

ULKER BISKUVI

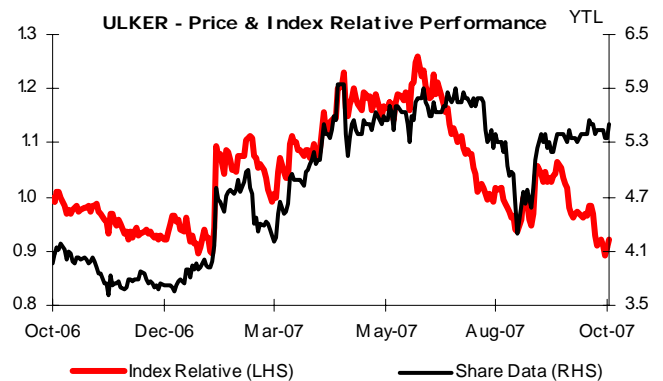
Food Processing (Biscuits, Wafers & Crackers)

Market Outperformer

The proof is in the pudding

- We initiate our coverage of Ulker Biskuvi (ULKER TI), with a 'Market Outperformer' rating and US\$1,396mn target Mcap, indicating 27% upside. We set our target Mcap as the weighted average of intrn'l peer comparison (50%), DCF (30%) and DDM (20%).
- The flagship company of largest consumer group in Turkey, Ulker Biskuvi is the best known food brand and the second most recognized brand in Turkey. The Company is the undisputed market leader with ~60% share.
- The Company structure is complicated, but the Management is taking steps to simplify it by divesting operations unrelated to core business areas. In 2006, Ulker Biskuvi decided to spin-off Atlantik Gida and began to deconsolidate it as of Nov 2006. On October 4th, 2007; the Company announced that Biskot Biskuvi (50.8% subsidiary) sold its 99.0% stake in Anadolu Gida, which was previously fully consolidated into Ulker Biskuvi.
- The cake market in Turkey is smaller than the biscuits market but promises a higher growth. To benefit from this potential, the Group will establish a new company, Ideal Cake, by merging Anadolu Gida, Ideal Gida (97.9% subsidiary) and Fresh Cake (10% participation). In 2008, Ideal Cake is planned to be offered to the public.
- Ulker Biskuvi will increase its presence in foreign countries and already purchased KBF LTD, biscuit manufacturer in Ukraine, from Yildiz Holding. The proceeds of Ideal Cake IPO will be used in purchasing new foreign operations (Romanian and Saudi Arabian) from its main shareholder, Yildiz Holding. We believe high growth potential in these markets should have a positive impact on top-line and operating profitability going forward.
- The privileged A, B and usufruct shares receive 22.73% of the distributable profit, therefore we have discounted our DCF and international peer comparison values by a calculated rate of 19.5%. The Company is trading at 7.0x 2008F EV/EBITDA (2007F:8.9x) and 9.9x 2008F P/E (2007F:10.0x) at an average discount of 31% with respect to its intrn'l peers.

Price (YTL / US\$)	5.50 / 4.57
Target Price (YTL/US\$)	6.99 / 5.80
1-Year Price Range (Adj., YTL)	6.19 / 3.54
Number of Shares (000)	241,087
Market Cap. (US\$mn)	1,102
Net Debt (2007/06, US\$mn)	120
Free Float	30%
Daily Vol. (3 Month, US\$mn)	3.3
Ticker (Reuters, Bloomberg)	ULKER.IS, ULKER TI
ISE-100 Index (YTL / US\$)	57,932 / 48,164



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	0.9%	2.8%	-4.3%	38.6%
Index Relative	0.0%	-10.3%	-14.7%	-8.0%

SUMMARY FINANCIALS (IFRS, US\$mn) & VALUATION

	2006	2007F	2008F	2009F
Net Sales	1,250	1,248	1,578	1,813
EBITDA	85	158	199	236
Net Profit	62	136	139	145
EV/Sales	0.9	0.9	0.7	0.6
EV/EBITDA	13.8	8.9	7.0	5.9
P/E	22.1	10.0	9.9	9.4

SHAREHOLDING STRUCTURE

Yildiz Holding A.S.	42.11%
BNP Paribas (Suisse) SA	26.57%
Other	1.32%
Free Float	30.00%

INVESTMENT THEME

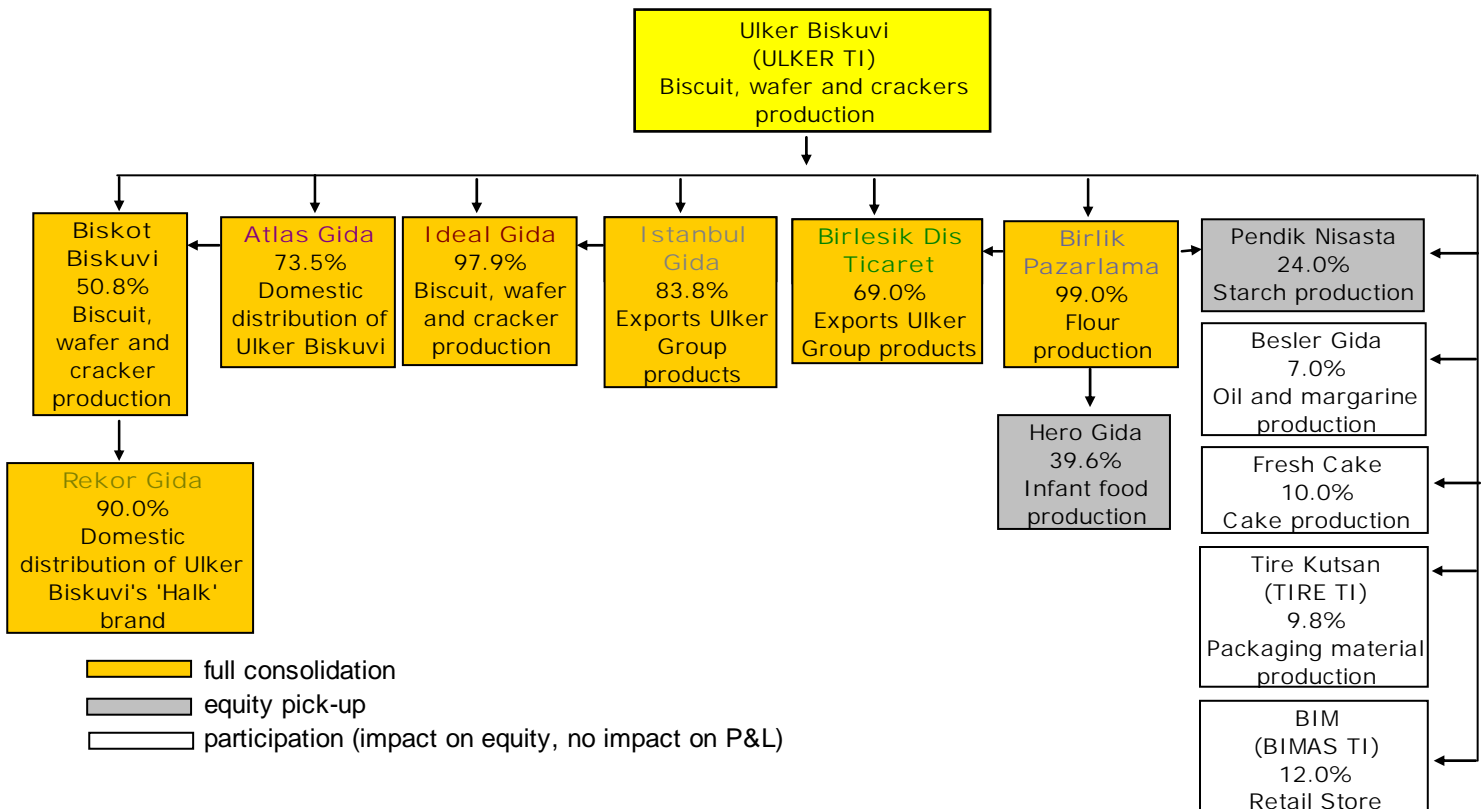
We initiate our coverage of Ulker Biskuvi (**ULKER TI**) with a 'Market Outperformer' rating and US\$1,396mn target Mcap indicating 27% upside potential. We derive our target Mcap from weighted average of international peer comparison (50%), our DCF (30%) and dividend discount models (20%). Ulker Biskuvi is trading at 7.0x 2008F EV/EBITDA (2007F: 8.9x) and 9.9x 2008F P/E (2007F: 10.0x) at an average discount of 31% with respect to its international peers.

Ulker is the best known food brand and...

...the second most recognized brand name in Turkey

Best Known Food Brand in Turkey - Ulker Biskuvi, the flagship company of Ulker Group, the largest consumer products group in Turkey, manufactures biscuits, wafers and crackers. Ulker Biskuvi is the undisputed market leader with ~60% share, whereas rival Eti Biskuvi controls ~30% of the market. According to the AC Nielsen 2006 Brand Survey, Ulker remains the best known food brand and the second most recognized brand name in Turkey.

Simplification of Company Structure - The company has seven fully consolidated subsidiaries; **Biskot Biskuvi** and **Ideal Gida** manufacture biscuits, wafers and crackers similar to the parent company, whereas **Birlik Pazarlama** manufactures flour. **Atlas Gida** and **Rekor Gida** are the domestic marketing companies that distribute Ulker Biskuvi products, while **Istanbul Gida** and **Birlesik Gida** export all Ulker Group products. Moreover, the company has a significant number of unconsolidated participations.



As a result of a high degree of vertical integration, almost all group companies are either suppliers to, or the customers of Ulker Biskuvi. The Group structure is rather complicated, but the Management is taking steps to simplify it by divesting operations unrelated to core business areas. Recent transactions for restructuring, together with planned ones for the future, are as follows:

There is an ongoing restructuring process in the company

- **Transaction: Sale of Biskot Biskuvi's 99.0% stake in Anadolu Gida -** On October 4th, 2007, the company announced that **Biskot Biskuvi** had sold its 99.0% stake in Anadolu Gida, which was previously fully-consolidated into Ulker Biskuvi. Anadolu Gida is a cake manufacturer, taken over by Ulker Biskuvi in 2003 and remaining inactive since then.
- **Transaction: Establishment of Ideal Cake in 2008 -** By the end of 2007, the Group will have established *Ideal Cake* by merging **Ideal Gida**, Fresh Cake and Anadolu Gida. In 2008, *Ideal Cake* is planned to be offered to the public.
- **Transaction: Purchase of Rekor Gida's 90.0% stake by Biskot Biskuvi -** On October 4th, 2007, **Biskot Biskuvi** purchased 90.0% of **Rekor Gida**. Before this transaction 15% of **Rekor Gida** had been owned by **Atlas Gida**. **Rekor Gida** distributes the 'Halk' brand, geared at a lower income target audience and manufactured by **Biskot Biskuvi**.
- **Transaction: Deconsolidation of Atlantik Gida since November 2006 -** Ulker Group decided to spin-off Atlantik Gida (previously fully-consolidated to Ulker Biskuvi) since it was not distributing Ulker Biskuvi products. Ulker Biskuvi began to deconsolidate Atlantik Gida as of November 2006. The impact of this process is a decline in revenues, but an incline in margins since Atlantik Gida recorded low gross margin and high marketing & selling expenses.
- **Transaction: Sale of Istanbul Gida and Birlik Pazarlama stake in Tire Kutsan -** In July 2007, Yildiz Holding, **Istanbul Gida** and **Birlik Pazarlama** sold their 53.56% stake in Tire Kutsan (TIRE TI), Ulker Biskuvi's 9.83% participation that manufactures packaging material. Ulker Biskuvi agreed with Tire Kutsan's new shareholder, Mondi Packaging, to continue the partnership for three years.

The cake market is smaller than the biscuits market, but promises a higher growth

Ulker Biskuvi is expected to penetrate into new foreign markets

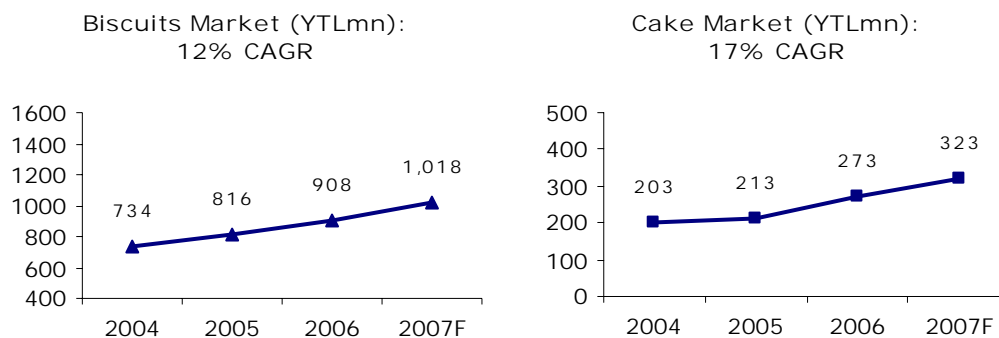
Penetration into a New Market with Higher Growth - Per capita biscuit consumption in Turkey is low when compared to Western countries. It is currently at 4kg compared to 14kg in Holland, 8kg in Italy and 7kg in Germany. Despite this fact, the AC Nielsen market survey indicates that the Turkish biscuits market grew only by 3% in volume-terms in 1H07 compared to 1H06. Indeed, the volume growth between 2003 and 2007F stands at a 5.0% CAGR. However, we expect a higher revenue growth when compared to volume growth since prices are also increasing due to product innovations. On the other hand, in 2006 the cake market grew by nearly 30% in volume-terms to reach 67K tons.

Turkish Biscuits Market (tons)					
2003	2004	2005	2006	2007F	2008F
224,150	235,948	245,779	258,720	272,875	281,545
change	5.3%	4.2%	5.3%	5.5%	3.2%

Source: The Company

To trigger growth in the biscuits market, manufacturers must constantly launch original products. The biscuits market is expected to reach a YTL1bn size in 2007, with market growth between 2004 and 2007F calculated at a 12% CAGR. The cake market grew 28% in YTL value-terms in 2006 and to reach a YTL270mn size. In the same period of 2004 -2007F, the cake market grew by a 17% CAGR in YTL value-terms.

Size of Turkish Biscuit & Cake Markets (YTLmn)



Source: AC Nielsen

Increasing Presence in Foreign Markets - While keeping its main focus in the domestic market, Ulker Biskuvi plans to grow in foreign markets. In line with this strategy, the Company purchased a 50.76% stake in *KBF Ltd*, a biscuit manufacturer in Ukraine, from Yildiz Holding in 2006. Ulker Biskuvi is willing to increase its presence in foreign markets and is eager to purchase Romanian and Saudi Arabian operations as well with proceeds of the *Ideal Cake* IPO. We believe that high growth potential in these markets should have a positive impact on top-line and operating profitability going forward.

Group transparency is expected to increase with upcoming IPOs

The IPO of Ulker Chocolate will Increase Group Transparency - The Group plans to offer Ulker Chocolate to the public in 2008 and invest its proceeds in foreign investments. Even though, Ulker Chocolate and Ulker Biskuvi do not have a direct shareholder relationship, the IPO may positively affect Ulker Biskuvi by increasing group transparency. The Group already has manufacturing facilities in Algeria, Iran, Kazakhstan, Romania, Saudi Arabia, Ukraine and Uzbekistan. Furthermore, Egyptian and Pakistani factories are nearly completed. On the other hand, Ulker Biskuvi may possibly take over more foreign operations from Yildiz Holding when developed.

Strong Financial Performance in 2007 - Through the deconsolidation of Atlantik Gida in 4Q06, the company's top-line decreased significantly, although margins have increased. Since Atlantik distributed mainly non-Ulker Biskuvi products, for comparison purposes, we may subtract Atlantik's 1H06 figures from consolidated figures. As a distribution company, due to low gross margin and high marketing & selling expenses, Atlantik wasn't generating considerable EBITDA. Hence, the EBITDA margin rose from 7.6% in 1H06 to 13.2% in 1H07.

Adjusted P&L Statement			
(IFRS, YTLmn)	2007/06	2006/06 (Adj.)	Change
Net Sales	661.8	464.6	42%
Gross Profit	173.0	119.7	45%
EBITDA	87.5	75.2*	16%
Gross Margin	26.1%	25.8%	
EBITDA Margin	13.2%	16.2%	

*Source: Ulker Biskuvi * Assuming Atlantik didn't record any depreciation expense.*

EBITDA margin increases from 7.6% in 1H06 to 13.2% in 1H07 through Atlantik deconsolidation

Thanks to price increases in 2H06 and 1H07 and the volume effect of a VAT decrease from 18% to 8% effective Jun 1st, 2007, the top-line rose from YTL465mn in 1H06 (excluding Atlantik) to YTL662mn in 1H07, by 42%. According to company guidance, there is seasonality and about 60% of total sales are realized in second half of the year. We have forecasted 45% and 27% nominal top-line growth for 2007 and 2008 respectively, on top of Atlantik excluded 2006 figures. In the event that Turkey's drought difficulties continue in 2008, we have assumed 12.6% of EBITDA margins for 2007 and 2008.

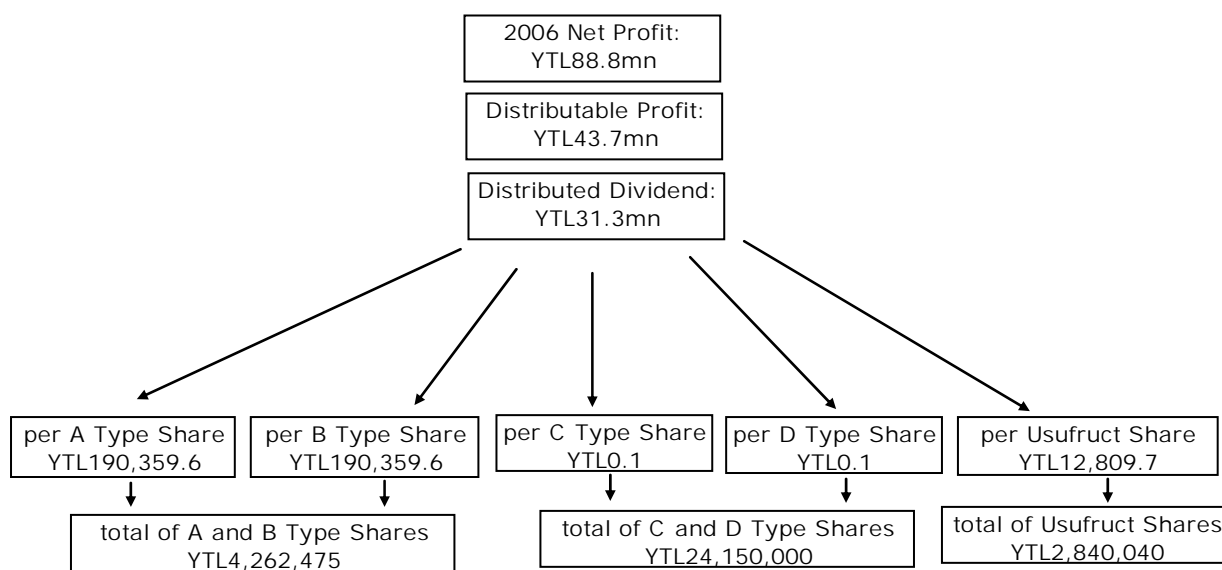
Value Dilution by Privileged Shares - After discussing the financial forecasts, it is vital to determine the claim of ordinary and privileged shares' on equity. We will clarify the issue of dividing equity between ordinary and privileged shares in the next section.

DIVIDING EQUITY BETWEEN ORDINARY AND PRIVILEGED SHARES

Dividend and Voting Rights of Privileged Shares - Ulker Biskuvi's equity is divided into 4 types of shares; A, B, C and D, of which only C type ordinary shares are traded on the ISE. Furthermore, there are usufruct shares that are not represented in the equity, but that receive a significant portion of the dividend.

Privileges on Share Types			
Share Type	Number	Dividend Right	Voting Right
A	15	9.14% of the distributed dividend	4 of 6 BoD Members
B	7	4.50% of the distributed dividend	} 1 of 6 BoD Members
C	241,086,955	77.27% of the distributed dividend	
D	22	0.00% of the distributed dividend	1 of 6 BoD Members
Total	241,086,999		
Usufruct Shares	222	9.09% of the distributed dividend	-

Source: Ak Securities



Currently the company is taking steps to eliminate the dividend privileges of A and B type shares. A new company with no business operations, Onem Gida, is established and has began purchasing A and B type shares. When Onem Gida becomes the owner of all A and B type shares, privileged shares will be swapped with C type ordinary shares.

Equity Division Methods for Privileged and Ordinary Shares - Since the privileged A, B and usufruct shares receive 22.73% of total distributable profit, we have discounted our target equity value by using the average of two methods; dividend discount model and referral to recent transactions.

Portion of Ordinary & Privileged Shares in Equity

Method	Claim of Ordinary Shares	Claim of Privileged Shares
Dividend Discount Model	23.6%	76.4%
Recent Transactions	15.4%	84.6%
Average	19.5%	80.5%

Source: Ak Securities

Method 1: Dividend Discount Model - In the past two years, 72% of the distributable profit was paid to shareholders as a cash dividend. Of the distributable profit, 55% was paid to ordinary shares and 17% to the privileged shares. If we assume that 72% of distributable profit was paid to ordinary shares, we reach a target equity value of US\$1,733mn for the total of ordinary and privileged shares. By using the dividend distribution ratio of 55%, we reach a target equity value of US\$1,324mn for the ordinary shares. From this method, we calculate the equity division for privileged and ordinary shares as 23.6% and 76.4% respectively.

Dividend Discount Model: Claim of Ordinary Shares - Current Case

IFRS, US\$m	'07F	'08F	'09F	'10F	'11F	'12F	'13F	'14F	'15F	'16F
Net Profit (IFRS)	136	139	145	167	193	214	236	261	289	319
Legal Reserves	12	13	13	15	18	19	21	24	26	29
Net Distributable Profit	124	126	132	152	176	194	215	237	262	290
Dividend Distribution Ratio	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
Total Dividends	68	69	73	84	97	107	118	131	144	160
Cost of Equity	10.7%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Discount Factor	1.02	1.13	1.25	1.38	1.53	1.70	1.88	2.08	2.31	2.55
Cash Flows	67	61	58	60	63	63	63	63	63	63
Terminal Growth Rate										2.0%
Terminal Value (beyond 2016) @ 2016										1,789
PV of Cash Flows	623									
PV of Terminal Value	701									
Target Equity Value	1,324									

Source: Ak Securities

Dividend Discount Model: Claim of Ord. Shares - In Case of No Privileged Shares

IFRS, US\$m	'07F	'08F	'09F	'10F	'11F	'12F	'13F	'14F	'15F	'16F
Net Profit (IFRS)	136	139	145	167	193	214	236	261	289	319
Legal Reserves	12	13	13	15	18	19	21	24	26	29
Net Distributable Profit	124	126	132	152	176	194	215	237	262	290
Dividend Distribution Ratio	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%
Total Dividends	89	91	95	110	126	140	155	171	189	209
Cost of Equity	10.7%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Discount Factor	1.02	1.13	1.25	1.38	1.53	1.69	1.87	2.07	2.29	2.54
Cash Flows	87	80	76	79	82	82	82	82	82	82
Terminal Growth Rate										2.0%
Terminal Value (beyond 2016) @ 2016										2,342
PV of Cash Flows	816									
PV of Terminal Value	917									
Target Equity Value	1,733									

Source: Ak Securities

Method 2: Recent Transactions - Starting from June 2007, Onem Gida purchased total of 1.96 A type and 2.36 B type shares. Using the transaction price of privileged shares, we have calculated the equity division of privileged and ordinary shares as 15.4% and 84.6%, respectively.

VALUATION

We set our target market capitalization at US\$1,396mn as the weighted average of the DCF, international peer comparison and dividend discount models. We have discounted our target DCF and international peer comparison values by 19.5% to adjust for privileged shares.

Valuation Summary (US\$m)				
Method	Equity Value	Ord. Shares' Claim on Equity	Weight	Contribution
Intr'l Peer Comparison	1,749	1,410	50%	704
DCF	1,771	1,426	30%	428
Dividend Discount Model	1,324	1,324	20%	265
Target Mcap				1,396
Mcap				1,102
Upside				27%

Source: Ak Securities

For our DCF model, we have made the following assumptions:

- We have adjusted EBITDA for a 50% stake in **Biskot Biskuvi**. Since **Biskot Biskuvi** owns 34% of total manufacturing capacity, we have assumed that 16.5% of consolidated EBITDA is claimed by **Biskot Biskuvi's** minority interest.
- Ulker Biskuvi has a 83.8% stake in **Istanbul Gida** and 73.5% stake in **Atlas Gida**. Since the marketing companies operate with very low EBITDA margins, we have not adjusted consolidated EBITDA for their minority interests.
- According to company guidance, consolidated net debt position is shared between **Istanbul Gida** and the parent company. We have assumed that it is equally shared, and adjusted the 2006-end net debt position for minorities' 16.2% stake in **Istanbul Gida**.
- On the other hand, Ulker Biskuvi has a portfolio of listed and unlisted participations. We have used current Mcaps to value the 12.03% stake in *BIM (BIMAS TI)*, 9.83% stake in *Tire Kutsan* and 10.71% stake in *Saglam Reit (SAGYO TI)* and book values for unlisted participations.

Discounted Cash Flow (EBITDA figures are stake-adjusted)

IFRS, US\$mn	'07F	'08F	'09F	'10F	'11F	'12F	'13F	'14F	'15F	'16F
NET SALES (IFRS)	1,248	1,578	1,813	2,092	2,414	2,669	2,952	3,264	3,609	3,991
EBIT (IFRS)	113	146	176	206	241	268	299	332	370	411
(+) Redun. Prov.	1.1	1.4	1.5	1.6	1.6	1.7	1.8	1.9	2.1	2.2
(-) Taxes	34	35	36	42	48	53	59	65	72	80
Adjusted NOPLAT	80	113	141	166	194	217	242	269	299	333
(+) Depreciation	17.5	19.0	19.1	19.3	19.5	19.6	19.8	20.0	20.2	20.4
Gross cash flow	98	132	161	185	214	236	261	289	320	353
(-) NWC Increase	6	48	59	56	64	51	56	62	69	76
(-) Cap. Ex.	20	20	20	20	20	20	20	20	20	20
FCF to firm	71	64	82	109	129	165	185	207	231	257
WACC	10.1%	10.7%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Discount Factor	1.02	1.13	1.25	1.38	1.53	1.70	1.88	2.08	2.31	2.55
Terminal Growth Rate										2.0%
Terminal Value (beyond 2016) @ 2016										2,137
PV of FCFs	781									
PV of Terminal Value	836									
EV	1,617									
Participations	309									
Net Debt	155									
DCF Equity Value	1,771									
Ordinary Shares' Claim on Equity	1,426									

Source: Ak Securities

Multiples Based on Current Mcap and EV

	06A	07F	08F	09F	10F
EV/Sales	0.9	0.9	0.7	0.6	0.6
EV/EBITDA	13.8	8.9	7.0	5.9	5.2
P / E	22.1	10.0	9.9	9.4	8.2

Source: Ak Securities

Multiples Based on DCF

	06A	07F	08F	09F	10F
EV/Sales	1.3	1.3	1.0	0.9	0.8
EV/EBITDA	18.5	11.9	9.5	8.0	6.9
P / E	28.5	13.0	12.8	12.2	10.6

Source: Ak Securities

Sensitivity of DCF Equity Value to Terminal Growth Rate

	1.0%	2.0%	2.5%	3.0%
Equity Value	1,351	1,426	1,470	1,520

Source: Ak Securities

Ulker Biskuvi is trading at 7.0x 2008F EV/EBITDA (2007F: 8.9x) and 9.7x 2008F P/E (2007F: 10.0x), at an average discount of 31% with respect to its international peers.

Ulker Biskuvi and International Peers											
US\$m				Net Profit		EBITDA		EV/EBITDA		P/E	
Company – COUNTRY	Mcap	EV	07F	08F	07F	08F	07F	08F	07F	08F	
Lotte Confectionary – S.KOREA	2351	2043	135	150	194	207	10.5	9.9	17.4	15.7	
Cloetta Fazer AB – SWEDEN	754	601	39	39	70	72	8.6	8.3	19.3	19.3	
Lotus Bakeries S.A. - BELGIUM	269	360	19	21	47	49	7.7	7.4	14.1	13	
Mayora Indah PT - INDONESIA	149	176	14	19	34	41	5.2	4.3	10.6	7.8	
Hershey Co. - USA	10324	12515	520.7	556.5	1165	1206	10.7	10.4	19.8	18.6	
Lindt&Spruengli AG - SWITZERLAND	7729	7552	215.9	248.3	374.8	432.6	20.1	17.5	35.8	31.1	
China Lifestyle Food&Beverage - CHINA	163	140	n.a.	n.a.	19.4	24.6	7.2	5.7	n.a.	n.a.	
Average								10.0	9.1	19.5	17.6
Ulker Biskuvi	1,059	909	110	112	106	134	8.6	6.8	9.7	9.5	
Implied EV for ULKER BISKUVI								1,060	1,212	2,140	1,965
Implied Mcap for ULKER BISKUVI								1,214	1,366	2,295	2,120
Avg. Imp. Mcap for ULKER BISKUVI								1,749			
Ordinary Shares' Claim on Equity								1,410			

Source: Bloomberg, Ak Securities

SUMMARY FINANCIALS

IFRS, YTLmn

Balance Sheet	2005A	2006A	2007F	2008F
Current Assets	771	522	621	730
<i>Cash and Cash Equivalents</i>	187	27	92	99
<i>S/ T Trade Receivables</i>	215	96	172	219
<i>Inventories</i>	132	85	75	95
L/T Assets	488	491	627	627
<i>Net Fixed Assets</i>	310	276	275	275
TOTAL ASSETS	1,259	1,013	1,247	1,357
S/T Liabilities	577	329	322	306
<i>S/T Financial Debt</i>	262	166	110	74
<i>Trade Payables</i>	57	49	50	63
L/T Liabilities	86	111	158	161
<i>L/T Financial Debt</i>	11	77	78	78
<i>L/T Provisions</i>	6	5	5	5
Shareholders' Equity	554	536	722	842
TOTAL LIABILITIES AND SH. EQUITY	1,259	1,013	1,247	1,357
Income Statement				
Net Sales	1,359	1,789	1,640	2,082
Cost of Goods Sold	1,054	1,427	1,213	1,541
Gross Profit	305	362	426	541
Operating Expenses	205	271	248	311
EBIT	100	91	178	231
EBITDA	140	121	207	263
Net Other Income (Expenses)	58	37	21	31
Financial Expenses	44	39	32	24
Profit before Tax	99	89	224	229
Taxes	33	0	45	46
Net Profit	66	89	179	183
Growth (YoY)				
Net Sales	-18%	23%	-14%	20%
EBIT	37%	-14%	82%	22%
EBITDA	29%	-19%	60%	20%
Net Financial Income	36%	n.m.	n.m.	-88%
Net Profit	19%	26%	89%	-4%
Margins				
Gross Profit	22.4%	20.2%	26.0%	26.0%
EBIT	7.3%	5.1%	10.8%	11.1%
EBITDA	10.3%	6.8%	12.6%	12.6%
Net Profit	4.9%	5.0%	10.9%	8.8%
Liquidity				
Current Ratio	1.3	1.6	1.9	2.4
Quick Ratio	1.1	1.3	1.7	2.1

Source: Ulker Biskuvi, Ak Securities

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