

6th Informative Meeting for the Press and the Public

Speech by Temel Atay; the CEO of Koç Group

In our previous press meeting, we had communicated our forecasts and targets for 2001. However, since then Turkey has been dragged into a very serious crisis, the circumstances have become highly adverse and the business world has been considerably affected by this situation.

Thus, in today's meeting, we will both evaluate the current conditions and also share with you once again our activities of the first six months and the results obtained as well as our perspective into the future. In the first part of my speech, I would like to convey our opinion on the economic situation which is a major item on Turkey's current agenda.

Although many successful results were achieved in 2000 with the economic program implemented in accordance with the agreement with the IMF, a decline in the political decisiveness and delays in the structural reforms have resulted in a crisis of confidence and a serious impasse.

At this juncture, the chronic structural problems in the banking industry -a vital sector within the economy- have also played apart making the crisis even deeper. As a result of two crises, Turkey is experiencing one of the worst periods of its history in economic terms.

The country has been impoverished, all the institutions have weakened, the purchasing power of the people has declined tremendously, unemployment has reached an alarming level and for the first time, qualified and well-educated labor force has also got its share from this crisis.

Therefore, the country is now faced with the possible danger of grave social bottlenecks as well, in addition to economic ones.

We believe that the crisis has been caused by;

- Habit of consuming without producing,
- Populist policies that have been maintained for years,
- Employing public resources for political purposes,
- Inefficiency and extravagance in the public sector,
- Lack of sufficient fight against corruption, irregularities and the unregistered economy,
- And as a result of all these, the State having been dragged into the bottleneck of domestic and foreign debts.

At this point in time, a new economic program is underway. We believe that this program includes radical measures to eliminate the reasons that I have just enumerated and the chronic problems of Turkey. In spite of all its challenges and the sacrifice it requires from all sectors, the program has gained public support.

And as one of the leading representatives of the private sector, we continue to support this program just like in the case of the previous one.

However, in spite the goodwill and support of the public, the measures to be taken are still dominated by political interests. We have come to the end of the ocean. This program is the last chance that Turkey stands to reach the rank of developed countries. Otherwise, what looks ahead of our country is remaining an ordinary third world country for a long time.

In order to end the crisis, the real economy should be reanimated as soon as possible and this depends on remobilizing demand which has come to a point of halt. For example, the tax revenues of the State can be increased thanks to a rise in the demand even though the tax rates are lowered in order to reanimate certain locomotive industries such as automotive, white goods and construction. Moreover, part of the heavy tax burden on that section of the society who works to produce should definitely be transferred onto the unregistered economy.

This would end the punishment of that section who produces, pays taxes to the State, provides employment and engages in exports. Restructuring of the financial sector which has been seriously injured by the crisis would be another helping factor to reanimate the real economy, and so far, the new program has taken positive steps to this end.

These steps should be continued consistently and the reforms should be completed rapidly which would allow the banking sector to re-assume its original duty of providing resources for the real sector. We hope that the seriousness of the issue will be perceived shortly, that the political contentions will be put aside, the program will be implemented with determination and measures taken rapidly for the revival of the real economy.

All in all, the problem which we are facing is one of confidence. It is imperative to rapidly rebuild confidence in the country and in the economy administration. Distinguished friends,

Now, I would like to convey to you the short and long term measures that the Koç Group has taken while going through these hard times:

- Risk management and liquidity become important in this period which poses a high degree of uncertainty and sudden fluctuations. As the Koç Group, we are trying to retain our liquidity through prudent risk management.

- The contraction of demand in the domestic market in addition to the sudden rise in foreign exchange rates have oriented us towards exportation and activities that will bring us foreign currency. These are the strategies that we follow with this aim in mind:

- Seizing export opportunities,
- Accelerating export-oriented investment projects,
- Increasing income from our operations abroad,
- Increasing income from tourism.

- One of the most important measures that we have taken is increase in efficiency through which we are planning to reduce our costs and become more competitive in the ever-contracting market. At this point, I would like to underline one important issue:

So far, we have not reduced employment for short-term saving purposes. Our aim is to safeguard our employees by all means and to preserve employment as far as possible. This ensures us to retain our trained human resources, which we will be in need of, after the crisis. Meanwhile, we continue to take all other measures for an increase in efficiency.

- In addition to all these measures, the Koç Group continues to fulfil all its commitments and liabilities to the State, to its business partners and to all other parties.

- Commitments to our customers that have arisen due to the campaigns with pre-payments,
- Liabilities to the State such as taxes, social insurance premiums, etc.,
- All commitments such as credits, debts, etc. resulting from our agreements are being met in their entirety.

- In conclusion, we maintain our target of preserving our prestige and being one of the most prestigious institutions of Turkey during the crisis as well.

As far as the results of the first six month period are concerned, the performance of the Group can be summarized as follows: Our sales in this period declined by 9 % as compared to last year on the basis of inflation adjusted TL and by 13 % on a \$ basis.

On the other hand, our exports in the same period increased by 70 % in the amount of \$780 million. Our export target for the year end is \$1,723 million with an increase of 77 %. For the first five months, our investments are 32 % behind last year's figures with \$152 million while our investments towards exports projects continue. However, investments such as capacity increase, which do not have priority at the moment, are being postponed.

As I have already stated, we are doing our best to preserve employment as far as we can. As of the end of the first six month period, we are only 4 % behind the same period of last year with a headcount of 46,379. This figure also includes the negative change of 1% as compared to the beginning of the year. I would now like to share with you some important developments that have taken place within our Group since the beginning of the year.

We continue mergers in various business units in order to increase the efficiency and competitive power of our businesses. In this period, the merger of Tofaş Fabrika and Tofaş Oto has been finalized. Furthermore, 17 of our companies engaged in automotive retail sales have been merged under the roof of two new companies each of which will carry out the marketing operations for Ford Otosan and Tofaş products respectively.

Each of these two new companies in question will hold press meetings on this issue within the coming days. As a result of these mergers, considerable amount of stocks and immovables which were in the portfolio of these 17 companies will be transferred to Koç Holding. You can find detailed information regarding this matter in your press kits.

Within the same period, the merger of Aygaz and Gazal has been finalized while the management of two separate legal entities, namely Koç Allianz and Koç Allianz Hayat were united under the same roof. During the first half of the year, Tofaş fulfilled the most important role in increasing our exports. With 51,000 exported units, the company had a total export volume of \$375 million within the first six months which corresponds to an increase by 370 % as compared to last year.

Doblo constitutes 46,000 of this volume and by itself, it corresponds to almost half of Turkey's automobile and light commercial vehicle exports. The year end export target of Tofaş is \$793 million with 112,000 units. As I have already mentioned to you in previous terms, we continued with the export-oriented investments in the past in spite of Tofaş's loss and the crisis at the time which now enables us to harvest the fruits of those efforts.

This shows us how accurate our decisions were at that time. In this period, Tofaş has also become the country wide distributor of the Alfa Romeo brand. As for Ford Otosan; the Gölcük Plant started its operations on April 20th and our new Transit model that is manufactured in this plant has already been launched in the market. We will start exporting this model within this year. Ford Otosan also continues to make investments in this crisis environment and we expect to have the same successful results with Ford Otosan like in the case of Tofaş.

Migros keeps up with its rapid growth this year as well. The first hypermarket in Bulgaria was opened this year in Sofia while in Moscow, a new shopping center was commissioned and the foundation was laid for the construction of another one. Since the beginning of the year, 15 new stores have been opened in Turkey thus reaching a total of 433 stores, and a new shopping center was opened in Antalya.

Our growth in the retailing sector will continue in the construction materials field with Koçtaş. With the investments following our partnership with B&Q, which is one of the largest corporations of this sector in the world and in Europe, the first store in İstanbul in addition to the existing four stores started its operations. Düzey, distributing consumables across Turkey, signed a distribution agreement with British American Tobacco (BAT) company.

In accordance with this agreement, Düzey will establish a distribution network with the aim of distributing BAT products. Koçbank NV operating in the Netherlands had

its first branch in Germany opened in Frankfurt. In addition, the number of branches in Turkey increased by 4 thus reaching 91. The exports of our Durable Goods Group also continues to grow. Within the first six months, exports reached a total of \$224 million with a 3 % increase as compared to the same period of last year.

The Group targets at \$509 million of exports by the end of the year which corresponds to 21 % more than last year's figure. With its new showroom opened at Maslak in January, Arçelik entered into a new field of business in this period taking its first step in the kitchen sector. In the area of tourism, Hotel Palmira in Bodrum joined the Divan Chain of Hotels.

The IT Group reached an agreement with the Carlyle Group -one of the largest investment groups in the US- towards the establishment of a new joint company for commerce over the Internet within the scope of B2B operations. www.kobiline.com portal was put into service with the joint efforts of our IT Group and Microsoft with a view to contribute to the economic and technological development of SMEs. As you will remember, this site had been introduced to you in June with the participation of Microsoft's CEO Steve Ballmer.

Furthermore, www.bookinturkey.com site was introduced to carry Turkey's touristic power onto a portal making use of Koç Group's experience in the field of tourism and of technological opportunities. Distinguished members of the press, As can be concluded from what I have said so far, the Koç Group has also been affected by the adverse economic conditions that Turkey currently faces.

In spite of this, the target for all of us in the management is to be able to overcome these harsh conditions without any harm as far as possible and to welcome the coming years in a strong state as usual. However, while doing this, we are not at all disregarding our long-term goals. I would like to take this opportunity to repeat these goals once again:

- Focusing on businesses where we have competitive power,
- Generating a considerable portion of our turnover from exports and operations abroad,
- Continuing global activities in businesses where we have technology and brand power,
- Market leadership or second in leadership in all our businesses,
- Increasing our market value,
- And being one of the 200 largest companies of the world.

In conclusion, we trust in the future of Turkey and we invest in the future of Turkey.