

Letter from the Chairperson and the Chief Executive Officer



Ahmet Cemal Dördüncü
CEO and Board Member

Güler Sabancı
Chairperson and
Managing Director

Dear Shareholders,

2005 was an outstanding year for Turkey where annual macroeconomic targets were achieved. As Sabancı Holding, we concentrated on growth in our core businesses while reshaping our long-term strategic plans in parallel with the favorable economic environment.

The global recovery in economy and trade has continued their upward trend. After three consecutive years of stable growth, the global growth rate remained above 4% in 2005. The main engines behind this escalation continued to be the United States with a 3.5% growth rate and emerging economies in Asia, led by China with a strong 9.5% rate of growth during 2005. Eurozone economies further strengthened, continuing the recovery started in the second half of 2003. After nearly a decade of stagnation, the Japanese economy is showing signs of recovery, increasing its growth rate to 2.8% in 2005; the same trend is predicted to continue during 2006. The current account deficit in the US remains as the most serious threat to the global economic stability; as dynamics change in the global economy, it is expected to get positively affected from non-US growth.

These supportive global economic conditions, together with the government's commitment toward prudent economic policy and reforms, have bolstered the economy demonstrated by a strong recovery over the past four years. The Turkish economy grew at an average annual rate of 7.8% during this period, while the growth rate in 2005 was 7.6%. Some of the

achievements in 2005 which also led to increase in credit ratings include: single-digit inflation, lower interest rates and debt stock figures, budget deficit at 2% of GNP, better than the Maastricht criteria, record-breaking privatization revenue and FDI inflow and the successful removal of six zeros from the Turkish lira. On the other hand, strong domestic demand, high international oil prices and a strong Turkish lira have led to deterioration in the external trade balance. The export to import ratio has fallen and the current account deficit has increased to a record high 6.4% of GNP. Current account deficits are unsustainable in the long run. But we believe that if global liquidity conditions do not change substantially, Turkey's strong budget, continuing privatization program, rising foreign direct investment and the EU anchor will counter the current account deficit in 2006 and the financing of the external deficit will be sustained.

The EU process has cemented these macroeconomic gains and set the stage for sustainable economic growth and disinflation. As a result, the Turkish economy is now more robust and resilient to shocks and we expect this trend to continue. In this respect, the accession talks that started on October 3, 2005, are of momentous importance to Turkey. We support this process which signals the beginning of a new era for the country and its people. We believe it will help to secure Turkey's existing reforms as it strengthens economic, social and political stability.

Along with operational achievements, the total value of our listed companies reached US\$ 26.7 billion as of year-end 2005, representing a remarkable 16% of the total market capitalization on the Istanbul Stock Exchange.

In 2005, at Sabancı Holding, we took significant and systematic steps to determine our strategies and objectives for the coming decade. We reshaped our vision and mission statements and accordingly, adopted a management approach with four key pillars - Responsibility and Transparency, Innovation, Participation and Strategic Approach. In this respect, our business units have prepared their respective strategies for the next ten years within the framework of the SA15+, Sabancı Strategic Planning Process. We introduced the SABE (Sabancı Business Excellence) platform to make business excellence a lifestyle throughout the Group and to share the best practice implementations across businesses. As we are committed to growth and value creation through **innovation**, we established SATEK (Sabancı Holding Technology, Materials and Intellectual Property Committee), improving our Research and Development activities. Additionally, we have launched a series of projects to build human resources and systems in line with our management approach to help reach our specified business objectives. Our strategic business units were empowered to ensure improved dynamism and momentum resulting in an enhanced competitive edge.

Consequently, at Sabancı Holding, we are well-prepared for Turkey's promising future with our 2006 budget, three-year strategic business plans and a ten-year business perspective. In the upcoming period, we will be pursuing organic growth and acquisitions in local and international markets in our core businesses, in particular; Financial Services, Cement, Tire, Tire Reinforcement Materials and Automotive and Food and Retailing.

During 2005, we executed the following notable transactions:

1. Sabancı Holding acquired Dupont's 50% share of Dusa International in April 2005 for US\$ 110 million and subsequently renamed the company Kordsa International. In May 2005, Cobafi, Brazil's leading polyester yarn and tire cord fabric manufacturing company, was acquired for US\$ 19 million. At the end of the year, Sakosa, our polyester cord manufacturing subsidiary in Turkey, merged with Kordsa A.Ş.
2. In July 2005, Carrefoursa purchased the majority shares of Gima, a nationwide supermarket chain, enhancing its leading position in the retailing sector. Carrefoursa and Gima merger was recently announced, which will pave the way for Carrefoursa's listing. Meanwhile, Endi, a discount store chain, acquired simultaneously with Gima, is integrated into Diasa, our "discount store" joint-venture with Carrefour.
3. In October 2005, Çimsa acquired Standart Çimento located in Eskişehir, together with the Ankara grinding facility, for US\$ 175.5 million, expanding geographically and further strengthening its market position in Central Anatolia. In May 2005, Akçansa announced a new capacity expansion program to double the clinker capacity at its Çanakkale plant to 3.7 million tons (increasing the company total to 5.7 million tons), with an expected investment of US\$ 135 million. Start-up is expected to be at the end of 2007.
4. Gıdasa purchased Kraft Foods International's 49% share of Marsa for US\$ 19.2 million, increasing its share to 100%. Subsequently, the Gıdasa and Marsa merger was announced.

Just recently, in the first quarter of 2006, as a further step to implement corporate governance principles, we executed Sabancı Holding's purchase of all of its outstanding founders' shares at a price of approximately US\$ 200 million. We believe, this transaction shows yet again our commitment to increased transparency within our Group.

We are proud to announce the following key financial results in 2005:

- Consolidated revenues of US\$ 10.6 billion, with a 23% increase,
- Consolidated total assets of US\$ 46.0 billion with a 42% increase,
- Consolidated EBITDA of US\$ 2.1 billion with a 38% increase, and
- Total Group exports of US\$ 1,050 million.

In line with these operational achievements, the total value of our listed companies reached US\$ 26.7 billion as of year-end 2005, representing a remarkable 16% of the total market capitalization on the Istanbul Stock Exchange.

Identifying social responsibility as a key element of our management approach, our cultural and social activities continued in 2005. The total social responsibility investments made by Vaksa, the Hacı Ömer Sabancı Foundation, has reached US\$ 1.1 billion since its establishment in 1974. Granting scholarships to 1,000 students and completing some major projects during 2005, Vaksa is the largest foundation of its kind in Turkey and one of the largest globally.

The most notable event of the year at the Sakıp Sabancı Museum was the hosting of the Picasso exhibition, a long awaited dream of Sakıp Sabancı, our late Chairman. The exhibition, a major art event for Turkey, has been visited by 256,145 people and has attracted more attention than any other art event that has ever taken place in the country and has contributed to our prestige both in Turkey and in the international arena.

Finally, we would like to thank all of our stakeholders who contributed to our success in 2005. Looking ahead, we are committed to differentiating ourselves in all of our activities, thus creating sustainable advantage and will continue to manage our strategic business portfolio successfully to create value for our shareholders in 2006 and beyond.



Ahmet C. Dördüncü
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