Total Finance | Energy | Other | elimination | Total |
| External revenues | 3,739,582 | 3,848,593 | 2,231,122 | 736,477 | 610,768 | 41,708 | - | 1,388,953 | 3,201,551 | 1,093,877 | - | 15,503,678 |
| Intra segment revenues | 842,069 | 548,887 | 282,021 | 22,002 | 9,831 | 6,662 | - | 38,495 | 136,163 | 43,015 | - | 1,890,650 |
| Inter segment revenues | 79,836 | 558,604 | 3,897 | 19,227 | 35,750 | 3 | - | 54,980 | 92,278 | 742,238 | - | 1,531,833 |
| **Combined revenues** | **4,661,487** | **4,956,084** | **2,517,040** | **777,706** | **656,349** | **48,373** | **-** | **1,482,428** | **3,429,992** | **1,879,130** | **-** | **18,926,161** |
| External revenues | 3,739,582 | 3,848,593 | 2,231,122 | 736,477 | 610,768 | 41,708 | - | 1,388,953 | 3,201,551 | 1,093,877 | - | 15,503,678 |
| Inter segment revenues | 79,836 | 558,604 | 3,897 | 19,227 | 35,750 | 3 | - | 54,980 | 92,278 | 742,238 | (1,531,833) | - |
| **Revenues** | **3,819,418** | **4,407,197** | **2,235,019** | **755,704** | **646,518** | **41,711** | **-** | **1,443,933** | **3,293,829** | **1,836,115** | **(1,531,833)** | **15,503,678** |
| **Cost of sales** | **(3,278,564)** | **(3,271,562)** | **(1,775,701)** | **(426,929)** | **(572,457)** | **(21,081)** | **37,978** | **(982,489)** | **(3,016,071)** | **(1,609,887)** | **1,445,791** | **(12,488,483)** |
| **Gross Profit** | **540,854** | **1,135,635** | **459,318** | **328,775** | **74,061** | **20,630** | **37,978** | **461,444** | **277,758** | **226,228** | **(86,042)** | **3,015,195** |
| Administrative expenses | (167,417) | (326,368) | (325,288) | (178,072) | (68,238) | (22,859) | - | (269,169) | (124,292) | (201,498) | 103,327 | (1,310,705) |
| Selling & marketing expenses | (167,834) | (417,864) | (110,705) | - | - | - | - | - | (65,441) | (48,860) | - | (810,704) |
| Research & development expenses | (15,286) | (44,888) | (48) | - | - | - | - | - | (952) | - | - | (61,174) |
| | 190,317 | 346,515 | 23,277 | - | - | - | - | 192,275 | 87,073 | (24,130) | 17,285 | 832,612 |
| Inter segment profit elimination | 30,880 | 7,237 | 22,315 | - | - | - | - | (22,896) | 21,118 | (41,369) | (17,285) | - |
| **Operating profit/(loss)** | **221,197** | **353,752** | **45,592** | **-** | **-** | **-** | **-** | **169,379** | **108,191** | **(65,499)** | **-** | **832,612** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

### NOTE 5 - SEGMENT INFORMATION (Continued)

**b) Segmental analysis for the year ended 31 December 2002**

| | | | | Finance | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Automotive | Consumer Durables | Food and retail | Banking | Insurance | Consumer Finance | Intra segment | Total Finance | Energy | Other | Inter segment profit elimination | Consolidated Total |
| External revenues | 2,293,591 | 2,533,110 | 2,052,591 | 1,605,727 | 638,625 | 68,695 | - | 2,313,047 | 1,740,680 | 1,950,973 | - | 12,883,992 |
| Intra segment revenues | 472,885 | 314,848 | 235,519 | 47,256 | 7,354 | 10,307 | - | 64,917 | 161,924 | 55,210 | - | 1,305,303 |
| Inter segment revenues | 126,117 | 1,574,906 | 18,046 | 16,786 | 33,011 | 3,899 | - | 53,696 | 101,147 | 886,460 | - | 2,760,372 |
| **Combined revenues** | **2,892,593** | **4,422,864** | **2,306,156** | **1,669,769** | **678,990** | **82,901** | **-** | **2,431,660** | **2,003,751** | **2,892,643** | **-** | **16,949,667** |
| External revenues | 2,293,591 | 2,533,110 | 2,052,591 | 1,605,727 | 638,625 | 68,695 | - | 2,313,047 | 1,740,680 | 1,950,973 | - | 12,883,992 |
| Inter segment revenues | 126,117 | 1,574,906 | 18,046 | 16,786 | 33,011 | 3,899 | - | 53,696 | 101,147 | 886,460 | (2,760,372) | - |
| **Revenues** | **2,419,708** | **4,108,016** | **2,070,637** | **1,622,513** | **671,636** | **72,594** | **-** | **2,366,743** | **1,841,827** | **2,837,433** | **(2,760,372)** | **12,883,992** |
| **Cost of sales** | **(2,199,903)** | **(3,133,221)** | **(1,613,346)** | **(1,172,880)** | **(590,641)** | **(63,746)** | **71,337** | **(1,755,930)** | **(1,592,307)** | **(2,578,483)** | **2,710,054** | **(10,163,136)** |
| **Gross Profit** | **219,805** | **974,795** | **457,291** | **449,633** | **80,995** | **8,848** | **71,337** | **610,813** | **249,520** | **258,950** | **(50,318)** | **2,720,856** |
| Administrative expenses | (172,863) | (291,203) | (317,041) | (360,878) | (61,595) | (27,827) | - | (450,300) | (65,809) | (210,171) | 103,308 | (1,404,079) |
| Selling & marketing expenses | (143,069) | (399,928) | (99,001) | - | - | - | - | - | (76,508) | (85,031) | - | (803,537) |
| Research & development expenses | (12,292) | (45,970) | (11) | - | - | - | - | - | - | (10) | - | (58,283) |
| | (108,419) | 237,694 | 41,238 | - | - | - | - | 160,513 | 107,203 | (36,262) | 52,990 | 454,957 |
| Inter segment profit elimination | 24,067 | 6,290 | 17,914 | - | - | - | - | 27,146 | 13,375 | (35,802) | (52,990) | - |
| **Operating profit/(loss)** | **(84,352)** | **243,984** | **59,152** | **-** | **-** | **-** | **-** | **187,659** | **120,578** | **(72,064)** | **-** | **454,957** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 5 - SEGMENT INFORMATION (Continued)

### d) Segment assets employed

| | 2003 | 2002 |
|---|---|---|
| Total assets | | |
| Automotive | 2,918,149 | 2,505,426 |
| Consumer durable | 3,892,877 | 3,617,639 |
| Food and retailing | 1,675,218 | 1,512,157 |
| Finance | 6,328,054 | 6,059,499 |
| Energy | 1,563,725 | 1,559,677 |
| Other | 4,532,688 | 4,132,630 |
| Total | 20,910,711 | 19,387,028 |
| Less: inter segment elimination | (6,364,576) | (5,716,588) |
| **Total assets as per consolidated financial statements** | **14,546,135** | **13,670,440** |
| Net assets | | |
| Automotive | 1,370,921 | 1,157,309 |
| Consumer durable | 1,836,128 | 1,738,508 |
| Food and retailing | 835,143 | 793,611 |
| Finance | 1,407,607 | 1,224,714 |
| Energy | 1,044,962 | 853,233 |
| Other | 3,634,759 | 3,123,504 |
| Total | 10,129,520 | 8,890,879 |
| Less: inter segment elimination | (6,884,585) | (6,446,780) |
| **Shareholders' equity** | **3,244,935** | **2,444,099** |
| **Minority interest** | **2,196,064** | **2,155,181** |
| **Total net assets as per consolidated financial statements** | **5,440,999** | **4,599,280** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 5 - SEGMENT INFORMATION (Continued)**

**e) Capital expenditures, depreciation and amortization**

| | 2003 | 2002 |
|---|---|---|
| Capital expenditures | | |
| Automotive | 326,632 | 341,521 |
| Consumer durable | 227,162 | 230,548 |
| Food and retailing | 124,552 | 216,010 |
| Finance | 19,981 | 41,327 |
| Energy | 154,315 | 104,031 |
| Other | 24,266 | 88,140 |
| | **876,908** | **1,021,577** |
| Depreciation and amortization | | |
| Automotive | 306,353 | 224,492 |
| Consumer durable | 214,685 | 196,788 |
| Food and retailing | 72,083 | 77,700 |
| Finance | 49,773 | 51,614 |
| Energy | 94,523 | 102,524 |
| Other | 34,418 | 55,105 |
| | **771,835** | **708,223** |

**f) Minority interest**

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Koç family members** | **Other** | **Total** | **Koç family members** | **Other** | **Total** |
| Automotive | 174,545 | 254,047 | 428,592 | 186,162 | 257,266 | 443,428 |
| Consumer durable | 267,136 | 436,422 | 703,558 | 279,430 | 402,074 | 681,504 |
| Food and retailing | 207,927 | 204,922 | 412,849 | 214,645 | 194,766 | 409,411 |
| Finance | 36,962 | 14,930 | 51,892 | 35,968 | 10,945 | 46,913 |
| Energy | 68,748 | 214,934 | 283,682 | 73,421 | 206,185 | 279,606 |
| Other | 160,990 | 154,501 | 315,491 | 160,116 | 134,203 | 294,319 |
| | **916,308** | **1,279,756** | **2,196,064** | **949,742** | **1,205,439** | **2,155,181** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 6 - CASH AND CASH EQUIVALENTS

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other** | **Total** | **Banking** | **Other** | **Total** |
| Cash in hand | 34,085 | 98,322 | 132,407 | 38,727 | 36,049 | 74,776 |
| Cheques received | 822 | 36,784 | 37,606 | 458 | 73,578 | 74,036 |
| Balances with the Central Banks other than reserve requirements | 2,594 | - | 2,594 | 15,624 | - | 15,624 |
| Bank | | | | | | |
| - Demand deposits | 78,050 | 283,045 | 361,095 | 86,765 | 191,853 | 278,618 |
| - Time deposits | 509,878 | 412,866 | 922,744 | 642,249 | 370,398 | 1,012,647 |
| - Reverse repurchase agreements | 1,083 | 11,353 | 12,436 | 1,637 | 12,028 | 13,665 |
| Interbank money market placements | 397,149 | - | 397,149 | 338,588 | - | 338,588 |
| | **1,023,661** | **842,370** | **1,866,031** | **1,124,048** | **683,906** | **1,807,954** |

At 31 December 2003, total time deposits with maturities over one year amount to TL 27,922 billion (2002: 29,894 billion).

The interest rates of foreign currency time deposits were between 1.0% - 10.0% per annum ("p.a.") (2002: 1.3% and 11.7% p.a.). The interest rates of TL time deposits were between 18.9% - 29.0% p.a. (2002: 36.0% - 63.0% p.a.).

Reverse repurchase agreements are all short-term with periods of less than three months and the interest rates were between 16.4% - 26.0% p.a. (2002: 34.0% - 48.0% p.a.).

The interest rates of Interbank money market placements for foreign currencies were between 0.4% - 0.6% p.a. (2002: 1.3% - 3.8% p.a.) and between 26.0% - 26.1% p.a. for TL (2002: 50.0% - 55.0% p.a.).

Balances with the Central Banks other than reserve requirements represent funds deposited with the Central Bank of the Republic of Turkey, Azerbaijan and the Netherlands in an interest free demand account in the Central Bank for liquidity requirements.

## NOTE 7 - INVESTMENTS

### a) Held-for-trading investments

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other** | **Total** | **Banking** | **Other** | **Total** |
| Debt securities: | | | | | | |
| -Treasury Bills | - | 907 | 907 | - | 980 | 980 |
| -Mutual funds | - | 658 | 658 | - | - | - |
| -Other | - | 167 | 167 | - | - | - |
| **Total** | **-** | **1,732** | **1,732** | **-** | **980** | **980** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 7 - INVESTMENTS (Continued)**

Analysis of held-for-trading investments based on the remaining period at balance sheet date of 31 December to the contractual maturity date:

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other** | **Total** | **Banking** | **Other** | **Total** |
| Investment share certificates and mutual funds | - | 825 | 825 | - | - | - |
| 1-30 days | - | - | - | - | - | - |
| 30-90 days | - | - | - | - | 980 | 980 |
| 90-180 days | - | 907 | 907 | - | - | - |
| **Total** | **-** | **1,732** | **1,732** | **-** | **980** | **980** |

Interest rates of treasury bills held for trading at 31 December 2003 are between 26.0% - 27.0% p.a. (2002: 48.0% - 53.0% p.a.). There are no foreign currency denominated held-for-trading investments at 31 December 2003 and 2002.

**b) Available-for-sale investments**

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other** | **Total** | **Banking** | **Other** | **Total** |
| Debt securities: | | | | | | |
| - Treasury bills | 79,879 | 258,207 | 338,086 | 32,664 | 211,091 | 243,755 |
| - Government bonds: | | | | | | |
| - TL | 6,104 | 181,403 | 187,507 | 23,057 | 160,318 | 183,375 |
| - Foreign currency indexed | 40,565 | - | 40,565 | 7,070 | - | 7,070 |
| - Eurobonds | 2,215 | 120,585 | 122,800 | 16,849 | 90,769 | 107,618 |
| - Foreign government bonds | - | 48,417 | 48,417 | 458 | 24,381 | 24,839 |
| - Other | 10,717 | 15,243 | 25,960 | 5,286 | 15,921 | 21,207 |
| | 139,480 | 623,855 | 763,335 | 85,384 | 502,480 | 587,864 |
| Equity securities: | | | | | | |
| -Listed | - | 20,138 | 20,138 | - | 11,667 | 11,667 |
| -Unlisted | 187 | 52,000 | 52,187 | 3,989 | 61,417 | 65,406 |
| | 187 | 72,138 | 72,325 | 3,989 | 73,084 | 77,073 |
| **Total** | **139,667** | **695,993** | **835,660** | **89,373** | **575,564** | **664,937** |

There are securities of TL 77,143 billion pledged under repurchase agreements as of 31 December 2003 (2002: TL 390 billion).

Interest rates of treasury bills and government bonds held as available-for-sale at 31 December 2003 are between 25.2% and 55.0% p.a. (2002: 44.0% and 69.0% p.a.). Interest rates of foreign currency available-for-sale investments held at 31 December 2003 are between 3.8% and 13.8% p.a. (2002: 6.5% and 12.4% p.a.).

At 31 December 2003, government bonds, treasury bills and Eurobonds amounting to TL 54,741 billion (2002: TL 86,609 billion), TL 223,155 billion (2002: TL 80,490 billion) and TL 22,196 billion (2002: TL 31,652 billion), respectively represent investments that the subsidiaries in the insurance sector are required to deposit in a blocked account in favour of the Treasury and Foreign Trade Department of the Republic of Turkey, based on year-end net premiums written. As of 31 December 2003, there are no blocked foreign currency bonds and investment funds (2002: TL 11,441 billion and TL 1,274 billion, respectively).

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 7 - INVESTMENTS (Continued)**

Analysis of available-for-sale investments based on the remaining period to the contractual maturity date at 31 December is as follows:

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other** | **Total** | **Banking** | **Other** | **Total** |
| **Short-term:** | | | | | | |
| Investment share certificates and mutual funds | 10,667 | 9,564 | 20,231 | - | 378 | 378 |
| 1-30 days | 10,772 | 7,386 | 18,158 | 5,043 | 70,187 | 75,230 |
| 30-90 days | 16,101 | 61,470 | 77,571 | 23,489 | 83,649 | 107,138 |
| 90-180 days | 2,277 | 45,174 | 47,451 | 19,008 | 104,958 | 123,966 |
| 180 days-1 year | 84,136 | 286,064 | 370,200 | 15,100 | 102,007 | 117,107 |
| | 123,953 | 409,658 | 533,611 | 62,640 | 361,179 | 423,819 |
| **Long-term:** | | | | | | |
| Over 1 year | 15,527 | 214,197 | 229,724 | 22,744 | 141,301 | 164,045 |
| Equity securities | 187 | 72,138 | 72,325 | 3,989 | 73,084 | 77,073 |
| | 15,714 | 286,335 | 302,049 | 26,733 | 214,385 | 241,118 |
| | **139,667** | **695,993** | **835,660** | **89,373** | **575,564** | **664,937** |

The principal available-for-sale equity securities at 31 December are as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **TL billion** | **Shareholding (%)** | **TL billion** | **Shareholding (%)** |
| **Listed entities:** | | | | |
| Çeşme Altınyunus Turizm Tes. A.Ş. ("Çeşme Altınyunus") | 13,662 | 30.00 | 4,807 | 30.00 |
| Goodyear Tire and Rubber Company | 5,277 | 0.85 | 6,034 | 0.83 |
| Karsan Otomotiv Sanayi ve Ticaret A.Ş. ("Karsan") | 1,198 | 4.00 | 816 | 4.00 |
| Metaş İzmir Metalurji Fabrikaları A.Ş. | 1 | 0.41 | 10 | 0.41 |
| | **20,138** | | **11,667** | |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 7 - INVESTMENTS (Continued)**

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **TL billion** | **Shareholding (%)** | **TL billion** | **Shareholding (%)** |
| **Unlisted entities:** | | | | |
| Tanı Pazarlama ve İletişim A.Ş. ("Tanı Pazarlama") | 12,039 | 99.00 | 4,418 | 99.00 |
| Koç Ata Sancak Besi ve Tarım Ürünleri A.Ş. ("Koç Ata Sancak Besi") | 7,431 | 33.02 | 7,910 | 49.50 |
| British American Tobacco Export BV | 5,288 | 5.00 | 5,288 | 5.00 |
| Koç Bilgi Grubu | 4,636 | 80.00 | 622 | 80.00 |
| Hür Emlak İnş. ve Tic. A.Ş. | 3,187 | 50.00 | 3,187 | 50.00 |
| Zinerji Enerji San. ve Tic. A.Ş. (Zinerji) (*) | 2,741 | 85.00 | - | - |
| Samkoçauto Ltd. | 2,372 | 10.00 | 11,860 | 10.00 |
| Sanal Merkez Ticaret A.Ş. ("Sanal Merkez") | 1,931 | 99.99 | 1,931 | 99.99 |
| GVZ Ses Tanıma Teknolojileri Yazılım ve Hizmet A.Ş. | 1,877 | 85.00 | 1,877 | 85.00 |
| Kumsan Döküm Malzemeleri Sanayi ve Tic. A.Ş. ("Kumsan") | 1,686 | 50.24 | 1,686 | 50.10 |
| Asia Pasific | 1,420 | 98.25 | 1,420 | 98.25 |
| Matay Otomotiv Yan San. ve Tic. A.Ş. ("Matay") | 259 | 10.89 | 4,405 | 28.00 |
| Basic Int. Investment Ltd. | - | 48.00 | 6,572 | 48.00 |
| Comsat İletişim Hizmetleri Tic. A.Ş. (**) | - | - | 5,298 | 24.50 |
| İnternet Rezervasyon Sistemleri A.Ş.(***) | - | - | 1,694 | 78.65 |
| Other | 7,320 | - | 7,238 | - |
| | **52,187** | | **65,406** | |
| | **72,325** | | **77,073** | |

(*) Zinerji has been excluded from the scope of the consolidation in 2003 on the grounds of decreased materiality.

(**) Comsat İletişim Hizmetleri Tic. A.Ş. was sold in 2003.

(***) İnternet Rezervasyon Sistemleri A.Ş. legally merged with Setur in 2003 and is included in the scope of consolidation.

Available-for-sale investments, in which Koç Holding and its Subsidiaries and Joint Ventures, together with Koç family members, have attributable interests of 20% or more, which are either immaterial, or where a significant influence is not exercised by Koç Holding, are carried at cost less provision for diminution in value and restated to equivalent purchasing power at 31 December 2003. These companies have neither been accounted for using the equity method nor consolidated line-by-line due to the insignificance of their combined impact on the net worth, financial position and results of Koç Holding.

The difference of TL 8,471 billion in the fair value of the listed available-for-sale investments traded in active markets is booked as income in the consolidated statement of income (2002: loss of TL 20,036 billion).

Unlisted available-for-sale investments do not have a quoted market value and their fair values cannot be reliably measured, so they are stated at cost and restated to the equivalent purchasing power at 31 December 2003 less provision for diminution in value, if any. Provision for diminution in value for unlisted investments amount to TL 57,120 billion (2002: TL 35,736 billion).

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 7 - INVESTMENTS (Continued)**

**c) Held-to-maturity investments**

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other** | **Total** | **Banking** | **Other** | **Total** |
| Debt securities: | | | | | | |
| -Eurobonds | 532,735 | 42,708 | 575,443 | 505,829 | 22,654 | 528,483 |
| -Government bonds | | | | | | |
| - TL | 313,535 | 45,884 | 359,419 | 126,933 | - | 126,933 |
| - Foreign currency indexed | 173,397 | - | 173,397 | 145,250 | - | 145,250 |
| -Treasury bills | 23,339 | 97,542 | 120,881 | - | 37,183 | 37,183 |
| -Foreign government bonds | - | 728 | 728 | - | 12,134 | 12,134 |
| -Other | - | - | - | 8 | - | 8 |
| **Total** | **1,043,006** | **186,862** | **1,229,868** | **778,020** | **71,971** | **849,991** |

There are securities of TL 184,104 billion pledged under repurchase agreements as of 31 December 2003 (2002: TL 66,477 billion).

Interest rates of treasury bills and government bonds held-to-maturity investments at 31 December 2003 are between 32.0% and 68.0% p.a. (2002: 44.0% and 63.0%)

Eurobonds are EUR and USD denominated discount and coupon securities issued by the Treasury and Foreign Trade Department of the Republic of Turkey. These bonds earn interest between 9.3% and 12.4% p.a. (2002: 9.0% and 10.9% p.a.).

Analysis of held-to-maturity investments by maturity at 31 December is as follows:

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other** | **Total** | **Banking** | **Other** | **Total** |
| **Short-term:** | | | | | | |
| 1-30 days | 27,191 | 24,548 | 51,739 | - | 815 | 815 |
| 30-90 days | 77,561 | 40,449 | 118,010 | 2,801 | 25,479 | 28,280 |
| 90-180 days | 24,986 | 29,285 | 54,271 | 103,756 | 19,562 | 123,318 |
| 180 days-1 year | 184,671 | 18,757 | 203,428 | 6,570 | 3,460 | 10,030 |
| | 314,409 | 113,039 | 427,448 | 113,127 | 49,316 | 162,443 |
| **Long-term:** | | | | | | |
| Over 1 year | 728,597 | 73,823 | 802,420 | 664,894 | 22,654 | 687,548 |
| | 728,597 | 73,823 | 802,420 | 664,894 | 22,654 | 687,548 |
| | **1,043,006** | **186,862** | **1,229,868** | **778,021** | **71,970** | **849,991** |

At 31 December 2003, held-to-maturity investment securities amounting to TL 337,697 billion were pledged to the CBRT for legal requirements and Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası A.Ş. as a guarantee for stock exchange and money market operations (2002: TL 445,932 billion).

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 8 - RESERVE DEPOSITS WITH THE CENTRAL BANKS

| | 2003 | 2002 |
|---|---|---|
| Foreign currency deposits | 177,689 | 232,627 |
| TL deposits | 37,881 | 14,092 |
| | **215,570** | **246,719** |

Reserve requirements of CBRT represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits (foreign or domestic) taken at the rates determined by the CBRT whereas between 6.0% and 11.0%, respectively (2002: 6.0% and 11.0%). These funds cannot be used for the financing of the daily operations of the banks.

Reserve requirements of Central Bank of Dutch represents reserve deposits equivalent to 2% of the overnight deposits, deposits with agreed maturity or deposits redeemable at notice up to 2 years, debt securities issued with agreed maturity up to 2 years and money market paper.

Reserve requirements of the Central Bank of Azerbaijan; represent reserve deposits equivalent to 10.0% (2002: 10.0%) of the statutory balances of customer accounts, due to banks and other funds borrowed.

## NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Up to 1 year | 1 year and over | Total | Up to 1 year | 1 year and over | Total |
| Marketable securities purchased directly from Turkish Treasury | 122,825 | 41,742 | 164,567 | 34,943 | 131,295 | 166,238 |
| Commercial and industrial loans | 363,696 | 393,186 | 756,882 | 474,202 | 139,077 | 613,279 |
| Export loans | 390,623 | - | 390,623 | 465,080 | 25,564 | 490,644 |
| Investment loans | - | 51,195 | 51,195 | 133,031 | 106,804 | 239,835 |
| Net investment in finance leases | 104,903 | 87,847 | 192,750 | 74,898 | 60,453 | 135,351 |
| Consumer loans | 202,141 | 87,577 | 289,718 | 229,910 | 9,195 | 239,105 |
| Factoring receivables | 113,662 | 5,016 | 118,678 | 50,160 | 1,273 | 51,433 |
| Other | 10,562 | - | 10,562 | - | - | - |
| **Total** | **1,308,412** | **666,563** | **1,974,975** | **1,462,224** | **473,661** | **1,935,885** |
| Loans under legal follow-up | 231,986 | - | 231,986 | 222,051 | - | 222,051 |
| Other impaired loans | 86,615 | - | 86,615 | 109,580 | - | 109,580 |
| Total impaired loans | 318,601 | - | 318,601 | 331,631 | - | 331,631 |
| **Gross loans and advances to customers** | **1,627,013** | **666,563** | **2,293,576** | **1,793,855** | **473,661** | **2,267,516** |
| Less: Provision for loan losses | (194,420) | - | (194,420) | (168,215) | - | (168,215) |
| **Net loans and advances to customers** | **1,432,593** | **666,563** | **2,099,156** | **1,625,640** | **473,661** | **2,099,301** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements in the provision for loan losses during the years are as follows:

| | 2003 | 2002 |
|---|---|---|
| **Balance at 1 January** | **168,215** | **306,816** |
| Provisions for loan losses during the year | 103,232 | 99,375 |
| Recoveries of amounts previously provided | (52,199) | (16,358) |
| Write-off during the year as uncollectible | (987) | (38,867) |
| Effect of restructuring in finance segment (*) | - | (148,462) |
| Monetary loss | (23,841) | (34,289) |
| **Balance at 31 December** | **194,420** | **168,215** |

(*) Effect of restructuring in finance segment represents the decrease due to the finance segment companies that have become Joint Ventures in 2002 (Note 35).

The loans and advances to customers include net investment in finance leases as shown below:

| | 2003 | 2002 |
|---|---|---|
| Gross investment in finance leases | 231,805 | 169,128 |
| Less: Unearned finance income | (39,055) | (33,777) |
| **Net investment in finance leases** | **192,750** | **135,351** |

The allowance for losses on finance lease receivable included in the provision for loan losses amounts to TL 17,383 billion at 31 December 2003 (2002: TL 9,384 billion).

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

| | 2003 | 2002 |
|---|---|---|
| 2003 | - | 91,991 |
| 2004 | 128,056 | 35,181 |
| 2005 | 60,188 | 27,693 |
| 2006 | 25,922 | 14,239 |
| 2007 and over | 17,638 | 24 |
| Less: Unearned finance income | (39,054) | (33,777) |
| | **192,750** | **135,351** |

The loans and advances to customers include factoring receivables as shown below:

| | 2003 | 2002 |
|---|---|---|
| Domestic transactions | 72,456 | 18,266 |
| Export transactions | 46,222 | 33,167 |
| **Gross factoring receivables** | **118,678** | **51,433** |
| Factoring receivables under legal follow-up | 2,879 | 3,683 |
| Less: Provision for factoring receivables under legal follow-up | (2,315) | (1,632) |
| **Factoring receivables, net** | **119,242** | **53,484** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

At 31 December 2003, TL 132,470 billion (2002: TL 126,503 billion) of the consumer loans are given by consumer finance companies. The collaterals obtained for these loans amount to TL 90,594 billion (2002: TL 89,572 billion). The allowance for losses on consumer loans given by consumer finance companies included in the provision for loan losses amounts to TL 7,186 billion at 31 December 2003 (2002: TL 10,466 billion).

Economic sector risk concentrations for loans and advances given to customers are as follows:

| | 2003 | % | 2002 | % |
|---|---|---|---|---|
| Textiles | 299,374 | 15 | 318,949 | 16 |
| Retail and consumer | 296,278 | 15 | 113,806 | 6 |
| Metal processing | 172,118 | 9 | 161,842 | 8 |
| Marketable securities purchased directly from the Turkish treasury | 164,566 | 8 | 166,236 | 9 |
| Food, beverage and consumer goods | 114,544 | 6 | 165,181 | 9 |
| Petrochemical industry | 107,229 | 5 | 93,017 | 5 |
| Construction and cement | 99,434 | 5 | 120,879 | 6 |
| Financial institutions | 70,249 | 4 | 188,570 | 10 |
| Trade | 61,801 | 3 | 111,213 | 6 |
| Tourism | 51,214 | 3 | 50,185 | 3 |
| Durable goods | 23,243 | 1 | 71,417 | 4 |
| Automotive | 22,162 | 1 | 142,339 | 7 |
| Other | 492,763 | 25 | 232,251 | 11 |
| | **1,974,975** | **100** | **1,935,885** | **100** |

## NOTE 10 - TRADE RECEIVABLES

| | 2003 | 2002 |
|---|---|---|
| Trade receivables - net of unearned credit finance income | 1,560,934 | 1,460,851 |
| Notes receivable - net of unearned credit finance income | 885,002 | 721,396 |
| Other | 1,582 | 17,082 |
| Trade receivables | 2,447,518 | 2,199,329 |
| Less: provision for doubtful receivables | (57,598) | (78,840) |
| **Trade receivables, net** | **2,389,920** | **2,120,489** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

| | **2003** | **2002** |
|---|---|---|
| Due from related parties: | | |
| Ram Sigorta Aracılık Hizmetleri A.Ş. ("Ram Sigorta") | 8,978 | 9,686 |
| Temel Ticaret ve Yatırım A.Ş. ("Temel Ticaret") | 797 | 9 |
| Koç Üniversitesi | 575 | 886 |
| Zinerji | 349 | - |
| Tanı Pazarlama | 331 | 4,540 |
| Ark İnşaat San. ve Tic A.Ş. ("Ark İnşaat") | 255 | 142 |
| Karsan | 229 | 145 |
| Vehbi Koç Vakfı | 27 | 22,063 |
| Koç Ata Sancak Besi | 6 | 3,279 |
| Ram Auto Operations | 1 | 2,875 |
| Other | 8,155 | 14,877 |
| | 19,703 | 58,502 |
| Due to related parties: | | |
| Ram Sigorta | 6,042 | 7,164 |
| Koç Ata Sancak Besi | 3,184 | 1,822 |
| Koratrade S.A. | 2,797 | - |
| Ark İnşaat | 1,694 | 161 |
| Vehbi Koç Vakfı | 1,302 | 60 |
| Takosan | 706 | 395 |
| İdea İnceleme Danışmanlık Eğitim Araştırma Merkezi A.Ş. ("İdea") | 611 | 327 |
| Temel Ticaret | 588 | 2,275 |
| Matay | 1 | 3,243 |
| Other | 7,805 | 17,171 |
| | **24,730** | **32,618** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

| | 2003 | 2002 |
|---|---|---|
| Service sales: | | |
| Tanı Pazarlama | 3,743 | 2,239 |
| V.K.V. Amerikan Hastanesi ("Amerikan Hastanesi") | 1,769 | 974 |
| Koç Üniversitesi | 1,311 | 2,018 |
| Demir Export A.Ş. | 1,131 | 1,457 |
| Vehbi Koç Vakfı | 907 | 340 |
| Koç family | 590 | 58 |
| Biletix Bilet Dağıtım Basım A.Ş. | 403 | 899 |
| Other | 4,918 | 8,499 |
| | **14,772** | **16,484** |
| Product sales: | | |
| Sanal Merkez | 8,314 | 7,405 |
| Demir Export A.Ş. | 8,028 | 14,096 |
| Koç Üniversitesi | 4,700 | 2,796 |
| Amerikan Hastanesi | 986 | 404 |
| Ark İnşaat | 833 | 95 |
| Karsan | 441 | 1,656 |
| Other | 9,940 | 14,756 |
| | **33,242** | **41,208** |
| Property, plant and equipment sales: | | |
| Vehbi Koç Vakfı | 3,031 | 9,091 |
| Koç Üniversitesi | 649 | 837 |
| Koç Ata Sancak Besi | 620 | 955 |
| Tanı Pazarlama | 139 | 1,668 |
| Amerikan Hastanesi | - | 166 |
| Other | 1,533 | 254 |
| | **5,972** | **12,971** |
| **Total sales to related parties** | **53,986** | **70,663** |

| | 2003 | 2002 |
|---|---|---|
| Product purchases: | | |
| Takosan | 4,450 | 2,207 |
| Koç Ata Sancak Besi | 3,282 | 677 |
| Kumsan | 515 | 554 |
| Sanal Merkez | 463 | 641 |
| Promena Elektronik Ticaret A.Ş. | 437 | 238 |
| Other | 2,812 | 3,373 |
| | **11,959** | **7,690** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

| | 2003 | 2002 |
|---|---|---|
| Property, plant and equipment purchases: | | |
| Ark İnşaat | 16,477 | 1,086 |
| Other | 1,153 | 886 |
| | **17,630** | **1,972** |
| Service purchases: | | |
| Ram Sigorta | 13,437 | 5,629 |
| Temel Ticaret | 3,626 | 4,200 |
| Setair Hava Taşımacılığı ve Hizmetleri A.Ş. | 2,355 | 2,835 |
| Vehbi Koç Vakfı | 1,441 | 1,470 |
| İdea | 992 | 2,146 |
| Ramerica International Inc. | 690 | 7 |
| Koç family | 644 | 238 |
| Sanal Merkez | 629 | 360 |
| Koç Bilgi Grubu | 83 | 5,451 |
| Koç Üniversitesi | 365 | 1,239 |
| Koç Ata Sancak Besi | - | 4,773 |
| İnternet Rezervasyon Sistemleri A.Ş. | - | 1,462 |
| Other | 4,107 | 5,435 |
| | **28,369** | **35,245** |
| **Total purchases from related parties** | **57,958** | **44,907** |

Dividend income from equity investments for the year ended 31 December were as follows:

| | 2003 | 2002 |
|---|---|---|
| Magdeburger Sigorta A.Ş | 1,455 | - |
| Çeşme Altınyunus | 481 | 141 |
| Matay | 95 | 81 |
| Kumsan | 21 | 106 |
| Goodyear Tire and Rubber Comp. | - | 12 |
| Temel Gıda GmbH | - | 27 |
| Ram Man Gıda Tic. A.Ş. | - | 299 |
| Other | 14 | 41 |
| | **2,066** | **707** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 12 - INVENTORIES

| | 2003 | 2002 |
|---|---|---|
| Finished goods and merchandise (at cost) | 517,909 | 399,363 |
| Raw materials and supplies (at cost) | 417,120 | 345,746 |
| Finished goods and merchandise (at net realizable value) | 176,982 | 169,705 |
| Goods-in-transit | 130,650 | 121,367 |
| Spares, supplies and advances (at cost) | 109,764 | 75,656 |
| Work in progress (at cost) | 51,963 | 46,496 |
| | **1,404,388** | **1,158,333** |

## NOTE 13 - OTHER CURRENT ASSETS

| | 2003 | 2002 |
|---|---|---|
| Prepaid expenses | 85,924 | 108,581 |
| Value added tax ("VAT") receivable | 49,557 | 95,633 |
| Taxes and funds deductible | 28,552 | 22,285 |
| Advances given | 18,156 | 10,975 |
| Other income accruals | 14,559 | 4,731 |
| Derivative financial instruments (Note 30) | 13,525 | 4,193 |
| Receivable from recoverable claims | 11,810 | 6,443 |
| Income accrual from construction work in progress | 6,761 | 6,449 |
| Deferred tax | 6,351 | 7,303 |
| Accrued supplier rebates | 5,386 | 7,215 |
| Credit card receivables | 2,760 | 3,615 |
| Prepaid taxes and funds | 1,975 | 5,059 |
| VAT of exported goods | 108 | 3,734 |
| Receivable from oil price stability fund (*) | 32 | 14,393 |
| Other | 36,975 | 62,769 |
| | **282,431** | **363,378** |

(*) Receivables from the oil price stability fund is derived from the difference between the ceiling price of Tüpraş A.Ş. and selling price of Liquid Petroleum Gas ("LPG") importing companies based on decision no: 2000/306 of the Council of Ministers.

## NOTE 14 - INVESTMENT IN ASSOCIATED UNDERTAKING

The Group's investment in associate is as follows for the year ended 31 December 2003:

| | | 2003 | | 2002 |
|---|---|---|---|---|
| | % | TL billion | % | TL billion |
| Takosan | 28.12 | 1,765 | 28.12 | 1,849 |

The Group does not have control over the financial and operating policies of its investment in associated undertaking. The loss from the investment in the associated undertaking for the year ended 31 December 2003 amounted to TL 84 billion (2002: TL 2 billion).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## AT 31 DECEMBER 2003

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

### NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

| | Opening 1 January 2003 | Additions to scope of consolidation | Disposals from scope of consolidation | Additions | Disposals | Foreign currency translation difference | Closing 31 December 2003 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Land and land improvements | 239,323 | - | (5) | 21,020 | (2,693) | (160) | 257,485 |
| Buildings | 1,501,986 | 11,362 | (28) | 72,744 | (54,913) | (44,061) | 1,487,090 |
| Leasehold improvements | 352,907 | - | (7) | 10,313 | (7,997) | - | 355,216 |
| Machinery and equipment | 5,586,575 | 3,004 | (6,172) | 332,552 | (163,889) | (13,935) | 5,738,135 |
| Motor vehicles | 201,607 | 1,234 | (879) | 81,986 | (30,522) | (3,608) | 249,818 |
| Furniture and fixtures | 498,168 | - | (10) | 47,229 | (18,037) | (1,356) | 525,994 |
| Construction in progress (*) | 241,952 | 3 | (5) | 275,331 | (236,805) | (1,134) | 279,342 |
| | **8,622,518** | **15,603** | **(7,106)** | **841,175** | **(514,856)** | **(64,254)** | **8,893,080** |
| **Accumulated depreciation** | | | | | | | |
| Land and land improvements | (49,373) | - | - | (6,576) | 929 | 75 | (54,945) |
| Buildings | (459,249) | (884) | 3 | (48,626) | 27,853 | 10,835 | (470,068) |
| Leasehold improvements | (164,407) | - | 1 | (24,475) | 3,584 | 58 | (185,239) |
| Machinery and equipment | (3,726,426) | (708) | 2,795 | (506,365) | 192,707 | 12,725 | (4,025,272) |
| Motor vehicles | (105,295) | (255) | 539 | (72,172) | 24,431 | 2,285 | (150,467) |
| Furniture and fixtures | (401,520) | - | 3 | (56,276) | 20,683 | 525 | (436,585) |
| | **(4,906,270)** | **(1,847)** | **3,341** | **(714,490)** | **270,187** | **26,503** | **(5,322,576)** |
| **Net book value** | | | | | | | |
| Land and land improvements | 189,950 | - | (5) | 14,444 | (1,764) | (85) | 202,540 |
| Buildings | 1,042,737 | 10,478 | (25) | 24,118 | (27,060) | (33,226) | 1,017,022 |
| Leasehold improvements | 188,500 | - | (6) | (14,162) | (4,413) | 58 | 169,977 |
| Machinery and equipment | 1,860,149 | 2,296 | (3,377) | (173,813) | 28,818 | (1,210) | 1,712,863 |
| Motor vehicles | 96,312 | 979 | (340) | 9,814 | (6,091) | (1,323) | 99,351 |
| Furniture and fixtures | 96,648 | - | (7) | (9,047) | 2,646 | (831) | 89,409 |
| Construction in progress | 241,952 | 3 | (5) | 275,331 | (236,805) | (1,134) | 279,342 |
| | **3,716,248** | **13,756** | **(3,765)** | **126,685** | **(244,669)** | **(37,751)** | **3,570,504** |

(*) Ford Otosan, a joint venture of the Group, has initiated a project to increase the production capacity of its Kocaeli factory from an existing 140,000 vehicles to 200,000 with in 2004. This is a result of the decision of Ford Motor Company to transfer its transit commercial vehicle production line from its Genk factory to the Kocaeli factory. This project, with a total projected cost of USD 78 million, has been commenced in 2002, and Ford Otosan made a capital expenditure of USD 41 million in 2003 (2002: USD 13 million).

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2003, there are mortgages amounting to TL 133,121 billion (2002: TL 121,620 billion) on property, plant and equipment.

Since 1984, using an option granted under Turkish tax legislation, the Group has revalued in its statutory books of account, its property, plant and equipment in use for more than one year (excluding land, which cannot be revalued), and the related accumulated depreciation at each year-end, by using the rates and procedures prescribed by the legislation. The resulting increases in the net book values of the assets are included under shareholders' equity as revaluation surplus in the statutory books of account. The Group may use the revaluation surplus for issuance of free capital shares to existing shareholders. However, if the revaluation increment is included in an account other than the revaluation surplus account, the amount is subject to corporation tax.

At 31 December, the historical amounts of revaluation surplus included in share capital and revaluation surplus of Koç Holding (parent company only) are:

| | **Historical amount of revaluation surplus in share capital** | **Historical amount of revaluation surplus** |
|---|---|---|
| **31 December 2003** | **113,280** | **36,483** |
| 31 December 2002 | 62,664 | 50,646 |

In the Group's statutory books of account, depreciation is provided on revalued amounts, except for the net revaluation increment applicable to buildings, and such depreciation is deductible in the computation of income subject to corporation tax.

All entries related to revaluation, which were recorded in the statutory books of account of the Group, have been eliminated in the consolidated financial statements as part of the restatement process as referred to in Note 2.

**Leased assets:**

Leased assets included in the property, plant and equipment, where the Group is the lessor, are as follows:

| | **Buildings** | **Machinery and equipment** | **Furniture and fixtures** | **Motor vehicles** | **Total** |
|---|---|---|---|---|---|
| Cost | 80,550 | 61,724 | 156,837 | 13,280 | 312,391 |
| Accumulated depreciation | (22,677) | (21,072) | (111,006) | (6,468) | (161,223) |
| **Net book amount** | **57,873** | **40,652** | **45,831** | **6,812** | **151,168** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 16 - INTANGIBLE ASSETS

| | 1 January 2003 | Addition to Scope of consolidation | Disposal from scope of consolidation | Additions | Disposals | Foreign currecy translation difference | 31 December 2003 |
|---|---|---|---|---|---|---|---|
| Cost | 429,200 | 278 | (44) | 29,874 | (18,413) | (345) | 440,550 |
| Accumulated amortization | (154,236) | (82) | 41 | (55,633) | 3,934 | 48 | (205,928) |
| Net book value | 274,964 | 196 | (3) | (25,759) | (14,479) | (297) | 234,622 |
| Goodwill (Note 31) | 253,773 | | | 148,381 | - | - | 402,154 |
| Accumulated amortization | (70,019) | | | (17,392) | - | - | (87,411) |
| Net book value | 183,754 | | | 130,989 | | | 314,743 |
| Negative goodwill (Note 31) | (48,766) | - | - | - | - | - | (48,766) |
| Accumulated amortization | 2,712 | - | - | 5,125 | - | - | 7,837 |
| Net book value | (46,054) | - | - | 5,125 | - | - | (40,929) |
| **Total net book value** | **412,664** | | | | | | **508,436** |

Intangible assets include research and development costs with a net book value of TL 84,767 billion (2002: TL 103,010 billion). Additions to research and development costs mainly relate to the NHDD and New Cargo projects of Ford Otosan, a Joint Venture of the Group.

## NOTE 17 - INVESTMENT PROPERTY

| | 1 January 2003 | Additions | Disposals | Foreign currency translation difference | 31 December 2003 |
|---|---|---|---|---|---|
| Cost | 76,358 | 5,859 | (4,628) | (11,704) | 65,885 |
| Accumulated depreciation | (5,713) | (1,712) | 4 | 1,559 | (5,862) |
| **Net book value** | **70,645** | **4,147** | **(4,624)** | **(10,145)** | **60,023** |

Investment property totalling TL 47,103 billion represents designated areas within stores that are let out under rent agreements owned by Migros, a Subsidiary of the Group. The fair value of these investment properties as at 31 December 2003 based on an independent appraiser's report is TL 94,795 billion. The valuation includes land that is under operating lease, as it cannot be separated from the valuation of the investment properties.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 18 - CUSTOMER DEPOSITS

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Demand** | **Term** | **Total** | **Demand** | **Term** | **Total** |
| **Foreign currency deposits:** | | | | | | |
| Saving deposits | 303,155 | 1,174,721 | 1,477,876 | 248,978 | 1,795,161 | 2,044,139 |
| Commercial deposits | 157,470 | 453,879 | 611,349 | 170,385 | 142,810 | 313,195 |
| | **460,625** | **1,628,600** | **2,089,225** | **419,363** | **1,937,971** | **2,357,334** |
| **TL deposits:** | | | | | | |
| Saving deposits | 30,997 | 285,343 | 316,340 | 24,696 | 252,600 | 277,296 |
| Commercial deposits | 75,603 | 28,730 | 104,333 | 64,464 | 71,021 | 135,485 |
| Funds deposited under repurchase agreements | - | 242,554 | 242,554 | - | 62,595 | 62,595 |
| | **106,600** | **556,627** | **663,227** | **89,160** | **386,216** | **475,376** |
| | **567,225** | **2,185,227** | **2,752,452** | **508,523** | **2,324,187** | **2,832,710** |

Saving and commercial deposits at 31 December 2003 include long-term foreign currency and TL time deposits of TL 211,687 billion (2002: TL 172,859 billion); the interest rates for time deposits vary between 1.0%-5.0% p.a. (2002: 2.7%-4.5% p.a.) for foreign currency deposits and 25.3%-33.0% p.a. (2002: 43.6%-51.9% p.a.) for TL deposits and 18.8%-30.0%. p.a. (2002: 40.6%-48.7% p.a.) for repurchase commitments.

## NOTE 19 - BANK BORROWINGS

| | 2003 | 2002 |
|---|---|---|
| **Short-term bank borrowings:** | | |
| Short-term bank borrowings | 1,241,982 | 1,462,702 |
| Short-term portion of long-term bank borrowings | 604,781 | 306,990 |
| **Total short-term bank borrowings** | **1,846,763** | **1,769,692** |
| **Long-term bank borrowings:** | | |
| Long-term bank borrowings | 1,131,077 | 1,174,292 |
| **Total bank borrowings** | **2,977,840** | **2,943,984** |

Effective interest rates of foreign currency borrowings, mainly USD and EUR denominated and TL bank borrowings range between 0.0%-6.7% (2002: 2.2%-13.0%), 3.1%-6.8% (2002: 3.0%-7.3%) and 0.0%-47.0% (2002: 14.0%-75.5%), respectively.

As of 31 December 2003, Koçbank, a Joint Venture of the Group, obtained syndication loans comprised of TL 136,090 billion (USD 100 million) from Sumitomo Mitsui Banking Corporation and TL 136,090 billion (USD 100 million) from ING Bank which bear interest rates of 3.94% and 3.74%, respectively (2002: two syndication loans of USD 100 million and USD 90 million which bears an interest rate of 6 months libor plus 0.80% and 0.75% respectively).

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 19 - BANK BORROWINGS (Continued)**

At 15 December 2000, Koçbank, a Joint Venture of the Group, obtained a long-term facility with an original maturity of December 2005 through structured finance deal ("the Deal") totalling USD 75 million by securitizing its present and future cross border payment rights. The Bank sold certain present and future payment rights (including but not limited to cash against goods transactions, workers' transfers, checks, remittances, letter of credit transactions and cash against document transactions) due or to become due to the Bank with a sales price of to K.S.F. Ltd., a Special Purpose Company (the "SPC") incorporated under the laws of Jersey, Channel Islands pursuant to the Amended and Restated Purchase Agreement dated 15 December 2000, between the SPC, the Bank (as Seller) and Westdeutsche Landesbank Girozentrale (as security agent and cash administrator). The SPC borrowed USD 75 million, secured on a revolving portfolio of payment rights originated by the Bank, from Westdeutsche Landesbank Girozentrale pursuant to the Facility agreement dated 27 November 2000. Off-shore cash reserve account and payment account at Westdeutsche Landesbank Girozentrale are pledged by the SPC in favour of Westdeutsche Landesbank Girozentrale, as security agent. In 2001, the original maturity was shortened to March 2004 pursuant to the terms of the original transaction after discussions with the lending group. At 31 December 2003, the credit obtained through the deal is amounted to TL 14,599 billion (2002: TL 96,932 billion).

Ford Otosan, a Joint Venture of the Group, has foreign currency denominated long-term borrowings under two OPIC-insured private placements amounting to USD 35,803,757 and USD 7,178,958 and borrowing from US Export-Import Bank amounting to USD 3,248,697. These borrowings, which totals to USD 46,231,412, were obtained to finance investment projects. Under the terms of the related loan agreements, Ford Otosan has to comply with certain financial covenants. Ford Otosan met all the financial covenants as of 31 December 2003. Therefore, consequent to the discussions with the related lending organizations, Ford Motor Company and Koç Holding agreed to cease the parent guarantees previously provided to creditors as of 31 December 2003.

The Group has syndication loans comprised of EUR 20,000,000 and USD 4,700,000 from Netherlands Development Finance Company ("FMO") as of 31 December 2003.

The Group has loans from International Finance Corporation ("IFC") in the amount of TL 438,543 billion (USD 143,442,051, EUR 106,764,915, GBP 21,000,000) which is being used for production and modernization, research and development, as well as acquisitions and increased working capital requirements (2002: TL 423,595 billion).

Koç Holding received a syndicated loan from foreign banks in 2003 amounting to USD 150,000,000 (2002: None) of which the amount of USD 124,000,000 was transferred to other subsidiaries namely, Beldeyama, Bilkom, Düzey, Koç Ata Sancak Besi, Koç Lease, Koç Yapı Market, Koç Net, Koç Sistem, Ram, Tat Konserve, Setoto-Avis, Setur and Tekersan, under the same conditions, the remaining amount of USD 26,000,000 being for the use of Koç Holding.

The redemption schedule of long-term bank borrowings at 31 December is as follows:

| | **2003** | **2002** |
|---|---|---|
| 2004 | - | 430,754 |
| 2005 | 323,668 | 240,768 |
| 2006 | 317,911 | 188,188 |
| 2007 | 312,218 | 162,618 |
| 2008 and over | 177,280 | 151,964 |
| | **1,131,077** | **1,174,292** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 20 - TRADE PAYABLES

| | 2003 | 2002 |
|---|---|---|
| Trade payables - net of unearned credit finance charges | 1,729,954 | 1,608,551 |
| Notes payable - net of unearned credit finance charges | 33,379 | 26,750 |
| Other payables | 3,803 | 5,297 |
| | **1,767,136** | **1,640,598** |

## NOTE 21 - INSURANCE TECHNICAL RESERVES

| | 2003 | 2002 |
|---|---|---|
| Unearned premiums reserve - net of reinsurers' share | 123,139 | 114,806 |
| Claim provisions - net of reinsurers' share | 38,621 | 33,793 |
| Deferred commission income | 16,969 | 21,385 |
| **Insurance technical reserves - current** | **178,729** | **169,984** |
| Life mathematical reserves | 253,131 | 188,010 |
| Other reserves | 5,002 | - |
| **Insurance technical reserves - non-current** | **258,133** | **188,010** |

## NOTE 22 - OTHER CURRENT LIABILITIES

| | 2003 | 2002 |
|---|---|---|
| Taxes and funds payable | 167,341 | 161,680 |
| Provision for costs | 127,088 | 112,042 |
| Advances from customers | 120,080 | 124,713 |
| Import transfers and payment orders | 89,483 | 95,820 |
| Warranty provision | 79,712 | 53,894 |
| Payable to personnel | 60,499 | 47,390 |
| Credit card payables | 34,038 | 35,547 |
| Blocked accounts | 25,941 | 25,161 |
| Cheques at clearing | 17,805 | 15,869 |
| Deferred income | 15,256 | 12,247 |
| Leasing obligations | 11,921 | 20,847 |
| Contracted loans (*) | 11,060 | 24,437 |
| Derivative financial instruments (Note 30) | 5,946 | 6,374 |
| Other | 75,472 | 55,885 |
| | **841,642** | **791,906** |

(*) Loans for which the contracts were signed, but whose respective fund transfers will take place in the following year, are included in the accompanying balance sheet. The principal amount of such loans is included under "Loans and advances to customers" in assets and under "Other current liabilities" in liabilities.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 23 - TAXES ON INCOME

| | 2003 | 2002 |
|---|---|---|
| Corporation and income taxes payable: | | |
| Domestic | 75,611 | 85,377 |
| Foreign | 5,763 | 4,905 |
| | **81,374** | **90,282** |
| Deferred tax liabilities: | | |
| Domestic | 14,257 | 157,182 |
| Foreign | 5,494 | 19,626 |
| | **19,751** | **176,808** |
| | **101,125** | **267,090** |

Domestic

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Corporation tax is payable at a rate of 30% on the total income of the entity after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed. Corporation tax rate on the total income of fiscal year 2004 will be 33%.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 11% (10% effective from 1 January 2004). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% (33% for the fiscal year 2004) on their corporate income. Advance tax is payable by the 16th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable assets held for not less than two years are tax exempt until 31 December 2004, if such gains are added to paid-in capital in the year in which they are sold.

Capital expenditures, with some exceptions, over TL 5 billion (TL 6 billion for 2004) are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to calculation of the corporate income tax, without the requirement of an "Investment Incentive Certificate", and the amount of allowance is not subject to withholding tax. Investment allowances utilised within the scope of investment incentive certificates granted prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

Under the Turkish taxation system, tax losses can be carried forward, to be offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 17th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of fiiling during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 23 - TAXES ON INCOME (Continued)**

Foreign

Russian and Kazakh tax legislation is subject to various interpretations and frequent change. In this respect, the taxation of Ramenka and Rambutya can be interpreted differently by the tax authorities of the respective countries and accordingly can be subject to additional tax charges and penalties. The tax authorities of Russia and Kazakhstan have the right to audit tax returns for 3 and 5 years, respectively.

Taxation on income for the year ended 31 December 2003 and 2002 is summarised as follows:

| | 2003 | 2002 |
|---|---|---|
| Current year corporate tax | (311,901) | (275,337) |
| Deferred tax | 161,188 | 203,380 |
| | **(150,713)** | **(71,957)** |

Deferred taxes

Koç Holding, its Subsidiaries and Joint Ventures recognize deferred tax assets and liabilities based upon temporary differences arising between their financial statements as reported for IFRS purposes and their statutory tax financial statements. These temporary differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2004 under the liability method using a principal tax rate of 33% at 31 December 2003. The rate for other temporary differences is 30% (31 December 2002: 33%).

Deferred taxes calculated by using the principal tax rates of the tax authorities of each country the Group operates in as of 31 December 2003, are as follows:

| **Country** | **Tax rate (%)** |
|---|---|
| Turkey | 30.0 / 33.0 |
| The Netherlands | 35.0 |
| Azerbaijan | 27.0 |
| Switzerland | 54.4 |
| Bulgaria | 23.5 |
| Kazakhstan | 30.0 |
| Russia | 24.0 |
| China | 16.0 |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 23 - TAXES ON INCOME (Continued)**

The breakdown of cumulative temporary differences and deferred tax assets/liabilities provided at 31 December, using principal tax rates, are as follows:

| | Cumulative temporary differences | | Deferred tax assets/(liabilities) | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| Net difference between carrying value and tax base of property, plant and equipment and intangible assets | 1,069,044 | 1,599,512 | (334,821) | (521,495) |
| Net difference between carrying value and tax base of inventory | 51,244 | 162,868 | (15,916) | (52,515) |
| Deferred acquisition cost | 27,028 | 42,400 | (8,919) | (13,992) |
| Leasing obligations | (9,177) | (26,911) | 2,830 | 8,902 |
| Net investments in finance leases | - | 61,385 | - | (12,154) |
| Net difference between carrying value and tax base of debt securities | (16,204) | 5,238 | 5,315 | (1,773) |
| Unused tax credits (Note 29) | (1,622,087) | (1,605,275) | 173,419 | 211,896 |
| Tax losses carried forward | (133,037) | (312,677) | 38,732 | 100,036 |
| Provision for employment termination benefits | (123,345) | (108,881) | 36,659 | 34,967 |
| Provision for loan losses | (37,917) | (65,784) | 12,513 | 21,708 |
| Unearned premium reserve | (17,161) | (61,916) | 5,663 | 20,432 |
| Warranty reserve | (55,613) | (39,760) | 17,531 | 12,709 |
| Effect of unearned financial income/(expense) - net | (64,494) | (45,675) | 21,234 | 15,061 |
| Deferred commission income | (16,969) | (27,166) | 5,600 | 8,965 |
| Other-net | (64,376) | 26,186 | 20,409 | (9,555) |
| | **(1,013,064)** | **(396,456)** | **(19,751)** | **(176,808)** |

Movements in deferred taxes at 31 December can be analysed as follows:

| | **2003** | **2002** |
|---|---|---|
| **Balance at 1 January** | (176,808) | (286,309) |
| Addition to the scope of consolidation | - | (18,733) |
| Effect of legal merger | - | 356 |
| Disposal from the scope of consolidation | 9 | 1,560 |
| Effect of restructuring in finance segment (*) | - | (68,359) |
| Monetary gain | (4,140) | (8,703) |
| Charge for the year | 161,188 | 203,380 |
| **Balance at 31 December** | **(19,751)** | **(176,808)** |

(*) Effect of restructuring in finance segment represents the decrease due to the finance segment companies that have become joint ventures in 2002 (Note 35).

In accordance with law regarding the amendments to be brought to the Tax Procedure Law, Income Law and Corporation Tax Law which was published by the Official Gazette dated 30 December 2003 ("Law No. 5024"), income and corporation tax payers that determine their income on the basis of balance sheet are required to apply inflation adjustment to their statutory financial statements with effect from 1 January 2004. Taxpayers are required to apply inflation adjustment to the opening balance sheet at 31 December 2003.

In accordance with the Tax Procedure Law General Communique No.328 taxpayers are required to prepare and declare their advance tax declarations for the period of March and June 2004 together with the opening balance sheet at 31 December 2003.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 23 - TAXES ON INCOME (Continued)

Furthermore, as stated in Law No.5024, the tax payers already required to adjust their balance sheets at 31 December 2003 pursuant to the regulations enacted by the CMB pertaining to adjust financial statements during high inflation periods are not object to readjust their balance sheets in accordance with the adjustment procedures as set out in Law No. 5024. However, the accumulated depreciation shown on inflation-adjusted financial statements at 31 December 2003 shall be recorded in the statutory inflation adjusted opening balance sheet based on the depreciation periods as declared by Tax Procedure Law.

In the preparation of the balance sheets at 31 December 2003, the Group gave a decision to use the 31 December 2003 balance sheet prepared in accordance with the regulation enacted by the CMB pertaining to adjust financial statements during high inflation periods in some of its listed companies as allowed by Law No. 5024; for other Group companies adjustment procedures have been applied as set out in Law No. 5024.

Therefore, at 31 December 2003 the taxable and temporary differences arising from the inflation adjustments in the prior periods have been partially reversed. As a result, deferred tax liabilities arising from these temporary differences, have been reversed and reflected to the consolidated statement of income.

## NOTE 24 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS

| | **2003** | **2002** |
|---|---|---|
| Reserve for employment termination benefits: | | |
| - Domestic | 126,597 | 109,304 |
| - Foreign | 236 | 6,516 |
| | **126,833** | **115,820** |

Under the Turkish Labour Law, Koç Holding and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement.

The amount payable consists of one month's salary limited to a maximum of TL 1,389,950,000 (2002: TL 1,260,150,000 in terms of the purchasing power of TL at 31 December 2002) for each year of service.

The liability is not funded, as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Koç Holding and its Subsidiaries and Joint Ventures registered in Turkey arising from the retirement of employees.

The principal actuarial assumption is that the maximum liability for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 1,485,430,000 (2002: TL 1,323,950,000), which is effective from 1 January 2004, has been taken into consideration in calculating the reserve for employment termination benefit of the Group.

| | **2003** | **2002** |
|---|---|---|
| Discount rate | 6% | 6% |
| Turnover rate to estimate the probability of retirement | 1-16% | 2-19% |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 24 - PROVISION FOR EMPLOYMENT TERMINATION BENEFITS (Continued)**

Movements in the provision for employment termination benefits during the year are as follows:

| | 2003 | 2002 |
|---|---|---|
| **Balance at 1 January** | **115,820** | **101,008** |
| Decrease during the year | 33,784 | 40,749 |
| Monetary gain | (22,771) | (25,937) |
| **Balance at 31 December** | **126,833** | **115,820** |

The number of personnel of the Group at 31 December 2003 is 53,985 (2002: 50,019).

**NOTE 25 - SHARE CAPITAL**

Koç Holding adopted the registered share capital system available to companies registered with the CMB and set a limit on its registered share capital representing registered type shares with a nominal value of TL 1,000. Koç Holding's historical authorised and paid-in share capital at 31 December was as follows:

| | 2003 | 2002 |
|---|---|---|
| Limit on registered share capital (historical) | 1,000,000 | 250,000 |
| Historical authorised and paid-in share capital | 789,750 | 203,156 |

Companies in Turkey may exceed the limit on registered share capital in the event of issuance of free capital shares to existing shareholders.

At 31 December, the shareholding structure of Koç Holding is as follows:

| | Share % | 2003 | Share % | 2002 |
|---|---|---|---|---|
| Temel Ticaret ve Yatırım A.Ş. | 43.27 | 341,724 | 36.06 | 73,254 |
| Suna Kıraç | 6.23 | 49,201 | 7.02 | 14,268 |
| Semahat Arsel | 6.09 | 48,095 | 6.86 | 13,944 |
| Rahmi M. Koç | 5.40 | 42,647 | 6.08 | 12,360 |
| Mustafa Koç | 3.00 | 23,693 | 1.09 | 2,223 |
| Ali Koç | 3.00 | 23,693 | 1.09 | 2,223 |
| Ömer Koç | 2.98 | 23,535 | 1.07 | 2,166 |
| İpek Kıraç | 0.70 | 5,528 | 0.79 | 1,606 |
| Nazar Dayanıklı ve Dayanıksız Sınai Mallar Paz. A.Ş | 0.35 | 2,764 | 0.39 | 793 |
| R.M.K. Mahdumları | 0.11 | 869 | 0.12 | 241 |
| Zer Madencilik Dayanıklı Mallar Yatırım ve Paz. A.Ş. | 0.01 | 79 | - | - |
| Sevgi Gönül | - | - | 6.88 | 13,959 |
| **Total Koç family and companies owned by Koç family members** | **71.14** | **561,828** | **67.45** | **137,037** |
| Vehbi Koç Vakfı | 7.17 | 56,625 | 8.08 | 16,420 |
| Koç Holding Emeklilik Vakfı | 1.97 | 15,558 | 2.22 | 4,519 |
| Quoted | 19.72 | 155,739 | 22.25 | 45,180 |
| | **100.00** | **789,750** | **100.00** | **203,156** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 25 - SHARE CAPITAL (Continued)

"Adjustment to share capital" represents the restatement effect of cash contributions to share capital at year-end equivalent purchasing power. It also includes the difference of TL 106,932 billion between the fair value of the acquired minority interest from Koç Yatırım Sanayi Mamülleri Pazarlama A.Ş. and the nominal value of shares issued by Koç Holding in 1997, and the difference of TL 383,232 billion between the fair and nominal value of the shares issued for the acquisition of Migros shares by 50.81%, which are all presented as the inflation adjustment to share capital.

The Articles of Association ("the Articles") of Koç Holding set out the following privileges for A-type shares:

1. In accordance with Article 11, A-type shareholders receive pre-emptive rights not used by B-type shareholders.

2. In accordance with Article 25, A-type shareholders have two voting rights for each share owned at the General Assembly meeting (except for meetings with an agenda to change the Articles).

The Articles of Koç Holding established 100 usufruct shares, which were granted to Vehbi Koç. These are bearer shares and can be transferred to others.

The holders of usufruct shares are entitled to receive 3% of the distributable profits remaining after legal reserves and taxes minus 5% of the paid capital. However, this cannot be higher than 10% of the amount obtained after deducting legal reserves, taxes and first dividend from distributable profit. Usufruct shares do not have any interest in the capital of Koç Holding and do not have any voting rights associated with them. In the event of liquidation, usufruct shareholders are not entitled to receive any portion of the liquidation proceeds.

The analysis of shares by type is as follows:

| Group | Unit of shares | TL billion | Nature of shares |
|---|---:|---:|---:|
| A | 211,922,206,014 | 211,922 | Registered |
| B | 53,592,000 | 54 | Registered |
| B | 577,774,201,986 | 577,774 | Bearer |
| | | **789,750** | |

## NOTE 26 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements, other than legal reserve requirements, are available for distribution subject to the legal reserve requirement referred to below.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Group's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Dividend distributions are made by Koç Holding in TL, in accordance with its Articles, after deducting taxes and setting aside the legal reserves as discussed above. In accordance with the Articles, dividends are paid to "Koç Holding Foundation for Pensions and Assistance" up to 2% but not less than 1% of the distributable profits remaining after deducting taxes, legal reserves and the first dividend. The holders of the usufruct shares are currently entitled to receive dividends out of distributable profits as explained in Note 25.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 26 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)**

Composition of prior periods' earnings and dividends (per Statutory Financial Statements of Koç Holding, Subsidiaries and Joint Ventures) at 31 December (not adjusted for inflation):

| | 2003 | 2002 |
|---|---|---|
| Legal reserves | 16,449 | 14,635 |
| Undistributed general reserve | 181,326 | 154,636 |
| | **197,775** | **169,271** |
| Historical amounts of dividends distributed during the year from previous periods' net income per statutory financial statements | - | - |

Quoted companies are subject to dividend requirements regulated by the CMB as follows:

In accordance with Communiqué XI/25 section 15/399, the accumulated deficit that may arise as the balancing figure in the financial statements as a result of the first-time application of inflation accounting should be netted off in the calculation of the distributable profit. In addition, the net-off of such accumulated deficit against current year income and retained earnings, if any, legal and extraordinary reserves and adjustment to share capital can be made according to the related Communiqué.

In accordance with Communiqué XI/25, effective from 1 January 2004, companies are obliged to distribute at least 20% of their distributable profit arising from 2003 activity, which is calculated based on the financial statements prepared in accordance with IFRS. Based on the decision of the General Assembly, the distribution of a minimum of 20% of the distributable profit can be made as cash or as bonus share or as a combination of a certain percentage of cash and bonus shares.

**NOTE 27 - FINANCIAL INCOME - NET**

| | 2003 | 2002 |
|---|---|---|
| Interest income | 241,543 | 297,878 |
| Interest expense | (159,161) | (305,133) |
| Foreign exchange gain/(loss), net | 59,788 | (46,126) |
| Credit finance income, net | 35,457 | 100,415 |
| Other | (31,649) | (23,407) |
| **Financial income - net** | **145,978** | **23,627** |

**NOTE 28 - FOREIGN CURRENCY POSITION**

Assets and liabilities denominated in foreign currency held by the Group before consolidation adjustments in equivalent billions of TL at 31 December are as follows:

| | 2003 | 2002 |
|---|---|---|
| Assets | 4,983,099 | 5,146,491 |
| Liabilities | (5,350,740) | (6,011,083) |
| **Net balance sheet position** | **(367,641)** | **(864,592)** |
| **Off-balance sheet derivative instruments net position** | **20,087** | **9,393** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 28 - FOREIGN CURRENCY POSITION (Continued)**

| | 2003 | | | |
|---|---|---|---|---|
| | **USD** | **EUR** | **Other** | **Total** |
| Cash and cash equivalents | 648,144 | 374,897 | 51,353 | 1,074,394 |
| Investments | | | | |
| - available-for-sale | 148,060 | 59,708 | 9,923 | 217,691 |
| - held-to-maturity | 161,098 | 162,873 | 1,086 | 325,057 |
| Reserve deposits with Central Banks | 141,262 | 36,227 | 200 | 177,689 |
| Loans and advances to customers | 642,744 | 194,244 | 64,053 | 901,041 |
| Trade receivable | 162,163 | 512,903 | 256,149 | 931,215 |
| Due from related parties | 18,839 | 117,589 | 42,666 | 179,094 |
| Inventories | 999 | 3,525 | 23,869 | 28,393 |
| Other current assets | 34,475 | 21,238 | 27,299 | 83,012 |
| | 1,957,784 | 1,483,204 | 476,598 | 3,917,586 |
| Loans and advances to customers | 76,175 | 119,722 | 160,377 | 356,274 |
| Investments | | | | |
| - available-for-sale | 58,333 | 5,445 | - | 63,778 |
| - held-to-maturity | 358,859 | 65,652 | - | 424,511 |
| Property, plant and equipment | - | - | 207,405 | 207,405 |
| Other non-current assets | - | 105 | 13,440 | 13,545 |
| | 493,367 | 190,924 | 381,222 | 1,065,513 |
| **Total foreign currency denominated assets** | **2,451,151** | **1,674,128** | **857,820** | **4,983,099** |
| Customer deposits | 1,413,649 | 659,573 | 52,581 | 2,125,803 |
| Bank borrowings | 750,653 | 376,064 | 114,205 | 1,240,922 |
| Bonds issued | 817 | - | - | 817 |
| Insurance technical reserves | 18,506 | 6,794 | 50 | 25,350 |
| Trade payables | 11,169 | 236,338 | 105,930 | 353,437 |
| Due to related parties | 92,227 | 128,653 | 21,134 | 242,014 |
| Other current liabilities | 74,148 | 37,472 | 27,370 | 138,990 |
| | 2,361,169 | 1,444,894 | 321,270 | 4,127,333 |
| Customer deposits | 39,600 | 7,622 | 178 | 47,400 |
| Bank borrowings | 494,366 | 542,693 | 81,814 | 1,118,873 |
| Insurance technical reserves | 34,999 | 1,906 | - | 36,905 |
| Other non-current liabilities | 5,928 | 952 | 13,349 | 20,229 |
| | 574,893 | 553,173 | 95,341 | 1,223,407 |
| **Total foreign currency denominated liabilities** | **2,936,062** | **1,998,067** | **416,611** | **5,350,740** |
| **Net foreign currency position** | **(484,911)** | **(323,939)** | **441,209** | **(367,641)** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 28 - FOREIGN CURRENCY POSITION (Continued)**

| | | 2002 | | |
|---|---|---|---|---|
| | **USD** | **EUR** | **Other** | **Total** |
| Cash and cash equivalents | 1,008,428 | 267,149 | 26,736 | 1,302,313 |
| Investments | | | | |
| - available-for-sale | 57,795 | 61,257 | 968 | 120,020 |
| - held-to-maturity | 68,350 | 553 | 3,520 | 72,423 |
| Reserve deposits with Central Banks | 186,980 | 45,647 | - | 232,627 |
| Loans and advances to customers | 557,728 | 161,823 | 40,529 | 760,080 |
| Trade receivable | 81,996 | 482,560 | 144,973 | 709,529 |
| Due from related parties | 38,834 | 269,543 | 26,423 | 334,800 |
| Inventories | 1,366 | 25,548 | 16,915 | 43,829 |
| Other current assets | 38,227 | 38,598 | 61,008 | 137,833 |
| | 2,039,704 | 1,352,678 | 321,072 | 3,713,454 |
| Loans and advances to customers | 433,898 | 83,299 | - | 517,197 |
| Investments | | | | |
| - available-for-sale | 13,584 | 6,563 | - | 20,147 |
| - held-to-maturity | 527,035 | 86,412 | - | 613,447 |
| Property, plant and equipment | - | - | 233,887 | 233,887 |
| Other non-current assets | - | 12,357 | 36,002 | 48,359 |
| | 974,517 | 188,631 | 269,889 | 1,433,037 |
| **Total foreign currency denominated assets** | **3,014,221** | **1,541,309** | **590,961** | **5,146,491** |
| Customer deposits | 1,725,908 | 511,100 | 66,109 | 2,303,117 |
| Bank borrowings | 751,948 | 316,947 | 45,086 | 1,113,981 |
| Bonds issued | 3,458 | 2,120 | - | 5,578 |
| Insurance technical reserves | 48,751 | 8,279 | - | 57,030 |
| Trade payables | 98,446 | 247,467 | 60,076 | 405,989 |
| Due to related parties | 99,656 | 138,766 | 106 | 238,528 |
| Other current liabilities | 318,655 | 94,308 | 44,096 | 457,059 |
| | 3,046,822 | 1,318,987 | 215,473 | 4,581,282 |
| Customer deposits | 107,798 | 31,923 | 4,129 | 143,850 |
| Bank borrowings | 596,972 | 510,458 | 73,310 | 1,180,740 |
| Insurance technical reserves | 26,350 | 802 | - | 27,152 |
| Other non-current liabilities | 48,523 | 8,088 | 21,448 | 78,059 |
| | 779,643 | 551,271 | 98,887 | 1,429,801 |
| **Total foreign currency denominated liabilities** | **3,826,465** | **1,870,258** | **314,360** | **6,011,083** |
| **Net foreign currency position** | **(812,244)** | **(328,949)** | **276,601** | **(864,592)** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 29 - GOVERNMENT GRANTS

Certain Subsidiaries have obtained investment incentive certificates from the Turkish Government Authorities in connection with certain major capital expenditures, which entitle the companies, among other things, to:

i) a 100% exemption from customs duty on machinery and equipment to be imported,

ii) investment allowance of 100% and 200% on approved capital expenditures,

iii) incentive premiums varying between 17% and 26% on the cost of the local content of the facilities,

iv) resource utilisation support premium (RUSP - an investment grant in the form of cost reimbursement) varying from 25% to 40% on a portion of the total approved capital expenditures.

The investment allowance indicated in (ii) above is deductible from current or future taxable profit for the purposes of corporation tax, and is exempt from both corporation and minimum tax, but is subject to income tax of 19.8%. The total amount of investment incentive allowance for the year ended 31 December 2003 is TL 1,622,087 billion (2002: TL 1,605,275 billion) (Note 23).

As permitted by Turkish tax legislation, RUSP is recognised in the statutory accounts as income upon its receipt. The consolidated financial statements are adjusted and restated to account for RUSP on an accrual basis for estimated amounts to be received under grant claims filed, and to reflect it as deferred income to be amortised over the depreciation period of the related assets on a straight-line basis.

The accrued RUSP receivables are included in other receivables and current assets in the consolidated balance sheets, while the recognised portions of deferred income are included in other income in the consolidated statements of income.

## NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingencies, from which the management does not anticipate any significant losses or liabilities are summarised below:

| | 2003 | 2002 |
|---|---|---|
| **Guarantees given:** | | |
| Letters of guarantee | 999,832 | 841,730 |
| Guarantee notes | 32,859 | 30,198 |
| **Guarantees taken:** | | |
| Letters of guarantee | 991,814 | 507,208 |
| Guarantee notes | 13,251 | 25,793 |
| Marketable securities given as guarantee | 7,808 | 628 |

**Commitments - given:**

### (a) Commitments - Banking

In the banking segment, normal course of banking activities requires to undertake various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements, including letters of guarantee, acceptance credits, letters of credit and off-balance sheet derivative instruments. The Group does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities at 31 December:

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

**Credit related commitments:**

The following table shows the outstanding credit related commitments of the Group:

| | 2003 | 2002 |
|---|---|---|
| Letters of guarantee | | |
| - Foreign currency | 402,234 | 534,553 |
| - TL | 395,155 | 429,900 |
| Letters of credit | 305,505 | 439,055 |
| Acceptance credits | 44,703 | 55,701 |
| Other commitments and contingencies | 66,862 | 60,810 |
| | **1,214,459** | **1,520,019** |
| Less: provision for losses on credit related commitments | (14,590) | (15,619) |
| | **1,199,869** | **1,504,400** |

The economic sector risk concentrations for outstanding credit related commitments of the Group is as follows:

| | 2003 | % | 2002 | % |
|---|---|---|---|---|
| Construction and cement | 167,366 | 14 | 169,684 | 6 |
| Textiles | 145,080 | 12 | 236,456 | 12 |
| Financial institutions | 144,565 | 12 | 151,742 | 12 |
| Petrochemical industry | 129,697 | 11 | 150,609 | 4 |
| Metal processing | 116,786 | 10 | 194,856 | 15 |
| Food, beverage and consumer goods | 58,989 | 5 | 73,107 | 5 |
| Trade | 46,983 | 4 | 76,602 | 6 |
| Durable goods | 24,789 | 2 | 75,176 | 11 |
| Automotive | 22,062 | 2 | 82,122 | 9 |
| Tourism | 17,364 | 1 | 18,683 | 1 |
| Other | 340,778 | 27 | 290,982 | 19 |
| | **1,214,459** | **100** | **1,520,019** | **100** |

**Derivative financial instruments:**

| **At 31 December 2003** | **Contract amount** | **Fair values** Assets / | **(Liabilities)** |
|---|---|---|---|
| **Foreign exchange derivatives** | | | |
| Currency forwards | 378,779 | 10,035 | (2,058) |
| Currency swaps | 419,467 | 3,483 | (2,656) |
| Security forwards | 1,970 | - | (38) |
| **Total trading derivative financial instruments** | **800,216** | **13,518** | **(4,752)** |
| Interest rate cap and floor arrangements | 23,316 | 7 | (262) |
| Option agreement (*) | 681 | - | (932) |
| **Total** | **824,213** | **13,525** | **(5,946)** |

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

**31 December 2002**

| | | | |
|---|---|---|---|
| **Foreign exchange derivatives** | | | |
| Currency forwards | 268,565 | 2,269 | (4,937) |
| Currency swaps | 300,947 | 1,881 | (1,394) |
| **Total trading derivative financial instruments** | **569,512** | **4,150** | **(6,331)** |
| **Interest rate derivatives** | | | |
| Interest rate cap and floor arrangements | 29,076 | 43 | (43) |
| **Total** | **598,588** | **4,193** | **(6,374)** |

(*) At 31 December 2003, option agreement represents a commitment of KFS, a Joint Venture of the Group, to buy and an option for IFC to sell by 16 November 2005, the 20% share capital of Koçbank Azerbaijan Ltd. (Nominal value of USD 1 million at 31 December 2003) presently owned by IFC. According to the clauses of the agreement KFS management estimated the fair value of the option, calculated as the difference between the expected cash out and the fair value of the 20% share of Koçbank Azerbaijan Ltd. to be negative TL 932 billion.

**(b) Commitments - Other**

i) Ford Otosan, a Joint Venture of the Group, management believes that there is an effective cash flow hedge between the foreign currency denominated payables (a non-derivative hedging instrument) with regard to engineering expenses and anticipated future sales (hedged item) of the new light commercial vehicle ("V227 or Transit Connect"). The hedge relationship is considered effective since its inception when the business principles for V227 between Ford Otosan and Ford Motor Company were formally discussed and agreed. The anticipated sales of 203,000 units of Transit Connect to Ford of Europe to fully offset engineering payables is considered highly probable as at 31 December 2003 within the next three years and the relationship is properly documented. Accordingly, unrealised foreign exchanges losses on foreign currency denominated engineering payables from inception to 31 December 2003 amounting to TL 24,454 billion were booked under the shareholders' equity as "cumulative loss on hedging". In 2003, TL 7,103 billion of the reserve is transferred to the statement of income and classified under financial expense.

ii) The long-term loan from ABN Amro Bank B.V. amounting to EUR 61,112 thousand (2002: EUR 66,667 thousand) was obtained to finance the investment to manufacture Doblo light commercial vehicles of Tofaş, a Joint Venture of the Group. According to the manufacturing agreement signed between Fiat (the customer of the majority of Doblo production) and Tofaş, the repayment obligations related to such loan is guaranteed by Fiat through future purchases of Doblo until the end of 2008. Accordingly, the Group's exposure to foreign exchange rate and interest rate fluctuations is undertaken by Fiat. The portion of the foreign exchange losses in excess of the inflation index amounting to TL 5,933 billion on the bank loan that is determined to be an effective hedge is accounted under shareholders' equity as "cumulative loss on hedging".

iii) Ford Otosan, a Joint Venture of the Group, entered into two collar agreements in 2000, which are outstanding as of 31 December 2003 to hedge the interest rate risk arising from borrowings amounting to EUR 27,938,592. The collar agreements have fixed floor and ceiling rates. Accordingly, at the dates defined in the agreements, if the EURIBOR rate is below the floor rate Ford Otosan compensates the difference between the floor rate and the actual rate to the counter bank. Contrarily, if the EURIBOR rate is above the ceiling rate, the counter bank compensates the difference to Ford Otosan.

Details of the collar agreement, which is valid as of 31 December 2003, is as follows:

| Agreement | EURIBOR Floor rate | EURIBOR Ceiling rate | Amount | Due date |
|---|---|---|---|---|
| Citibank | 5.2% | 6.0% | EUR 27,938,592 | 28 August 2008 |

## NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

iv) According to the decision of the Board of Directors meeting of Koç Holding dated 11 November 2002, the signing of the "Project Funds Agreement" for the USD 50,000,000 syndicated loan of Beko Elektronik, a Subsidiary of the Group, from IFC and banks is agreed. It is also agreed to give "confort letter" confirming that Koç Group shares at Beko Elektronik will not be below 51%until this loan is fully paid.

v) In connection with the investment incentives, the Group was committed to realize export sales amounting to USD 331,075,820 at 31 December 2003 (2002: USD 229,807,080).

vi) At 31 December 2003 and 2002, the Group has mortgaged its land and buildings in the amount of EUR 50,689,376 and USD 67,500,000 to secure its long-term debt obtained from banks.

vii) Ford Otosan, a Joint Venture of the Group, entered a loan agreement with Akbank T.A.Ş. in 2003. During the term of this agreement, the Company is required to ensure that its export proceeds up to an amount of EUR 123,120,000 for each calendar year, except for the last year, will be processed through a deposit account at Akbank T.A.Ş. For 2008, the last year of the agreement, the transaction commitment in this deposit account at Akbank is EUR 82,080,000.

viii) All assets of Ramenka, a Joint Venture of the Group, amounting to TL 252,880 billion (cash and due from banks TL 15,837 billion, trade receivables TL 5,781 billion, inventories TL 18,467 billion, other current assets TL 15,914 billion, property, plant and equipment TL 184,499 billion and other long-term assets TL 12,382 billion), are pledged as security for the IFC loan agreement amounting to USD 30 million.

ix) As at 31 December 2003, Company has a commitment for the investment construction of Ramenka, a Joint Venture of the Group, amounting TL 66,492 billion. As at 31 December 2002, there was any commitment.

x) All assets of Rambutya, a Subsidiary of the Group, amounting to TL 34,549 billion (Cash and due from banks TL 3,534 billion, trade receivables TL 225 billion, inventories TL 3,243 billion, property, plant and equipment TL 27,547 billion), are pledged as security for the IFC loan agreement signed on 30 July 1999 amounting to USD 11 million.

xi) Historically, future contacts were entered into to manage the exposure of product inventories for fluctuations in the base fuel price, which is determined with reference to Brent crude oil as a benchmark. In general, Opet's, a Joint Venture of the Group, policy was to hedge 100% of the inventories on hand at any specific time. The Group commenced to perform futures transactions in 1999. At 31 December 2003, the settlement dates of open futures contracts ranged between two months as some with prior year. If the open futures contracts had been realised as of 31 December 2003, Opet would recognise a loss of USD 2,360,195, which would offset the reduced revenues arising from the lower selling prices for inventory.

xii) Koç Lease, a Joint Venture of the Group, recorded provision of TL 2,792 billion against potential tax risks in the form of possible tax duties and penalties in the financial statements for the year ended 31 December 2003. Koç Lease management assessed this provision upon consultation with their tax advisers as the possible outcome of the tax investigation by the Ministry of Finance on the statutory records of the Koç Lease for the year ended 31 December 2000.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

| | 2003 | 2002 |
|---|---|---|
| Mortgages given | 239,033 | 181,149 |
| Commitments with respect to export incentive certificates | 540,600 | 442,106 |
| Commitments with respect to investment incentive certificates | 87,970 | 90,708 |
| Commitments given with respect to other gains | 86,821 | - |
| Other | 2,604 | 2,114 |
| | **957,028** | **716,077** |

**Commitments taken:**

| | 2003 | 2002 |
|---|---|---|
| Mortgages taken | 114,895 | 130,914 |

**NOTE 31 - MAJOR ACQUISITIONS**

Major acquisitions made by the Group in 2003 and 2002 resulting in goodwill are as follows:

**2003**

Temel Ticaret ve Yatırım A.Ş., the main shareholder of Koç Holding, has increased its share in Koç Holding by 7.21% through transferring its 50.81% share in Migros Türk T.A.Ş. with a nominal value of TL 27,984,941,580,000 to Koç Holding as a capital increase. The increase of TL 414,199 billion in Koç Holding's share capital represents the fair value of those shares. As a result of this transaction, the Group has acquired the net assets of Migros Türk T.A.Ş. with a fair value of TL 265,818 billion resulting in goodwill amounting to TL 148,381 billion.

**2002**

i) On 17 December 2002, the Group acquired 45.33% of the issued share capital of Opet for a purchase of TL 191,108 billion resulting in goodwill amounting to TL 148,412 billion.

ii) 30% of the issued share capital of Bilkom was acquired with effect from 16 May 2002 for a cash consideration of TL 3,204 billion resulting in goodwill amounting to TL 3,715 billion.

iii) On 5 February 2002, the Group acquired 100% of the issued share capital of Beko Deutschland for a purchase consideration of TL 4,176 billion resulting in goodwill amounting to TL 3,818 billion.

iv) 50% of the issued share capital of Beko Espana was acquired with effect from 5 February 2002 for a cash consideration of TL 1,146 billion resulting in goodwill amounting to TL 850 billion.

v) 100% of the issued share capital of the Elektra Bregenz Product and Elektra AG was acquired with effect from 31 December 2002 for a cash consideration of TL 4,652 billion resulting in goodwill amounting to TL 1,795 billion.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 31 - MAJOR ACQUISITIONS (Continued)**

Details of total net assets acquired during the years and resulting goodwill are as follows:

| | 2003 | 2002 |
|---|---|---|
| Purchase consideration: | | |
| - Cash paid | - | 204,286 |
| - Fair value of shares issued | 414,199 | - |
| **Total purchase consideration** | **414,199** | **204,286** |
| - Inventories | 60,706 | 101,077 |
| - Current assets | 144,515 | 48,390 |
| - Property, plant and equipment | 297,202 | 107,640 |
| - Other non-current assets | 33,213 | 12,324 |
| - Current liabilities | (201,246) | (166,471) |
| - Non-current liabilities | (68,572) | (57,264) |
| Less: Fair value of net assets acquired | 265,818 | 45,696 |
| **Resulting goodwill (Note 16)** | **148,381** | **158,590** |

Major acquisitions made by the Group in 2003 and 2002 resulting in negative goodwill are as follows:

**2003**

There is no purchase resulting in a negative goodwill in the year 2003.

**2002**

i) 100% of the issued share capital of Bloomberg GmbH was acquired with effect from 3 June 2002 for a cash consideration of TL 9,302 billion resulting in negative goodwill amounting to TL 28,211 billion.

ii) On 3 June 2002, the Group acquired 100% of the issued share capital of Bloomberg mbH for a purchase consideration of TL 11,369 billion resulting in negative goodwill amounting to TL 18,319 billion.

iii) 50% of the issued share capital of Beko France was acquired with effect from 1 February 2002 for a cash consideration of TL 2,686 billion resulting in negative goodwill amounting to TL 1,118 billion.

iv) 91,14% of the issued share capital of Arctic was acquired with effect from 18 November 2002 for a cash consideration of TL 35,777 billion resulting in negative goodwill amounting to TL 1,118 billion.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

**NOTE 31 - MAJOR ACQUISITIONS (Continued)**

| | 2003 | 2002 |
|---|---|---|
| Purchase consideration: | | |
| - Cash paid | - | 59,134 |
| - Fair value of shares issued | - | - |
| **Total purchase consideration** | **-** | **59,134** |
| Receivables | - | 72,814 |
| Inventories | - | 36,953 |
| Other current assets | - | 26,771 |
| Property, plant and equipment | - | 87,002 |
| Other non-current assets | - | 775 |
| Trade payables | - | (63,221) |
| Current liabilities | - | (26,797) |
| Deferred tax liabilities | - | (4,762) |
| Non current liabilities | - | (21,635) |
| Less: Fair value of net assets acquired | - | 107,900 |
| **Resulting negative goodwill (Note 16)** | **-** | **(48,766)** |

**NOTE 32 - LEGAL MERGERS**

Legal mergers made by the Group in 2003 and 2002 were as follows:

**2003:**

i) In the Extraordinary General Assembly Meeting of Koç Holding at 25 June 2003, based on the authorization of the CMB no. 32/759 dated 19 June 2003, the Domestic Trade Department of the Ministry of Trade and Industry no. 5241 dated 23 June 2003, Board of Competition no. 220 dated 23 May 2003 and Treasury Department of the Turkish Republic Foreign Capital Department no. 31597 dated 23 May 2003, it was decided to legally merge its subsidiaries Tat Konserve, Maret, Pastavilla and SEK Süt under the umbrella of Tat Konserve in accordance with article 451 of the Corporate Tax Law.

ii) As of 31 December 2003, İnternet Rezervasyon Sistemleri A.Ş. has legally merged with Setur.

**2002:**

i) At 31 October 2002, Otokar, whose shares are publicly traded on Istanbul Stock Exchange, merged legally with Istanbul Fruehauf Taşıt Araçları San. ve Tic. A.Ş.

The subsidiaries of Koç Holding merged legally in accordance with the article 451 of Turkish Trade Law and articles 37 and 39 of Corporate Tax Law.

All companies disclose above were Subsidiaries of the Group at the time of legal merger.

Legal mergers were not dealt with in accordance with the IAS 22 ("Business Combinations") since they were transactions among enterprises under common control. There is no recognition of any new goodwill or negative goodwill and similarly, the effects of all transactions between the legally merged enterprises, whether occurring before or after the legal merger, are eliminated in the preparation of the consolidated financial statements.

(Amounts expressed in billions of Turkish Lira (TL) in terms of the purchasing power of TL at 31 December 2003 unless otherwise indicated)

## NOTE 33 - MINORITY INTEREST

Changes in minority interest during the year are as follows:

| | 2003 | 2002 |
|---|---|---|
| **Balance at 1 January** | **2,155,181** | **1,908,245** |
| Increase in share capital | 90,460 | 1,364,767 |
| Increase/(decrease) in minority interest due to Subsidiaries and Joint Ventures added to the scope of consolidation | 2,834 | (3,308) |
| (Decrease)/increase in minority interest due to subsidiaries excluded from the scope of consolidation | (15,992) | 185 |
| Currency translation differences | (14,195) | 52,188 |
| Cumulative loss on hedging | 961 | - |
| Effect of legal mergers (Note 32) | 2,096 | 671 |
| Effect of restructuring in finance segment (*) | - | (1,225,563) |
| Effect of restructuring in other segments (**) | (262,721) | - |
| Payments of dividends | (173,875) | (119,815) |
| Net income attributable to minority interest | 411,315 | 177,811 |
| **Balance at 31 December** | **2,196,064** | **2,155,181** |

(*) Effect of restructuring in finance segment represents the decrease in minority interest due to the finance segment subsidiaries that have become joint ventures in 2002 (Note 35).

(**) TL 268,716 billion of the effect of restructuring in other segments represents the decrease in minority interest due to the acquisition of Migros shares by Koç Holding (Note 31).

## NOTE 34 - INTEREST IN JOINT VENTURES

Aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities and net income related to Joint Ventures, which are proportionately consolidated as explained under Note 3 to these consolidated financial statements, are as follows on a combined basis:

| | 2003 | 2002 |
|---|---|---|
| Current assets | 1,001,496 | 3,949,552 |
| Non-current assets | 1,337,751 | 3,508,224 |
| Total assets | 2,339,247 | 7,457,776 |
| Current liabilities | 638,927 | 4,700,413 |
| Non-current liabilities | 291,308 | 866,295 |
| Total liabilities and shareholders' equity | 2,339,242 | 7,457,776 |
| Revenues | 3,362,082 | 3,625,329 |
| Operating profit | 79,485 | 100,276 |
| Net income | 148,286 | 89,922 |

## NOTE 35 - RESTRUCTURING IN FINANCE SEGMENT

On 16 March 2001, Koç Finansal Hizmetler A.Ş. ("KFS") was established for the purpose of combining all financial service companies of the Group, namely, Koçbank A.Ş., Koç Finansal Kiralama A.Ş., Koç Factoring Hizmetleri A.Ş., Koç Yatırım Menkul Değerler A.Ş., Koç Portföy Yönetimi A.Ş., Koçbank Nederland N.V. and Koçbank Azerbaijan Ltd. under a single entity. During 2002, all these financial service companies have been structured under KFS as a result of the direct sale or the exchange of shares. In this process the Group subsidiaries, which previously owned shares in these financial service companies exchanged their participating shares for KFS shares based on their statutory nominal values. As a result of this process, the Group has given up approximately 10% of its interest in these financial services companies.

This transaction is accounted for as an "exchange/ barter" of shares where no profit or loss had arisen in the statutory accounts of the Group in 31 December 2002. However, the transaction resulted in a dilution loss of TL 64,219 billion (excluding minority interest) for the year ended 31 December 2002, based on the book values in the consolidated financial statements, which have been prepared in accordance with IFRS. The loss mentioned is reclassed under "other expenses" in the consolidated income statement.

## NOTE 36 - SUBSEQUENT EVENTS

a) On 23 January 2004, Koç Holding obtained a syndication loan amounting to USD 100 million. The syndication loan will be used for the all financial needs of the Group companies. Koç Holding is liable to pay a one-off commission fee at 2.22% on the syndication loan, which has a maturity of 2 years with semi-annual interest payments at the rate of LIBOR+1.75%.

b) On 29 January 2004, Beko Elektronik, a Subsidiary of the Group, has signed an asset purchase agreement for the acquisition of the patent, brand, research and development activities and related machinery, German stocks and European sales companies and service after sales organization of Grunding AG by establishing a 50% and 50% partnership with a UK based consumer electronics company, Alba Plc. According to the agreement, the Company, on its part, will pay EUR 23 million for patent, brand and research development and service organization, and an additional amount that will be determined and added after due diligence work for German stocks and European sales companies where the total consideration will not exceed EUR 40 million. EUR 20 million of the payment will be from Beko Elektronik's own sources and remaining EUR 20 million from bank loans. The deal is currently is being reviewed by the European Union and Turkish Competition Board and expected to be finalised in April 2004.

c) In the General Assembly Meeting of Marmaris Altınyunus Turistik Tesisler A.Ş. at 26 December 2003 it was decided to merge Marmaris Altınyunus Turistik Tesisler A.Ş. with Tütaş Türk Turizm A.Ş. under Marmaris Altınyunus Turistik Tesisler A.Ş. according to Turkish Commercial Code 451 and Corporate Tax Laws 37-39. The merger will be realised over the 31 December 2003 balance sheets by the acquisition of all assets and liabilities of Tütaş Türk Turizm A.Ş. by Marmaris Altınyunus Turistik Tesisler A.Ş. In the determination of amount of shares arising from the acquisition to be given to Tütaş Türk Turizm A.Ş. shareholders one of the real estate valuation firms in the list of the CMB will be utilised. In the determination of the merger rates one of the methods from a) Equity Method b) Adjusted Net Asset c) Discounted Cash Flows will be used. It is decided to authorize the expert report prepared by the appointed experts of the courts and the Board of Directors to obtain necessary permission.

   The merger mentioned above did not take place as of the date of these consolidated financial statements.

d) In January 2004, the Group has sold all of its Garanti Balfour shares to a third party.

e) Negotiations and the due diligence has been initiated with Michelin, the foreign partner of Tekersan, for the sale of the Group's shares in Tekersan.

f) Koç Holding has agreed to initiate a public offering for 25% of the shares of its subsidiary, Türk Traktör.

**NOTE 36 - SUBSEQUENT EVENTS (Continued)**

g) The Group has decided to buy TL 75,000 million nominal valued shares of Tariş Alkollü İçkiler A.Ş., that has a nominal capital of TL 150,000 million, and to participate in the capital increase of Tariş Alkollü İçkiler A.Ş. from 150,000 million to 7,000,000 million in proportion to its shares.

h) On 25 February 2004, Ford Otosan, a Joint Venture of the Group, has completed the sale of its land in Kadıköy – İstanbul at a price of USD 28 million. The net book value of the land, land improvements, buildings and other assets attached to the land subject to sale, amounted to TL 6,939 million as at 31 December 2003. At the Board of Directors meeting held on 10 February 2004 Ford Otosan will use the net proceeds of the sale amounting to approximately TL 30,000 billion in capital increase in accordance with temporary article 28 of the Corporate Tax Law No: 5422.

i) At 26 February 2004, Aygaz, a Subsidiary of the Group, acquired 50.00% of BOS for EUR 15,250,000 and increased its total share to 97.43%.

j) In February 2004, Entek, a Subsidiary of the Group, acquired 84.78% of Türk Edison A.Ş. ("Türk Edison"). Türk Edison operates a 60-MW power plant in Gebze. In 2004, the Company has entered into a guarantee agreement with a Turkish bank amounting to USD 52 million in the financial restructuring of Türk Edison's liabilities. In connection with the restructuring Türk Edison has transferred its liabilities of EUR 42 million to Entek and furthermore Entek has paid EUR 10.7 million to Stirpex B.V. as the share price to acquire the shares of Türk Edison.

## KOÇ GROUP COMPAINES ON THE WEB

| | |
|---|---|
| Vehbi Koç | ww.vehbikoc.gen.tr |
| Agro Market | www.kotonoline.com |
| Arctic | www.arctic.ro |
| Arçelik | www.arcelik.com.tr |
| Ark İnşaat | www.arkinsaat.com.tr |
| Artesis | www.artesis.com |
| Aygaz | www.aygaz.com.tr |
| Beko Elektronik | www.bekoelektronik.com.tr |
| Beko Espana | www.beko.es |
| Beko France | www.beko.fr |
| Beko Polska | www.qdnet.pl/beko |
| Beko U.K. | www.beko.co.uk |
| Beldeyama | www.beldeyama.com.tr |
| BİLETİX | www.biletix.com.tr |
| Bilkom | www.bilkom.com.tr |
| Birleşik Oksijen San | www.bos.com.tr |
| Birmot | www.birmot.com.tr |
| Blomberg | www.blomberg.de |
| Demir Export | www.demirexport.com |
| Divan Oteli | www.divanoteli.com.tr |
| Divan Üretim | www.divanpastaneleri.com.tr |
| Döktaş | www.doktas.com.tr |
| Düzey | www.duzey.com.tr |
| Elektra Bregenz | www.elektrabregenz.com |
| Ford Otosan | www.ford.com.tr |
| GVZ | www.gvz.com.tr |
| İzocam | www.izocam.com.tr |
| Kav Danışmanlık | www.kav.com.tr |
| Koç Allianz | |
| Hayat ve Emeklilik | www.kocallianzhayat.com.tr |
| Koç Allianz Sigorta | www.kocallianz.com.tr |
| Koç Ata Sancak | www.kocata.com.tr |
| Koç Bilgi Grubu | www.kocbilgi.com |
| Koç Bryce | www.kocbryce.com.tr |
| Koç Faktoring | www.kocfaktor.com.tr |
| Koç Fiat Kredi | www.kocfiatkredi.com.tr |
| Koç Stabil Gaz | www.kocstabil.com.tr |
| Koç Yatırım | www.kocyatirim.com.tr |
| Koç Holding | www.koc.com.tr |
| Koç.net | www.koc.net |
| Kobiline | www.kobiline.com |
| Koçbank A.Ş. | www.kocbank.com.tr |
| Koçbank Azerbaycan | www.kocbank.com.az |
| Koçbank Nederland | www.kocbank.nl |
| Koçfinans | www.kocfinans.com.tr |
| | www.akillikart.com.tr |
| Koçlease | www.koclease.com.tr |
| Koçportföy | www.kocportfoy.com.tr |
| KoçSistem | www.kocsistem.com.tr |
| Koçtaş Yapı Marketleri | www.koctas.com.tr |
| Mako | www.mako.com.tr |
| Maret | www.maret.com.tr |
| Mares | www.mares.com.tr |
| Migros | www.migros.com.tr |
| | www.kangurum.com.tr |
| Mogaz | www.mogaz.com.tr |
| New Holland Trakmak | www.trakmak.com.tr |
| Opet | www.opet.com.tr |
| Otokar | www.otokar.com.tr |
| Otokoç | www.otokoc.com.tr |
| Otomotiv Lastikleri | www.oltas.com.tr |
| Otoyol Pazarlama | www.opaz.com.tr |
| Otoyol Sanayi | www.otoyol.com.tr |
| Pastavilla | www.pastavilla.com.tr |
| Promena | www.promena.net |
| Ram | www.ram.com.tr |
| Ram Pacific | www.rampacific.com |
| Ramstore Bulgaria | www.ramstore.bg |
| Ramenka - Rusya | www.ramstore.ru |
| RMK Marine | www.rmkmarine.com.tr |
| Samkocauto | www.ska.uz |
| Sanal Market | www.sanalmarket.com.tr |
| Set Oto AVIS | www.avis.com.tr |
| Sek Süt | www.seksut.com.tr |
| Setair | www.setair.com.tr |
| Setur Marina | www.seturmarinas.com.tr |
| Setur | www.setur.com.tr |
| | www.bookinturkey.com |
| Sherbrook | www.sherbrook.co.uk |
| Talya Oteli | www.talya.com.tr |
| Tanı | www.paro.com.tr |
| Tat Konserve | www.tat.com.tr |
| Tat Tohumculuk | www.tat.com.tr |
| TBS Denizcilik | |
| ve Petrol Ürünleri | www.tbs.com.tr |
| Tekersan | www.tekersan.com.tr |
| Tek-İz | www.tekiz.com.tr |
| TNT Lojistik | www.tntturkey.com |
| Tofaş | www.tofas.com.tr |
| Türk Demir Döküm | www.demirdokum.com.tr |
| Türk Traktör | www.turktraktor.com.tr |
| Ultra Kablolu | www.ultratv.com.tr |

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| | |
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| Research Institute on Mediterranean Civilizations | |
| American Hospital | www.amerikanhastanesi.com.tr |
| Koç School | www.kocschool.k12.tr |
| Koç University | www.ku.edu.tr |
| Rahmi M. Koç Museum | www.rmk-museum.org.tr |
| Sadberk Hanım Museum | www.sadberkhanimmuzesi.org.tr |
| Suna-İnan Kıraç | |
| Kaleiçi Museum | www.kaleicimuzesi.com |
| Vehbi Koç Foundation | www.vkv.org.tr |
| Vehbi Koç ve Ankara | |
| Research Center | www.vekam.org.tr |

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| | 00852-29561331 | 00852-29561330 |
| China | 00852-23891318 | 00852-27978025 |
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| | 0035312945270 | |
| | 00-35318014020 | 00-35318014015 |
| | 003902318284-1 | 003902318284-40 |
| | 007-3272916839 | 007-3272938242 |
| | 007-3272-587580 / 007-3272-587581 | 007-3272-587570 |
| | 007-3272-634303 | 007-3272-503555 |
| | 0048-227150701 | 0048-227150700 |
| | 0040245710565 | |
| | 00402120480000 | 0040212048002 |
| | 00-70952326730 | 00-70952326731/32 |
| | 00-70957752838 | 00-70957750545 |
| | 00-70952313010 | 00-70952313011 |
| | 0034-93-3184647 | 0034-93-3184542 |
| | 0041 22 318 59 59 | 0041-22-3185958 |
| | 00-31204624444 | 00-31206631331 |
| | 00392-2285300 | 00392-2281311 |
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