

## Letter from the Chairman and the Chief Executive Officer



**Güler Sabancı**  
Chairman and Managing Director

**Ahmet Cemal Dördüncü**  
CEO and Board Member

In line with our strategies, while exiting some of our businesses; reducing the number of strategic business units from 7 to 5; we invested US\$ 900 million in our core business units. As we continued to grow in 2007, we also successfully restructured our Group.

Dear Shareholders,

2007 was a year when politics stood center stage in Turkey, first due to the early parliamentary elections and afterwards the presidential election. As a result, fiscal discipline took a backseat. Critical micro-economic reforms could not be enacted and the EU process came to a standstill. In general, macro targets could not be reached.

The turbulence in our geographical region, the continuing political unrest and misfortunes in Iraq took their toll on our country, as the enflamed security issue, particularly in the South East, dominated the agenda in the second half of the year.

The rising problems in US subprime mortgages led to deterioration in global credit markets and despite successive interest rate cuts by the US Federal Reserve, the impact of the crisis on financial markets lingers. There was a jump in food and energy prices. Thus, expectations of growth were reversed, the American Dollar depreciated, and the world entered a phase of moderate stagnation. While the US economy was the main source of this stagnation, the Euro zone, the UK, and Japan were also hurt, largely by this contagion. On the contrary, despite a relative slow down, a vigorous trend of growth prevailed in emerging economies led by China, Russia, and India.

The growth performance of the Turkish economy has been robust in recent years. However in 2007, growth slackened in the automotive, durable consumption goods, retail electronics, and construction sectors, and there have even been seasonal downturns. In contrast, the rise in energy prices resumed.

Drought curtailed agricultural production and as a ramification of all these factors, the rate of economic growth decelerated to 4.5%. Although a strict monetary policy was followed, the prolonged process of elections slackened fiscal discipline and the ratio of the budget deficit to the GDP soared from 0.6% to 2.2%. In this environment, inflation remained at single digit levels at 8.39%, though short of the target of 4%. In spite of these weaknesses, the Turkish currency appreciated due to the inflow of foreign funds and US\$ 20 billion of net foreign direct investment. Such appreciation did not stop exports from breaking a new record of US\$ 107 billion. On the other hand, the simultaneous surge in imports triggered a high level of current account deficit, which was 5.8% of GDP.

In the face of these arguably negative developments across the world and in our country, Sabancı Group fulfilled its 2007 targets successfully. We are pleased to report the following results in 2007:

- Consolidated revenues of US\$ 14.9 billion, with a 23% increase,
- Consolidated EBITDA of US\$ 2.3 billion, with a 22% increase,
- Consolidated total assets of US\$ 68.1 billion, and
- Total Group exports of US\$ 1,333 million.

In line with our strategies, while exiting some of our businesses; reducing the number of strategic business units from 7 to 5; we invested US\$ 900 million in our core business units. Within this context, we are proud to announce the following strategic, corporate and social/cultural developments:

- Sale of 20% of Akbank shares to Citigroup for US\$ 3.1 billion was finalized in January 2007. This transaction further strengthened Akbank's position as Turkey's leading bank as its asset size grew to US\$ 62 billion.
- Akemeklilik, our life and pension subsidiary, and Aviva's Turkish life and pensions business, Aviva Hayat ve Emeklilik merged as a 50/50 joint venture in October 2007, creating Avivasa as the market leader in Turkey with 25% market share.
- In May 2007, Akçansa, our joint venture with Heidelberg Cement, acquired Ladik Çimento in the Black Sea region for US\$ 158 million, opening a whole new promising geography for the Company. The ongoing capacity expansion investment of US\$ 135 million in Akçansa's Çanakkale Plant will be finalized in March 2008, increasing the Company's total clinker capacity by 2 million tons/year to 6.4 million tons/year.
- In May 2007, we purchased Oyak Group's 41.09% stake in Oysa, our joint venture with Oyak in cement business, for US\$ 71 million. Oysa was subsequently merged into Çimsa in November 2007. Çimsa's ongoing capacity expansion and modernization investments of US\$ 95 million in its Eskiflehir Plant was finalized at the end of 2007, increasing the Company's total clinker capacity by 900,000 tons/year to 4.8 million tons/year.
- In May 2007, we initiated our 50/50 joint venture at Enerjisa with Verbund of Austria in electricity generation business. In line with our objective to reach a 10% market share in the electricity sector in Turkey, Enerjisa executed the following transactions:
  - In May 2007, Enerjisa acquired Ere Holding and KEAfi increasing its potential hydroelectric generation capacity to 1,030 MW of which 85 MW is operational.
  - In June 2007, Enerjisa purchased property in Bandırma to build a natural gas power station with a capacity of 920 MW and secured the necessary licenses.
  - At the end of 2007, the total electricity generation licenses of the Company reached almost at 3,000 MW, including the operational assets with 456 MW capacity and new sites for coal, hydroelectric, wind and natural gas. Our target is to reach 5,000 MW operational capacity by 2015.
- Teknosa, our electronics retail subsidiary, further strengthened its leadership position despite increasing competition and the entry of new players into the market. The number of Teknosa stores reached 233 and the total selling space grew from 34,000 m<sup>2</sup> to 56,000 m<sup>2</sup>; 65% increase in 2007.
- Temsa, our commercial vehicles subsidiary started construction of a new coach production facility in Egypt in February 2007, targeting North African, Gulf and Middle Eastern markets. This facility will become operational in April 2008, with a 1,000 vehicle/year capacity.
- The partnership agreement at Toyotasa, our passenger cars distribution joint venture with Toyota, was extended for 5 more years.