

**EİS ECZACIBAŞI İLAÇ, SİNAİ VE FİNANSAL YATIRIMLAR
SANAYİ VE TİCARET A.Ş.**

BOARD OF DIRECTORS REPORT

AS OF 31 MARCH 2012

**REPORT OF BOARD OF DIRECTORS ISSUED PURSUANT TO COMMUNIQUÉ
SERIAL: XI NO: 29**

Reporting period

This report is prepared in accordance with the Capital Markets Boards Communiqué Serial XI No: 29, “Principles of Financial Reporting in Capital Markets” for EIS Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar Sanayi ve Ticaret A.Ş., its Subsidiaries, Joint Ventures and Associates; and it includes information on important developments that took place during the financial year January 1 - 31 March 2012, along with the impact of these on financial statements and explanations on any critical risk or uncertainties that may be arising from these for the rest of the financial year.

Authorized boards for the period

Board of Directors

<u>Name- Surname</u>	<u>Position</u>	
F. Bülent Eczacıbaşı	Chairman of Board	Non Executive
R. Faruk Eczacıbaşı	Deputy Chairman of Board of Directors	Non Executive
Dr. O. Erdal Karamercan	Member	Non Executive
M. Sacit Basmacı	Member	Non Executive
Levent A. Ersalman	Member	Non Executive
Sedat Birol	Member	General Director

Board of Auditors

<u>Name- Surname</u>	<u>Position</u>
Tayfun İçten	Auditor
Selahattin Okan	Auditor

Board of Directors and the curricula vitae of the members of the Board of Auditors is published under the Investor Relations section at the website, www.eczacibasi.com.tr.

- ❖ The Board of Directors and Auditors have been elected at the General Assembly dated 6 May 2011 to act for a year.
- ❖ The Board of Directors is authorized to take all business decisions with the exception of decisions that must be taken at the General Assembly as specified in the Articles of Association.
- ❖ There are no Managing Directors at the Board of Directors and Auditors.

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Changes in key managerial positions during the year and name, surname and professional experience of current key managers

Eczacıbaşı Group Pharmaceutical Division Director, Sedat Birol is also the General Manager of the Company. He is a Chemical Engineer, MS, and has 25 years of experience in managerial positions in the pharmaceutical and chemical sectors.

As from 1 August 2011, Ayse Deniz Ozger has been appointed as Deputy Chairman of Healthcare Group, in charge of Business Development activities.

The Finance Director of the Company, Bülent Avcı, used to be a Tax Accountant at the Ministry of Finance and he is qualified as a Certified Public Accountant.

Amendments made to the Articles of Association during the reporting period and reasons

No amendments were made to the Articles of Association during the reporting period.

Shareholding structure and changes in share capital

The Company's share capital is TRL 548,208,000 and it has not been changed during the reporting period.

The shareholders owning more than 10% of the share capital and their proportion of ownership are as follows:

	31 March 2012	31 December 2011
Eczacıbaşı Holding A.Ş.	% 50.62	% 50.62
Eczacıbaşı Yatırım Holding Ortaklığı A.Ş. (*)	% 20.56	% 20.22

The amount and dates of share acquisitions made during the first quarter of 2012 by Eczacıbaşı Yatırım Holding Ortaklığı A.Ş., one of the shareholders of our company are as follows:

Date	Quantity (lots)
21 March 2012	750,000
22 March 2012	462,874
23 March 2012	650,000

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Profit distribution policy and ratio

Our Board of Directors has decided to propose the following decisions to our shareholders during the Ordinary General Assembly meeting for the year 2011, which will be held on May 29, 2012.

- ❖ To distribute a dividend of TRL 54,820,800 which corresponds to 10% of the issued capital of our Company,
- ❖ To pay a cash dividend of gross 10% per share having a nominal value of TRL 1, to pay a dividend of net ratio found after deduction of the withholding ratios foreseen in tax laws, to our legally obligated real person shareholders and limited tax payer real and legal person shareholders,
- ❖ To transfer the remaining amount which will be calculated by deducting legal liabilities and amount of dividend which has been decided to be paid, from term's profit of TRL 158,627,719 as calculated according to the legal records; to extraordinary reserves,
- ❖ To commence the distribution on 19 June 2012.

The Company's sources of finance and risk management policies

Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar has a strong financial position as it currently has far more cash in different currencies than its liabilities.

Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar has a wide range of long established communications network with the banking system and a strong credibility standing. As of 31 March 2012 the Company does not have any open credit lines. In the coming period and as is required credit lines from a number of banks may be used either to finance short term liquidity needs or investments.

The financial risks of Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar are closely monitored by the management of the Company. Currently a majority of the Company's financial assets are managed in a tripod portfolio including Euro, US dollar and Turkish Lira components and weight is given to the foreign currency part of it. The current portfolio policy prioritizes liquidity and a great portion of cash assets are kept as saving accounts in a wide range of banks located in Turkey. In the coming period and in line with risk assessments it may be possible to utilize funds partially in other placement tools.

Material developments observed between the end of the accounting period and the date of the disclosure of the financial statements

The amount and dates of share acquisitions made since 31 March 2012 till the publication date of the attached report by Eczacıbaşı Yatırım Holding Ortaklığı A.Ş., holding 20.56% of the shares of our company as of 31 March 2012 are shown below and as a result of such acquisitions, its shareholding in our company has risen to 21.57%.

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Date	Quantity (lots)
5 April 2012	1,000,000
9 April 2012	534,000
10 April 2012	619,765
13 April 2012	1,125,577
16 April 2012	979,000
18 April 2012	500,000
15 May 2012	130,000
16 May 2012	665,000

Report of Compliance with Corporate Governance Principles

The Report of Compliance with Corporate Governance Principles covering the activity period of 1 January - 31 December 2011 has been issued in accordance with Article 6 of the Communiqué Serial No IV/54 on the Determination and Implementation of Corporate Governance Principles (as published in the Official Gazette dated October 11, 2011 and numbered 28081, 2.bis) as part of the principal decision No. 5/136 of 16 February 2012 as announced by the Capital Markets Board ("CMB").

Activities have been launched in order to ensure compliance with the Communiqué Serial No. IV/56 on Principles Regarding the Determination and Application of Corporate Governance Principles as published in the Official Gazette dated December 30, 2011 and numbered 28158, and "Code of Ethics" has been published in the Investor Relations section at www.eczacibasi.com.tr and the Board of Directors has published the Briefing Document for the Ordinary General Assembly of the Year 2011 and proposals related to the matters planned to be made for compliance with this Communiqué.

Report of Compliance with Corporate Governance Principles, is published under the Investor Relations section at the website, www.eczacibasi.com.tr.

Nature and value of the capital markets instruments issued

None.

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Basic ratios on financial position, profitability and debt servicing position calculated on the basis of the financial statements and information prepared in accordance with the articles of this Decree

	31 March 2012	31 December 2011
Liquidity Ratios		
❖ Current Ratio	3.25	3.65
❖ Liquidity Ratio	2.82	3.21
Ratios on Financial Structure		
❖ Total Liabilities / Total Assets	0.15	0.14
❖ Consolidated Equity / Total Assets	0.85	0.86
❖ Consolidated Equity / Total Liabilities	5.80	6.31
Profitability Ratios		
❖ Net Income / Consolidated Equity	0.00	0.03
❖ Net Income / Total Assets	0.00	0.03
❖ Net Income / Net Sales	< 0	0.09

Personnel and worker changes, collective bargaining agreements, personnel and worker rights and benefits

As the Company has no manufacturing activity it does not employ any workers. As of 31 March 2012 the Company employs 19 (31 December 2011: 19), and they are all subject to the Labor Law. All personnel, with the exception of those who are unionized, are subject to the common rights and benefits applicable to all Eczacıbaşı Group employees. These common applications are;

- ❖ 12 Months salary and bonus (16 monthly salaries in total),
- ❖ A success premium based on performance once a year,
- ❖ Sales bonuses to sales staff based on their results in accordance with the sales premium regulation,
- ❖ Personal accident insurance for employees who need to use a vehicle,
- ❖ Group Private Health Insurance, and on a voluntary basis, Group Private Pension System,
- ❖ Clothing and moving support,
- ❖ Marriage, birth-death, child support,
- ❖ Meal benefit of 14 TRL per day,
- ❖ Seniority support premium,
- ❖ Depending on the nature of job, mobile phone line and car,
- ❖ And other rights and benefits like training programs for personal and professional development and career management.

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Information concerning donations during the year

As of 31 March 2012, the consolidated total donations to associations and foundations working for public good, universities, health establishments and institutions, social, scientific, artistic organizations and public service organizations with a mandate to support and promote other activities for the good of the nation, regional institutions with annexed budgets, and similar institutions, amounted to TRL 224 thousand (31 March 2011: TRL 283 thousand).

Information on equity holders of the parent (cross shareholding)

The Company has a 37.28% shareholding in Eczacıbaşı Holding A.Ş., which in turn is the majority shareholder of the Company with a 50.62% shareholding. The Company has no impact or control over operational and managerial policies of Eczacıbaşı Holding A.Ş.

Explanations on the main elements of the Group's internal audit and risk management systems with regard to the preparation process of consolidated financial statements

Support is obtained in terms of internal audit and risk management from Auditing Board comprising of two directors, Internal Audit Department which is affiliated to the Managing Director and also reports to the Committee in Charge of Audit, Financial Affairs Department, Strategic Planning and Business Development Department with Eczacıbaşı Holding and chartered financial advisor company. The risk analysis for fixed assets is conducted externally while security, emergency and assets at risk position assessments are conducted at the meetings of Board of Directors.

The official records of the subsidiaries, joint ventures and associates which are consolidated are controlled by a Sworn Financial Advisory Company in terms of compliance with the Turkish Commercial Code, Uniform Chart of Accounts and taxation issues on a quarterly basis. The Internal Audit committee of the Eczacıbaşı Holding A.Ş. audits the consolidated companies' activities on the required processes and/or issues. Additionally, the financial statements of the companies prepared for consolidation dated 30 June and 31 December are audited in terms of compliance with the CMB legislation and International Financial Reporting Standards by an independent audit company. The 31 March and 30 September dated financial statements of the consolidated companies are audited by the Internal Audit Department of Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar in line with the principles set by the independent audit company.

Investment and dividend policies implemented to enhance the Company's performance

Investment policy:

Since having divested its manufacturing interests Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar has been pursuing growth aimed investments in health and real estate development sectors in addition

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to its current structure. With this aim on one hand it has been acquiring companies and products active in these fields and on the other hand it has been developing real estate projects.

Dividend policy:

At a meeting on 15 March 2006, the Board of Directors established the following “Corporate Governance Principles” with regard to the Company’s profit distribution policy:

- ❖ The Articles of Association do not contain any clause about privileged shares, founder benefit shares and the distribution of profit to members of the Board of Directors and employees as well as the distribution of profit advance payments.
- ❖ The Company’s Articles of Association accept the principle of distribution of the first dividend based on the ratio and amount decided by the CMB.
- ❖ In preparing its recommendations on profit distribution for the general assembly, the Board of Directors takes into consideration the sensitive balance between the Company’s existing profitability, the expectations of shareholders and prescribed growth strategies.
- ❖ Dividend payments (cash and/or bonus shares) are made as soon as possible after the general assembly and within the legal time limit set by CMB regulations.

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Evaluation of activities between 1 January - 31 March 2012

Our company is a kind of holding company and through its subsidiaries, joint ventures and associates in its current consolidated structure, is active in health and consumer products sectors and it is directly active in real estate development. Therefore, the Company's disclosures under this article are provided within the context of business segments it is involved in and the associated companies operating within these business segments as listed below:

**Business Segment
Segment/Market**

Company Name

Health Sector

Original pharmaceutical market	EİP Eczacıbaşı İlaç Pazarlama A.Ş. Eczacıbaşı İlaç Ticaret A.Ş.
Hospital supplies	Eczacıbaşı-Baxter Hastane Ürünleri Sanayi ve Ticaret A.Ş.
Dialysis treatment	RTS Renal Tedavi Hizmetleri Sanayi ve Ticaret A.Ş.
Health services	Eczacıbaşı Sağlık Hizmetleri A.Ş.
Nuclear medicine	Eczacıbaşı-Monrol Nükleer Ürünler Ticaret ve Sanayi A.Ş. Moleküler Görüntüleme Ticaret ve Sanayi. A.Ş.

Consumer Products Sector

Cosmetics market	EBC Eczacıbaşı-Beiersdorf Kozmetik Ürünler San. ve Tic. A.Ş.
Hairdressers' products market	Eczacıbaşı-Schwarzkopf Kuaför Ürünleri Pazarlama A.Ş.
Consumer products market	Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri Sanayi ve Ticaret A.Ş.

Real estate development:

Property development	Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım A.Ş.
Kanyon	(*)
Ormanada Project	(**)

Other

Ceramic tiles market	Vitra Karo Sanayi ve Ticaret A.Ş.
Export services	Ekom Eczacıbaşı Dış Ticaret A.Ş.

(*) Includes the whole Kanyon Office Block, which appears under the Company's assets, and half of the Shopping Mall.

(**) In December 2007, the Company bought half of 22 plots of land with a total area of 196,409.74 m² located at Sarıyer İlçesi, Uskumru Mahallesi, Yorgancı Çiftliği Mevkii. Project details are provided in the "Property Activities" section of the report.

OUR ACTIVITIES IN HEALTHCARE SECTOR

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Key factors affecting the Company's performance, changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes, investment and dividend policies implemented to enhance the Company's performance

For the joint ventures active in the original pharmaceutical market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**
 - ❖ The reference pricing system applied by the Ministry of Health and global budget application managed by the Social Security Institution,
 - ❖ The licensing process of the Ministry of Health,
 - ❖ Introduction of the GMP (Good Manufacturing Practices) requirement for the imported products pending license and consequently prolongation of the process
 - ❖ The speed of entry of licensed products to the Social Security Institution's (SSI) reimbursement list,
 - ❖ Obligatory discounts to state institutions imposed by the SSI are the key factors affecting performance.

As a precaution to the possible negative impact of these, the Company has been adding OTC products to its portfolio, which are easier to license and unregulated.

- **Investment and dividend policies implemented to enhance the Company's performance:**

Companies active in this segment are marketing and sales operations with no manufacturing activity. Therefore, a policy to distribute all distributable profit has been adopted.

For the joint venture active in the hospital supplies market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

The main factors affecting the performance of the Company are uncertainties observed in global markets and the Turkish market, competition, and exchange rate fluctuations. As a precaution to these changing conditions, the Company maintains its competitiveness without deviating from quality and operating expenses are kept under close scrutiny against possible adversities in market conditions.
- **Investment and dividend policies implemented to enhance the Company's performance:**

The installed capacity is revised every year and in light of sales targets for the coming years, required investments are made where a deficiency is observed. The Company adopted the principle of distributing profits as dividends for as long as such action had no negative impact on its financial structure.

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For the associate active in the dialysis treatment market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

Market conditions, competition and the dialysis session charges announced by the Social Security Institution are the main factors affecting the performance of the Company. On a Turkish Lira basis, the session charges were fixed from February 2005 to 2010 when a 5% increase bringing the price to TRL 145 became effective on April 1, 2010.

On the other hand, as energy and fuel expenses, which constitute 10% of operating expenses, recorded price increases above inflation and other expenses (personnel, rent etc.) increased as much as the rate of inflation; while session prices had a much smaller increase applied much later, profitability was negatively affected. Under these circumstances, increasing sales and reducing expenses has become a policy priority.

- **Investment and dividend policies implemented to enhance the Company's performance:**

The main investment items are machinery procurement and rental improvements related to capacity increases or renovation. In principle, investments are financed through increases in equity capital. In line with a resolution on quota and planning measures in effect since February 2009, the Ministry of Health limited new dialysis center permits based on regional capacity occupation ratios.

For the associate active in the health services market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

Key factors affecting the performance of Eczacıbaşı Sağlık Hizmetleri are;

- ❖ Changing macroeconomic indicators (In an economic crisis, fewer patients go to hospitals creating problems in enrolling patients in nursing homes. Also, during such times, some patients receiving home care services opt for employing unqualified health personnel due to cost concerns.),
- ❖ The problems observed in recruiting nurses, who constitute the majority of personnel.

- **Investment and dividend policies implemented to enhance the Company's performance:**

In order to lower the impact of adversities and improve performance, Eczacıbaşı Sağlık Hizmetleri is continuously striving to decrease costs by operating more efficiently.

Eczacıbaşı Sağlık Hizmetleri is a service company active exclusively in sales and marketing, with no manufacturing operations. An important investment item for the Company in the coming term will be increasing the number of nursing homes.

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For the associate active in the nuclear medicine sector;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

The performance of Eczacıbaşı-Monrol Nükleer Ürünler is closely tied to the health policies adopted by the authorities (Ministry of Health, Ministry of Finance, Reimbursement Agencies). Inclusion of the Company's products in the reimbursement schemes and the conditions of reimbursement affect the performance directly. As the Company creates a consumer market for the products it produces, it creates employment and value added both directly and indirectly.

- **Investment and dividend policies implemented to enhance the Company's performance:**

In order to improve its performance, Eczacıbaşı-Monrol Nükleer Ürünler carries out promotional activities to introduce its products and enhance their usage. In line with this, it invests to increase its geographical coverage. The Company carries out R&D activities to broaden its product portfolio and introduces the developed products to the market. It has acquired 99.999947% of the share capital of Moleküler Görüntüleme Ticaret ve Sanayi A.Ş., a company having its registered office in Gebze Technology Development Free Zone, on 29 July 2011 in line with its aim at enhancing the efficiency of its R&D activities and maintaining its leading position with new products / technologies in local and overseas market. On the other hand, negotiations are underway with the shareholders and executives of the company for a possible partnership with a company engaging in nuclear medicine abroad.

Moleküler Görüntüleme has been established in 2002 in Gebze TUBITAK Technology Free Zone in order to develop new devices, new chemicals and radiopharmaceuticals and design radiation-protection tools by conducting R&D activities in nuclear medicine and molecular imaging areas. As it is in operating in the Technology Free Zone, the changes made by the relevant authorities in their practices directly affect the performance of the company.

The Company is intending to develop new high-tech products, raw materials and application tools for Eczacıbaşı Monrol and other companies operating in the field of Nuclear Medicine including hospitals, private healthcare organizations and foreign markets and adds value to the market by employing the personnel with high level of technological knowledge and experience.

In order to improve its performance, Moleküler Görüntüleme carries out promotional activities to introduce its products under development and makes investments as per R&D projects.

The Company's sources of finance and risk management policies
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Original pharmaceutical market:

For companies operating in this sector, revenues from sales of pharmaceuticals, their main activity, constitute the main source of finance. The main risk they face is to import at a high

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exchange rate and have to sell at a fixed exchange rate determined by the Ministry of Health (the last fixed exchange rate was determined on April 1, 2009 when the Euro/TRL parity was fixed at TRL 1.9595) when exchange rate fluctuations are observed.

According to the Decree Regarding the Pricing of Pharmaceuticals for Human Use, changes in the exchange rate applicable are determined by the “Price Evaluation Commission” established by representatives of the Ministry of Finance, the Undersecretariat of the State Planning Organization, the Undersecretariat of Treasury, and the Social Security Institution under the coordination of the Ministry of Health.

The Commission holds its ordinary meetings once every three months, or may convene for an extraordinary meeting upon the invitation of any of the institutions represented, to establish regulations to implement this decree or to decide whether the pharmaceutical prices would need to be increased, reduced or kept stable. It also establishes the “Periodic Euro Value” and the “Periodic Euro Value Band” that would be used in calculating the pharmaceutical prices. The minimum value of the periodic Euro band is the periodic Euro value and the maximum value is 10% higher than the minimum value. Exchange rate changes within 5% less than the minimum value and 5% higher than the maximum value range would not constitute a price change requirement.

Hospital supplies market:

Eczacıbaşı-Baxter Hospital Products: The company has used short-term loans denominated in TRL in the first quarter of 2012, which have been fully repaid except for the short term revolving loan of 11,000 thousand TRL.

Receivables and payables are kept under close scrutiny against the risk of operating cash being negatively affected by adverse market conditions. In order to minimize the impact of adverse market conditions, budgeted expenses have been reviewed and an additional set of austerity measures has been determined.

Dialysis treatment market:

RTS Renal Tedavi Hizmetleri mostly finances new clinic investments from the establishment capital. Cash requirements for capacity increases, machinery renewals and similar items are financed through operating cash and short term bank loans when necessary. Social Security Institution receivables constitute the most important working capital item and receivables due and operating cash generated are systematically monitored.

Health services:

The main source of finance for Eczacıbaşı Sağlık Hizmetleri is revenue collection from patients the Company serves. In order to minimize the risk of collections, cash collections are encouraged to the extent possible. As the Company has no foreign currency payables it is not subject to foreign exchange risk.

The Company has continued to use a spot loan in TRL in 2012 and as of the end of March, it has raised a loan of 750 thousand TRL.

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Nuclear medicine sector:

Capital and investment loans are the main sources of finance for Eczacıbaşı-Monrol Nükleer Ürünler. The Company operates through a dealers' network at home and employs both a dealer network and direct sales abroad. Dealer risks are managed through contracts and partial letters of guarantee. Feasibility audits and investment performance monitoring are employed to avoid investment risks.

Capital, received project and investment loans are the main sources of finance for Moleküler Görüntüleme. The completed and continuing projects of the company are financed through investment loans / donations made by KOSGEB, TÜBİTAK, Ministry of Trade and TTGV. Feasibility audits and investment performance monitoring are employed to avoid investment risks.

Other issues not included in the financial statements, but useful to know for interested parties

As per the cumulative results for the first quarter of 2012, Turkish pharmaceutical market has downsized by 7.6% on TRL basis. But, Eczacıbaşı İlaç Pazarlama has enjoyed a growth by 1.5%.

In addition to the measures that were taken and had been implemented by the relevant Ministry and institutions, aiming to decrease health spending, additional measures were introduced as from 2009 that had a significant negative impact on the sector. These measures have been explained in chronological order below.

- ❖ The Decree on Pricing Pharmaceuticals for Human Use published on 3 December 2009 amending the reference pricing system which was effective since 2004 (original pharmaceuticals which have generics and the generics in question would have ex-factory prices of 66% of the registered reference price),
- ❖ The additional 12% discount implemented on the existing 11% base discount for original and 20 years old pharmaceuticals which do not have reference prices and which have a retail price over TRL 10, enacted by a Decree Amendment published on 4 December 2009,
- ❖ The Decree Amendment published on 11 December 2010 increased the additional discount applicable to original and 20 years old pharmaceuticals which do not have reference prices and which have a retail price over TRL 10 to 20.5% and brought a 9.5% additional discount to generic pharmaceuticals.
- ❖ The discount rates have been increased as a result of amendment to the Healthcare Implementation Communiqué published on 5 November 2011. Accordingly, the additional discount rates have been increased from 20.5% to 28% in case of medicines of over 20 years with a retail price of more than 10 TRL, 20.5% to 28% in original drugs with generic drugs and generic drugs and 32.5% to 41% in case of original drugs.
- ❖ The Decision on Pricing of Drugs for Human Use has been amended on 10 November 2011. While reference price is taken for medicines of over 20 years with a retail price of more than 10 TRL, 80% of the reference price shall be taken according to that decision. While 66% was taken for original drugs with generic drugs and generic drugs, now 60% shall be taken.

It is predicted that these measures will hamper the growth of the sector.

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Nuclear medicine sector:

The manufacturing plant licenses, product licenses of Eczacıbaşı-Monrol Nükleer Ürünler, operating license held by Moleküler Görüntüleme, ongoing R&D projects and their international reputation in the fields they operate are important information which are not to be found in the financial statements.

Development prospects for the Company

Original pharmaceutical market:

Following the transfer of sales rights of a number of products to Eczacıbaşı-Zentiva Sağlık Ürünleri in July 2007, Eczacıbaşı İlaç Pazarlama has started an intense effort to add new products/companies to its portfolio. Additionally it is working to add some CE certified semi product like items that are priced freely to its portfolio of pharmaceuticals.

The Company signed 44 contracts within the period 2007-2010 and 11 new contracts within 2011 and new products started to be included in the portfolio under such contracts. As from 2011, alternatives have been increased in the products to be added to the portfolio through joint marketing or acquisitions except for the products to be added to the new product range.

Hospital supplies market:

Eczacıbaşı-Baxter Hastane Ürünleri operates in a highly competitive market. Consequently, ability to launch new products is of vital importance for the Company's development. The Company is heavily involved in business development activities.

Dialysis treatment market:

RTS Renal Tedavi Hizmetleri will dispose of or transfer the clinics with low capacity utilization in the upcoming period and will continue to grow with the ongoing capacity increase investments and improved capacity utilization rates.

Health services:

The first Evital Care Center was opened in Istanbul in 2008 and it is planned to open new Evital Care Centers in other locations.

Nuclear medicine sector:

Eczacıbaşı-Monrol Nükleer Ürünler has been growing with its domestic investments and will continue to grow through new investments and partnerships both at home and abroad.

The FDG facility investment located at Yıldız Technical University's Technopark, Davutpasa, Istanbul and Antalya FDG facility at Antalya Organized Industrial Site have been into into operation in 2011. Substantial part of the FDG production facility in Malatya has been completed and it is proposed that the production shall start in June 2012.

The FDG production facility investment in Romania has been completed and it is planned to start the production in June 2012 following the receipt of the manufacturing license. Respective companies have been established in 2011 for the FDG manufacturing plants planned to be built in Egypt and Poland. In Bulgaria, a company jointly controlled by Eczacıbaşı and Monrol has

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been incorporated with the trade title Monrol Bulgaria LTD in 2012 for the same purpose. These investments are planned to be put into operation in May 2012, October 2013 and July 2013, respectively.

Apart from these, it is planned to have more production facilities abroad through partnerships, either as owners or operators. This strategy will ensure the Company to develop fast with a wider geographical coverage and a wider product portfolio. Efforts to obtain EU product licenses have been completed and it is envisaged that sales into EU countries start as from July 2012.

Moleküler Görüntüleme is planning to place on the market its developed Nuclear Medicine devices and raw materials as from 2013-2014 upon completion of the ongoing R&D projects. It is also planned to carry out further R&D projects in this respect. The Company also offers consulting services in Nuclear Medicine area using its know-how and competencies and this shall continue in subsequent periods.

R&D activities realized

Original pharmaceutical market:

As Eczacıbaşı İlaç Pazarlama licenses original products in Turkey, it has no R&D activity. However, since 2008 it has been investing for production rights of three products in Turkey that are in PHASEIII stage. One of these was licensed in EU and the licensing efforts in Turkey continue.

Hospital supplies and dialysis treatment market:

Our company operating in the hospital supplies and dialysis treatment market has no R&D activity.

Health services:

Eczacıbaşı Sağlık Hizmetleri has no R&D activity; however, efforts are under way to appropriate an innovative approach to improve service efficiency as part of the corporate culture.

Nuclear medicine sector:

Nuclear medicine: Eczacıbaşı-Monrol Nükleer Ürünler is always active in development efforts for new products. The R&D activities financed by corporate resources are aimed at directly adding new products to the portfolio and improving existing products. On the other hand, R&D activities that are carried out with international institutions (IAEA) are to improve knowledge, quality and efficiency. In addition, within the context of Santez projects, R&D activities for original and innovative products are being carried out in cooperation with Turkish universities. By the end of 2012, three new products are planned to be introduced to the Turkish market. At Moleküler Görüntüleme, two projects have been completed for the synthesis of the molecules which are active ingredients used in radiopharmaceutical manufacturing and for the design of the devices intended for the radioactive metering systems used in nuclear medicine, and the products so developed have been displayed at fairs and put on commercial sales.

The ongoing R&D projects of the company as summarized below:

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- ❖ Development of the system for preparing the computer-controlled TC99M radiopharmaceuticals,
- ❖ Development of the system for preparing the computer-controlled F18 radiopharmaceuticals,
- ❖ Determination of analytic purity levels of molecules.

The sector in which the Company operates in and its positioning

Original pharmaceutical market:

Eczacıbaşı İlaç Pazarlama is mainly active in the pharmaceuticals sector with its imported original products portfolio including the products of Sanofi-Aventis, Chugai-Sanofi Aventis, P&G, Astellas, Spirig, Sigma-Tau, Almirall and Tillots.

Hospital supplies market:

Eczacıbaşı-Baxter Hastane Ürünleri which is the market leader in parenteral solutions and peritoneal dialysis products market is subject to stiff competition by both domestic and foreign companies in the hospital supplies market. The Company is active in hospital supplies, renal products and biological products markets.

Dialysis treatment market:

RTS Renal Tedavi Hizmetleri provides dialysis treatment services. The market grows by an average 8% per year.

The share of private sector investments is increasing in this market. However, as a result of the delays observed in price increases, some private centers started to close down or merge their operations. Particularly large and foreign owned chains are taking action in the direction of either closing down or merging their clinics with low capacity utilization ratios. The Company is the second largest chain amongst privately owned dialysis centers.

Health services:

Eczacıbaşı Sağlık Hizmetleri, operates in the health sector and offers the widest spectrum of health services (home-based nursing care, physician, therapy services, nursing care center services, provision of medical equipment for patient treatment) in Turkey. Due to the nature of the services offered it is not possible to benchmark the Company with any other.

Nuclear medicine sector:

Eczacıbaşı-Monrol Nükleer Ürünler operates in the pharmaceuticals sector as a manufacturer of radiopharmaceuticals. 3 competitors are active in the FDG market in March 2012, which accounted for 34% of the Company's sales, and the Company remains the market leader with a tender winning rate of 72.6%. SPECT product category accounted for 55% of sales in March 2012 and apart from the domestic market these products are exported to 23 countries. The largest export markets are Iran, Egypt and India. Exports increased by 42% as compared to the same period a year ago.

Moleküler Görüntüleme is the first and only company in its sector. There is no other local company operating in R&D area in nuclear medicine sector.

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Developments in investments, incentives used and the extent of incentive use

Original pharmaceutical market:

Incentives are not used.

Hospital supplies market:

Eczacıbaşı-Baxter Hastane Ürünleri, has no plans for any capacity increase and investment thereof for the IV and peritoneal dialysis solutions it produces. No incentives were used for modernization or other investments. Investments realized were mostly sales related machinery and IT investments.

Dialysis treatment market:

RTS Renal Tedavi Hizmetleri did not use any incentives in the first quarter of 2012. The investment deduction allowance carried from previous years amounts to TRL 2,317.

Health services:

Incentives are not used.

Nuclear medicine sector:

Istanbul-Yıldız and Antalya investments of Eczacıbaşı-Monrol Nükleer Ürünler have been completed and production started in 2011. The incentive has been obtained for the FDG production facility to be erected in Malatya and the investment has been completed to a large extent, and the operation will start in June 2012 after the license is obtained. Romanian plant has been completed and license for the manufacturing place is pending. The erection of the facilities for FDG and generator set manufacturing in Egypt has been completed and sales started in May 2012. In Bulgaria, a company establishing process for FDG manufacturing facility has been completed and a company jointly controlled by Eczacıbaşı and Monrol has been incorporated with the trade title Monrol Bulgaria LTD. In general, 30% of the investment is financed through shareholders' equity and 70% through long-term investment loans.

Moleküler Görüntüleme is utilizing loans / donations made by KOSGEB, TTGV, TÜBİTAK, Ministry of Trade for its R&D projects. Other R&D projects and net operating capital requirements are financed through short term bank loans. The company also enjoys R&R rebate for staff income tax.

Characteristics of the Company's manufacturing units, capacity utilization ratios and trends, overall capacity utilization ratio, explanations concerning developments observed in the production of goods and services, quantities, quality, demand and prices as compared to past terms in the field of activity

Original pharmaceutical market:

Eczacıbaşı İlaç Pazarlama and Eczacıbaşı İlaç Ticaret have no production activities. They either import their products or have them contract manufactured.

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Hospital supplies market:

Due to fierce competition, in the glass and plastic bottling line, 2.7 million units of solutions were produced and the capacity utilization ratio has decreased to 64% from 82% in 2011; at the Medifleks lines 12.6 million units of solutions were produced and the capacity utilization decreased to 110% from 125% in the same period of 2011 and additionally, 2.2 million products were produced with a capacity utilization rate decreased to 26% from 57%.

The products produced by Eczacıbaşı-Baxter Hastane Ürünleri are priced by the Ministry of Health and are subject to the reference pricing system, which are updated as per the pricing decree and are published on the Ministry of Health's web page.

Dialysis treatment market:

Dialysis treatment market: RTS Renal Tedavi Hizmetleri provides hemodialysis (HD) and peritoneal dialysis services to patients through 18 clinics. With a total of 585 HD devices an average of 117 HD patients per clinic receive services. The average number of patients per HD device is 5.

Health services:

Eczacıbaşı Sağlık Hizmetleri has no manufacturing activity.

Nuclear medicine sector:

Eczacıbaşı-Monrol Nükleer Ürünler has six active production units located in Gebze, Ankara, Adana, İzmir, Istanbul and Antalya.

Moleküler Görüntüleme has been established in Gebze TÜBİTAK Technology Free Zone and consists of two main production divisions. In the first division, rare molecules are synthesized. These molecules are not commercially available and they are specially synthesized by few companies producing radiopharmaceuticals. In the other division of the plant, the research, development and manufacturing of the radiation-protection devices and equipment are carried out.

Capacity utilization ratios of these units of Eczacıbaşı-Monrol Nükleer Ürünler are provided below by the products they produce:

Production Unit	Product Group	Capacity	2012 Capacity Utilization (%) (*)	2011 Capacity Utilisation (%) (*)
Gebze	Mo-99/Tc-99m Gen.	15.600 ea.	69	74
Gebze	Tl-201	25.000 ea.	9	10
Gebze	I-131	46.000 ea.	49	47
Gebze	Cold Kit	110,000 Vial	52	32
Gebze	FDG	50.000 Dose	48	57
Ankara	FDG	25,000 Dose	64	66
Adana	FDG	25,000 Dose	32	32
İzmir	FDG	25,000 Dose	26	27
İstanbul	FDG	25,000 Dose	53	-

(*) On the basis of first 3-month production data.

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Capacity utilization for I-131 products increased as a result of increasing demand. Problems encountered with Cold Kit production have been rectified, and production, sales figures and hence the capacity utilization ratios have increased.

Prices, sales turnover, sales terms of the goods and services in the field of activity, changes observed in these throughout the year, developments in efficiency and productivity indices, reasons for significant changes in these as compared to years past

Original pharmaceutical market:

Apart from the over-the-counter products that are freely priced, the products of Eczacıbaşı İlaç Pazarlama are priced by the pricing decree of the Ministry of Health. The Ministry of Health takes the lowest price available among the five reference countries selected, and converts the price to TRL by a Euro exchange rate the Ministry specifies.

Sales terms are not only affected by the market conditions, but are also defined by the compulsory institutional discounts applied by the state. During periods of stiff competition, limited campaigns are put into action for over the counter products, and sales are supported through side commercial benefits provided to the customers.

Hospital supplies market:

As of mid-November, 2011, the Social Security Authority (SGK) has increased the discount rate by 8.5% for some original products and 7.5% for some 20-year products and lowered the price by 20%. Moreover, equivalent band for blood product has been lowered to 10%. The overall impact of the government decrees promulgated in 2011 on cumulative turnover of March 2012 of Eczacıbaşı-Baxter Hospital Group was realized as around 3.2 million TL.

The prices of Oliclinomel N4-550E, Primene %10, Immunate, Immunine, Suprane, Brevibloc Premix, Dianeal and CAPD Minicap have been increased by the Ministry of Health in 2012 as a result of applications made in line with the reference pricing system.

Dialysis treatment market:

The service contract with the Social Security Institution stipulates a standard Hemodialysis session price of TRL 145 for all centers. The fixed session price was kept unchanged from February 2005 to March 2010, and was raised to TL 145 as of 1 April 2010. The Company also provides monitoring and diagnostic services to peritoneal dialysis patients.

Health services:

Eczacıbaşı Sağlık Hizmetleri establishes the prices of the services it provides at the beginning of the year, mainly taking the market conditions into consideration. These prices are applicable all throughout the year, to be revised again in the next term.

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Nuclear medicine sector:

Production Unit	Product Group	2012 (*)	2011 (*)
Gebze	Mo-99/Tc-99m Gen	5,215	5,273
Gebze	Tl-201	343	302
Gebze	I-131	1,471	1,243
Gebze	Cold Kit	295	96
Gebze	FDG	1,529	1,852
Ankara	FDG	1,265	1,116
Adana	FDG	610	627
Izmir	FDG	537	560
Istanbul	FDG	819	-
Antalya	FDG	682	-
Gebze	Sales of other goods and services	2,208	1,046
		14,974	12,115

(*) Indicates the sales revenues in TRL of the selected product categories for first 3-month period in 2010 and 2011.

FDG average sales prices has increased by 3% on TRL basis as compared to same period of the last year despite the increased competition. Similarly, following the decline in previous periods due to the competitive reasons, a recovery period has been entered in the sales of FDG products, and the unit sales of FDG product category increased by 27% at the end of the period as compared to the previous year. Thanks to the overseas service sales through newly launched Therasphere, the sales of other products and services have doubled.

The sales revenues by product groups of Moleküler Görüntüleme are shown below.

Product Group	2012 (*)	2011 (*)
Oven	-	-
Dosing Calibrator	7	33
Gama Counter	-	15
HotPot	32	-
Injection Shield	-	-
Pass Thru Controller	7	-
Milking and Cold Kit Bottles	-	-
Tyroid Uptake	-	-
Sales of other goods and services	30	1
	76	49

(*) Indicates the sales revenues in TRL of the selected product categories for first 3 month period in 2011 and 2012.

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Measures planned to improve the financial structure of the Company

Original pharmaceutical market:

The financial structure would further be improved by signing new product contracts for over-the-counter products with no competitors, with high prices and high market potential and by quickly evaluating the joint marketing and license transfer options.

Hospital supplies market:

The equity of Eczacıbaşı-Baxter Hastane Ürünleri is very strong and its financial structure is problem free. Thus, taking measures to maintain and increase product profitability, keeping operational expenses under control, efficiently managing the operational cash by balancing accounts receivable and payable, and decreasing the cost of borrowing are deemed essential tools.

Dialysis treatment market:

The Company continuously works to improve profitability by increasing sales and saving on expenses in order to strengthen its financial structure.

Effective cash flow management is achieved through periodically monitoring receivables and keeping procurement under control. Capital increases are made as necessary.

Health services:

The main policies applied to improve the financial structure of the Company are;

- ❖ Collecting service revenues in advance and in cash as much as possible,
- ❖ Spreading the loan repayment periods and making repayments in installments to the extent possible,
- ❖ Exerting efforts to lower the purchase costs,
- ❖ Improving productivity of the health personnel who serve the patients,
- ❖ Keeping the number of patients at the care center at a maximum and promoting cash payments,
- ❖ Increasing the share of the service categories with lower costs as compared to other product categories in total sales.

Additionally continuous efforts are put forward to improve processes like eliminating collection problems.

Nuclear medicine sector:

Areas of improvement for the financial structure of Eczacıbaşı-Monrol Nükleer Ürünler are the operating cash and the collection days on receivables. Operating cash and collection days are regularly monitored. In 2011 delays were observed in collections particularly from university hospitals and some overseas customers located in neighboring countries and appropriate measures are taken to lower the number of days for receivables and market conditions are regularly monitored.

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The measures likely to be taken in order to improve the financial structure of Moleküler Görüntüleme include the reduction of financing costs and net operating capital requirement. For this purpose, efforts are made in order to increase the corporate sales and reduce the costs by assessing the loans on an ongoing basis.

Personnel and worker changes, collective bargaining agreements, personnel and worker rights and benefits

Original pharmaceutical market:

Eczacıbaşı İlaç Pazarlama is a sales and marketing company and has no unionized employees. The rights and benefits offered to the staff are in line with the human resources applications of the Eczacıbaşı Group and as of 31 March 2012, the Company had 279 (31 December 2011: 274) people.

Hospital supplies market:

As of 31 March 2012, Eczacıbaşı-Baxter Hastane Ürünleri had 81 workers (31 December 2011: 81) and 450 employees (31 December 2011: 445) bringing the total number of personnel to 531 (31 December 2011: 526) people. The Company does not have collective bargaining agreements. The rights and benefits offered to the workers and employees are in line with the human resources applications of the Eczacıbaşı Group.

Dialysis treatment market:

Collective bargaining is applied neither at the headquarters nor the clinics of RTS Renal Tedavi Hizmetleri. As of 31 March 2012 a total of 11 (31 December 2011: 14) and, 563 at clinics (31 December 2011: 568) bringing the total number of personnel to 574 (31 December 2011: 582) people.

The wage package of the personnel employed at the headquarters of RTS Renal Tedavi Hizmetleri is in line with the human resources applications of the Eczacıbaşı Group. The personnel employed at the clinics have a wage package based on 12 months' salary.

Health services:

Eczacıbaşı Sağlık Hizmetleri has no collective bargaining agreements. The rights and benefits offered to the staff are in line with the human resources applications of the Eczacıbaşı Group and as of 31 March 2012, the Company had 269 (31 December 2011: 273) people.

Nuclear medicine sector:

Eczacıbaşı-Monrol Nükleer Ürünler has no collective bargaining agreements and the employees and workers receive an annual performance based bonus and private health insurance coverage in addition to the rights they have according to the law and regulations in effect. As of 31 March 2012 the Company employs 184 (31 December 2011: 182) people.

Moleküler Görüntüleme has no collective bargaining agreements and the employees receive a private health insurance coverage in addition to the rights they have according to the law and regulations in effect. As of 31 March 2012 the Company employs 25 (31 December 2011: 24) people.

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Information on organizational units apart from the headquarters

Original pharmaceutical market:

Apart from its headquarters in Istanbul/Levent, Eczacıbaşı İlaç Pazarlama has liaison offices in 13 Main Regions. With other provinces where resident personnel are employed, operations cover Turkey entirely.

Hospital supplies market:

Eczacıbaşı-Baxter Hastane Ürünleri has regional offices and technical services apart from its headquarters. In addition to 9 regional offices, there are technical service organizations in Ankara and İzmir regions.

Dialysis treatment market:

RTS Renal Tedavi Hizmetleri has 4 branches apart from its headquarters. In addition it has 14 subsidiaries and two branches of these.

Health services:

Eczacıbaşı Sağlık Hizmetleri has no organization apart from its headquarters.

Nuclear medicine sector:

Eczacıbaşı-Monrol Nükleer Ürünler has six branches in Istanbul, Ankara, Adana, İzmir, Antalya and Malatya, apart from its headquarters. Moleküler Görüntüleme has a shareholding of 99.999947%. It has a fully owned subsidiary in Romania, Monrol Europe SRL. In Poland, a company jointly controlled by Monrol Europe SRL (51%) and Eczacıbaşı Monrol (49%) has been established in July 2011. In Egypt, a company jointly controlled by Eczacıbaşı Monrol (99.8%) and Monrol Europe SRL (0.2%) has been established in October 2011. In Bulgaria, a company jointly controlled by Eczacıbaşı and Monrol has been incorporated with the trade title Monrol Bulgaria LTD on 9 March 2012. In addition, the Company has a sales and distribution network of 16 resellers in Turkey and 11 distributors in 23 points of sales abroad.

Moleküler Görüntüleme has is headquarter in Sisli with a branch office in Gebze TUBITAK Technology Free Zone.

OUR ACTIVITIES IN CONSUMER GOODS SECTOR

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Key factors affecting the Company's performance, changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes, investment and dividend policies implemented to enhance the Company's performance

For the joint-venture active in the cosmetics market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

The growth rate of the cosmetics market had been below expectations for the last few years. The growth rate of 11% in the cosmetics market in 2012 has risen to 16% in 2011. This market has grown by 17% in the first quarter of 2012.

As the retail sector is getting more organized, the ratio of sales through chain stores is increasing day by day. This is mainly an outcome of the increase in the number of cosmetics chain stores. The current ratio of 55% to 45% for sales through chain stores and traditional outlets (perfumeries, wholesalers, pharmacies, local markets) respectively is expected to become 60% for chain stores and 40% for traditional outlets in two years time.

The sales and distribution arm of Eczacıbaşı-Beiersdorf Kozmetik Ürünler, Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri, is adjusting its organization and structure to better adapt to this new trend.

For the joint venture active in the professional hairdressers' products market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

The key factors affecting the performance of Eczacıbaşı-Schwarzkopf Kuaför Ürünleri are the activities of the competitors and, as almost all of the products are imported, economic variables starting with the foreign exchange rates. Precautionary policies include following up market data closely and making use of financial instruments to hedge foreign exchange risks. In order to increase market share new products are imported in line with the health and fashion trends; training programs are offered to hairdressers to improve their skills and promote the use of products; support activities are organized to tie in more hair salons and periodic promotional campaigns are developed.

For the associated active in the consumer products market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

As of year-end 2007 Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri moved its production to a modern plant within the Gebze Organized Industrial Zone, from its old production facility located at Çerkezköy. The fact that the new manufacturing plant is located close to the main warehouse as well as having its own warehouse resulted in significant improvements in storage and transportation costs.

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The Company keeps investing in new systems to improve its current sales infrastructure. Within this context, to manage the dealers effectively, a dealer automation system was established where dealers' sales and stocks can be monitored daily on a product basis. In 2008 a system that would enable the dealers to place orders automatically was established and became operational. A CPM (Commercial Promotion Management) Project for the chain stores channel that would allow all the dealers to effectively use the sales funds, and a CRM (Customer Relationship Management) Project for the out of home channel were both completed in 2009. The company has started the sales and distribution of SMA brand infant food as of April 2011.

In 2008 a video conference system was established in between the head office, regional offices and the production facility. This system would enable the Company to achieve significant savings on transport and travel expenses.

The Company's sources of finance and risk management policies

Cosmetics market:

Eczacıbaşı-Beiersdorf Kozmetik Ürünler makes use of both TRL and Euro loans. Used as working capital, the Euro loans amount to Euro 1.5 million and these are revolving loans renewed annually. This loan has a maturity of one year one week on average and is due in July 2012. TRL loans are rotating loans, borrowed at the time a working capital requirement arises and closed in a short term. As of 31 March 2012, the loan amount is TRL 8,682 thousand.

As all products are imported and there are no export sales, occasionally forward contracts are used for modest amounts to avoid high foreign exchange risk volatility. As TRL interest rates are usually high, forward contracts have a 1-2 month maturity. As of end December there are no effective forward contracts.

Hairdressers' products market:

The main financial policy of Eczacıbaşı-Schwarzkopf Kuaför Ürünleri is to avoid working capital deficits. As all products are imported and there are no export sales forward contracts are used against foreign currency risks.

Consumer products market:

Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri finances receivables, stocks and fixed assets through equity. As of 31 March 2012, the loan in the amount of TRL 14,550 thousand has been used for the purchase of new office building.

Receivables are guaranteed by sales channels. Real estate mortgages and letter of guarantees from banks are collected from clients as payment guarantees. Of the sales to wholesale dealers, 90% of receivables were covered by such guarantees as of 31 March 2012, and it is expected that this ratio is also realized as 94% % in the years ahead. In order to eliminate the risk on foreign exchange liabilities that may arise from sudden fluctuations of the foreign exchange markets, foreign exchange reserves are kept to cover all foreign exchange liabilities. Moreover, forward contracts are made where necessary in order to cover the open positions occurring during the year.

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The ratio of budgeted versus actual expenses of all departments of the Company are monitored and it is expected that any deviation in sales would be matched by corresponding expense cuts.

Development prospects for the Company

Cosmetics market:

Cosmetics market develops through new products. End-users support market growth by buying and trying new products. New products are most effective in the facial treatment and deodorant categories.

Eczacıbaşı-Beiersdorf Kozmetik Ürünler aims to grow in the markets it is currently active in, and mostly, as the market leader. It also aims to strengthen its market position by offering innovations and expanding its end-user reach through entering into product categories it has not been involved in before (the first such effort had been entering into the soap market). Apart from these, the trend observed in the States and in Europe where organized channel grow at the expense of traditional channels, is a development being observed in the Turkish market as well. Organized retailers like the chain stores are investing in cosmetics and are developing.

It is expected that internet will become a more important sales channel in the future and self-service/kiosk type sales points will develop. Thus in the long term, the intermediaries will slowly be eliminated and the models allowing end-users direct and easy access to the products will be more desirable. Both the population and the development potential are higher as compared to European markets. Consumers perceive NIVEA branded products as reliable and good value for money.

Hairdressers' products market:

Professional hairdressers' products market has been shrinking by around 5% in the last two years as a result of decreasing frequency of visits to hair salons and increasing home use.

Eczacıbaşı-Schwarzkopf Kuaför Ürünleri performs in line with the market trends, where particularly the products retailed at the hair salons are showing growth potential. A market share increase in this segment is targeted. In the first quarter of 2012 significant growth was recorded as compared to last year.

Consumer products market:

Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri started manufacturing industrial liquid detergents, cosmetics and eau de cologne at its own plant. All these products are manufactured by the best available processing and management applications to be found in this sector. ISO 9000 certification is completed and file preparation has been started to become the first GMP (Good Manufacturing Practices) certified manufacturer in this sector.

Net sales increased by 19% in March 2012 as compared to a year ago. An average 15% growth is planned for the coming three years.

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R&D activities realized

Cosmetics market:

As all products in this market are imported there are no R&D activities.

Hairdressers' products market:

All products in this market are imported from Germany. R&D activities are carried out by the original manufacturers.

Consumer products market:

The production facility and R&D structure of Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri is established to develop certain formulae completely by the Company rather than buying these from elsewhere. At the production facility 70% of the formulae have been renewed and the number of Maratem branded products reached 88 within three years. Formulae optimization for Egos branded products and new product development efforts for Selin, Detan and Defans branded products are ongoing.

The sector in which the Company operates in and its positioning

Cosmetics market:

Turkish cosmetics market, for the categories that Eczacıbaşı-Beiersdorf Kozmetik Ürünler is active in had a volume of TRL 972 million at the end of 2011, according to data from Nielsen (excluding pharmacy and BIM channels).

NIVEA, a 100 years old brand which has been marketed in Turkey by Eczacıbaşı since 1960, is rare both in Turkey and in the world, in its coverage of all segments of society, babies, youth, elderly, men, women, with a single brand of cosmetics and personal care products. The Company reaches consumers with 13 sub-brands in the skin care, personal care and facial care categories it operates in. All products reach customers through Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri.

According to the Nielsen retail report, in the first quarter of 2012, the Company continues to be the market leader in facial care, deodorant, body care, sun protection products and lip care products markets with its sub-brands. The company has about 300 products in this market.

Hairdressers' products market:

Eczacıbaşı-Schwarzkopf Kuaför Ürünleri, operates in the wholesale hairdressers' products market. It is the market leader in hair coloring products. It has been increasing its market share in shampoo and other hair care products markets. The Company is active in importing, marketing and sales of hair cosmetics products that are only used by hairdressers or sold through hair salons.

Eczacıbaşı-Schwarzkopf Kuaför Ürünleri, operates in the hairdressers' sector and along with Schwarzkopf products it also sells Indola branded products which were bought by Henkel KGaA, the parent company of Schwarzkopf in 2005. The Company is the market leader with its portfolio of pioneering brands like Igora, Indola, Bonacure, Osis, Blond Me.

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Consumer products market:

Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri, is active in sales and distribution in the consumer products market and is responsible from brand management and manufacturing of Eczacıbaşı's own consumer and away-from-home brands. It is the consumer product company which has the highest retail coverage in Turkey with its range of more than 1,500 products.

It is the market leader in 12 of the 20 product categories it distributes. According to AC Nielsen retail panel distribution data, the Company has a 80% - 95% coverage ratio around Turkey, reaching 4,800 sales points directly, 67,000 sales points through exclusive or general dealer teams responsible for Eczacıbaşı Girişim Pazarlama products, and 160,000 sales points in total including sales through wholesalers.

Consumer products manufacturing plant is in full compliance with the new cosmetics law published in 2006 parallel to European Standards, and for liquid detergent production, it has the most developed infrastructure and manufacturing conditions within the country. The plant was established with the most optimal solutions for energy and water consumption, and is equipped with an automation system to ensure production quality consistency. R&D, Quality Control and Microbiology laboratories are equipped with all tools and systems that the sector may require.

Developments in investments, incentives used and the extent of incentive use

Cosmetics market:

As Eczacıbaşı-Beiersdorf Kozmetik Ürünler is not involved in production investment figures are low. In the first quarter of 2012 the investments amounted to TRL 104 thousand. Most of this consists of stand procurement and TV advertising film production investments. No incentive was used for these investments.

Consumer products market:

The new cleansing agents and cosmetics manufacturing plant of Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri started being built in November 2006 at Gebze and became operational in December 2007. The total investment spending realized was TRL 17,244 thousand. Investment spending in the first quarter of 2012 amounted to TRL 12,966 thousand. No incentives were used.

Characteristics of the Company's manufacturing units, capacity utilization ratios and trends, overall capacity utilization ratio, explanations concerning developments observed in the production of goods and services, quantities, quality, demand and prices as compared to past terms in the field of activity

Cosmetics market:

Eczacıbaşı-Beiersdorf Kozmetik Ürünler has no manufacturing activity, but imports NIVEA and 8x4 branded cosmetics and personal care products, and carries out marketing and sales activities domestically. Products within the portfolio are imported according to import plans and upon finalization of the logistics processes handed over to Eczacıbaşı Girişim Pazarlama Tüketim which is responsible for distribution around Turkey.

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Hairdressers' products market:

As all products are imported, there is no manufacturing activity.

Consumer products market:

At its new manufacturing plant, Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri focuses on new products and system products that would increase the tonnages. With the specially developed thinning and dosage systems, the Company is able to offer economic options, particularly for customers operating at large professional service points.

Prices, sales turnover, sales terms of the goods and services in the field of activity, changes observed in these throughout the year, developments in efficiency and productivity indices, reasons for significant changes in these as compared to years past

Cosmetics market:

In terms of sales the market is divided into two main channels: chain stores (national, organized retailers) and the traditional market (perfumeries, wholesalers, local chains, supermarkets, pharmacies and cosmetics warehouses etc.). Eczacıbaşı-Beiersdorf Kozmetik Ürünler, sells directly to chain stores (deliveries are made directly to customers' warehouses) whereas uses dealers, wholesalers and retail points to ensure its products reaches the end-users through the traditional market. This causes the formation of different sales dynamics in between the chain stores and the traditional market.

Eczacıbaşı-Beiersdorf Kozmetik Ürünler publishes its sales terms on a monthly basis in line with its budget and in view of the market conditions. The Company's turnover increased by 16% in TRL as compared to a year ago.

Hairdressers' products market:

Sales are promoted by means of the activities within the context of the annual contracts signed with the hair salons and monthly campaigns targeting both end users and hair dressers. Eczacıbaşı-Schwarzkopf Kuaför Ürünleri's products are sold and distributed through dealers by Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri.

Consumer products market:

Product prices are increased taking into account factors like inflation and competition. Sales terms differ by distribution channels and customer categories. While sales terms are established in individual customer contracts with regard to competitive prices and market conditions, discounts are offered under invoices as service invoices. A cash discount is offered to cash payments. A guarantee to cover products to be bought is expected from the customers that the Company works with. Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri increased its sales by 19% as of 31 March 2012 as compared to a year ago.

Measures planned to improve the financial structure of the Company

Cosmetics market:

The main policies applied to improve the financial structure of Eczacıbaşı-Beiersdorf Kozmetik Ürünler are;

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- ❖ Increasing the speed of collections by promoting cash sales,
- ❖ Following up receivables from chain stores to bring down the period of collections.

Hairdressers' products market:

Having extended payment periods from suppliers and offering shorter payment periods to customers are among the planned measures.

Consumer products market:

Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri started applying a direct debit system to prevent the risk of delayed payments. Works are under way to expand the scope of this system.

The total stock levels are kept under control by eliminating SKUs (Stock Keeping Unit) deemed unproductive by pre-determined criteria when adding new ones. Alternatives are being evaluated to manufacture by definite orders so that no manufactured product stocks would be kept. Packaging and content changes within product categories continue within the scope of reducing production costs.

Personnel and worker changes, collective bargaining agreements, personnel and worker rights and benefits

Cosmetics and hairdressers' products market:

Eczacıbaşı-Beiersdorf Kozmetik Ürünler and Eczacıbaşı-Schwarzkopf Kuaför Ürünleri have no collective bargaining applications. The rights and benefits offered to the staff are in line with the human resources applications of the Eczacıbaşı Group and as of 31 March 2012 Eczacıbaşı-Beiersdorf Kozmetik Ürünler had 45 (31 December 2011: 46) employees, Eczacıbaşı-Schwarzkopf Kuaför Ürünleri had 16 (31 December 2011: 16) employees.

Consumer products market:

As of the end of 31 March 2012, Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri employed 267 (31 December 2011: 250) people. The Company has no collective bargaining applications. The rights and benefits offered to the staff are in line with the human resources applications of the Eczacıbaşı Group.

Information on organizational units apart from the headquarters

Cosmetics and hairdressers' products market:

Eczacıbaşı-Beiersdorf Kozmetik Ürünler and Eczacıbaşı-Schwarzkopf Kuaför Ürünleri have no other offices apart from their headquarters.

Consumer products market:

Apart from its headquarters, Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri has a manufacturing plant in Gebze and 6 regional sales offices. Real Estate Operations

REAL ESTATE ACTIVITIES

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Key factors affecting the Company's performance, changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes, investment and dividend policies implemented to enhance the Company's performance

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

Kanyon:

Competition has been intensifying with the opening of new shopping centers in different districts. Despite this, Kanyon still is able to differentiate itself from the competition and manages to attract a loyal customer base.

In response to increasing competition and the economic fluctuations, the marketing plan is enriched, and by means of applying an optimum stand rental pricing policy, operations in this area are being developed.

Kanyon's strong and weak points within this market structure can be summarized as follows:

STRENGTHS	WEAKNESSES
Central location / Being preferred at summer weather conditions Different architectural design Open air shopping Heavy emphasis on leisure, culture and art elements	Affected by adverse weather conditions in winter Traffic density Gaps in the brand mix
OPPORTUNITIES	THREATS
Conceptual uniqueness Vicinity to a dense office population High income region	New shopping centers Kanyon's luxury image

The strong demand the retail market had shown to shopping centers caused the rental rates to rise and the retailers that rented their spaces at these high prices started facing difficulties at the end of 2008, when the impact of the economic crisis started to be felt, to the extent that some had to close down their stores. In this crisis environment retailers have become reluctant to open new stores and the shopping centers have started evaluating applications more meticulously. To replace the shops that closed down, Kanyon is now looking for brands that have higher potential to attract consumers and create more traffic. At the same time efforts concentrate on strengthening the brand mix and the brand gaps have already started being filled.

Kanyon carries out systematic activities as a favorite shopping center: art activities, programs for kids and campaigns; events aiming at youngsters, shopping campaigns and

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ecologic living space “Organikanyon” are among these. With a cooperation of Virgin Radio and Kanyon, Kanyon now has a radio station and Virgin Radio DJs are broadcasting from Kanyon with both their closed circuit programs and national broadcasting. Virgin Radio Kanyon is developed in line with the Kanyon’s image as young and innovative, and aims to attract young clients. Paying attention to the increasing importance of social media and digital marketing Kanyon started using these channels more effectively in its marketing communications and investments. KanyonFit Project, one of the Kanyon digital applications has been awarded the gold prize at the international contest 2010 ICSC Solal Marketing Awards. In September, Kanyon started its free Wi-Fi service for the visitors and strengthened the innovative Kanyon perception of the visitors through “Kanyononline” offered as a combination of internet service and social media communication. Kanyon has been awarded gold medal for its project “Lets Knit Together and Send them to Children in Need” and silver medal for its “Kanyon Box” in the category of “Brand Awareness” as part of the 2011 Mercury Prizes where the worldwide excellency is rewarded. In the competition attended by 790 projects from 21 countries, Kanyon has been awarded gold and silver Mercury with its two projects in the “Brand Awareness” category.

With new brands added to Kanyon’s brand mix solidifies the competitive power in terms of shopping.

As from the last quarter of 2011, a new structure and revision process have been launched with the name Kanyon V2.0. As part of this revision, Macro has been renewed, and Turkcell and Teknosa have welcomed their customers with new concepts and stores in relocated areas. V2.0 project will also continue in 2012 with new anchor brands and youth brands added to the brand mix and existing stores will be renovated in terms of visitors flow and visual perception. Aeropostale, EAT, Pinkberry brands opened in the first half of 2012 in Kanyon shall be followed by Carluccio’s and Marks&Spencer in the second half of 2012.

Real estate development:

Key factors affecting the performance of Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım are the investment decisions of the investors it is serving with real estate development projects and the overall outlook of the sector. Ongoing real estate development projects are proceeding as planned.

As the clients served have decided land development and building would be their primary area of activity, their investment decisions are expected to remain intact in the short to medium term.

The construction sector, in which the company is active, felt the economic crisis most. Despite this, the Company will keep its unique standing in the market with its high quality orientation, outstanding architectural approach and the projects it develops with an aspiration to establish brand names.

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The Company's sources of finance and risk management policies

Real estate development:

As of 31 March 2012 Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım had neither foreign exchange risks nor open loans. The Company covers all its expenses with its operating revenue. Operating revenue includes consultancy and land development contract income along with building site revenues.

Development prospects for the Company

Kanyon:

Currently there are some shops and offices available for renting. Efforts continue to bring in brands with a high potential and achieve a stronger brand mix to occupy these. A container stand, Kanyon Box, located at the Büyükdere entrance of Kanyon was launched for marketing and PR purposes, where brands which are in harmony with the Kanyon concept but currently are not available at Kanyon are offered there for 3-4 weeks. Kanyon Box has soon become a point of attraction for agencies and the projects of own brands of the agencies.

Marketing activities mainly focus on events, advertising, public relations and customer relationship management. Event plan is developed to cover the whole year and create additional client traffic.

Advertisements are mainly designed in line with events and PR (Public Relations) possibilities that benefit from events are evaluated. CRM (Customer Relationship Management) efforts continue and are being developed further. Advertisements are placed on the periodicals as part of the image-making campaign for Kanyon. As brand cooperation is becoming more important efforts to implement joint projects with the brands have started.

Istanbul Shopping Fest (ISF) organized between March 18 - April 26 has taken place efficiently at Kanyon with retail cooperation, discounts, adornments and campaigns.

Real estate development:

Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım has participated in Ormanada Project, a joint investment between Eczacıbaşı Holding A.Ş. and Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar A.Ş. as project manager and lead contractor. This development will make favorable contribution to the expertise and financial status of the company.

R&D activities realized

Real estate development:

Land development studies in Kartal are being carried out by Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım as part of the real estate development contract. The business development department continues to search for new projects in compliance with the Group's approach to develop privileged projects in real estate.

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The sector in which the Company operates in and its positioning

Kanyon:

Shopping centers and retailing sector have been developing fast in the last few years in Turkey and the competition is intensifying. Although the ratio of shopping center m² to population is still half of European average, particularly in Istanbul, and at certain neighborhoods, there is a density causing high competition.

Kanyon differs from other shopping centers in its region with its architecture, events and brands. The trends observed at the market at large are as follows:

- ❖ Too many shopping centers targeting the same segment are launched
- ❖ There is an effort to move away from the traditional shopping center concept and leisure elements within the shopping centers are gaining importance
- ❖ Customers are becoming more demanding
- ❖ A higher quality and wider brand mix is expected
- ❖ Shopping is in competition with other activities as a means to spend spare time

The Company fully owns the 26 story office block at Kanyon, which as the first open-air shopping center project in Turkey, had received great acclaim both at home and abroad.

Real estate development:

Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım, operates in the real estate sector, and is active in real estate development and project management.

Apart from managing Eczacıbaşı Group's existing real estate portfolio within the country, the Company aims to establish "Eczacıbaşı Real Estate" as a brand in the sector by developing projects that are authentic, ecological and sustainable taking into consideration architectural genius, pioneering design and lifestyles; through solution oriented partnerships like flat-for-land and profit sharing.

Other real estate development activities:

The Company owns and receives rental revenues from the manufacturing plant and administration building of its 50% joint venture, Eczacıbaşı-Baxter Hastane Ürünleri, at Ayazağa.

Developments in investments, incentives used and the extent of incentive use

In December 2007, the Company bought half of 22 plots of land with a total area of 196,409.74 m² located at Sarıyer İlçesi, Uskumru Mahallesi, Yorgancı Çiftliği Mevkii. The remaining 50% belongs to Eczacıbaşı Holding A.Ş. The real estate in question is qualified as building land for residential and, partially, commercial developments.

Application and interior decoration project works carried out by different architectural groups were completed for the total planned construction area of 90 thousand m² and licenses have started being obtained on a lot by lot basis.

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On 28 September 2010 the Company's Board resolved that:

- ❖ The project in question should start under the name "ORMANADA",
- ❖ The property (residential units) to be built at the "Ormanada" project should be developed in two phases to be completed by the end of 2013 by the Company's subsidiary Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım A.Ş., which, within the context and control of the signed contract, would choose a contractor or sub-contractors by bidding on the basis of taking offers on unit prices, bargaining or contracting at a lump sum price,
- ❖ Within the context of the "Ormanada" project, the required works should be completed so that the property (residential units) to be built on the lots for which the legal process has been completed could be launched for sale in October 2010,
- ❖ Necessary contracts should be signed with the banks that an agreement can be reached with to provide loans to clients who would buy property from the "Ormanada" project, covering up to 75% of the sales value,
- ❖ Should the banks in question offer TRL based mortgage loans to the clients of the Company, the Company would become a guarantor on the repayments of the mentioned loans until the time when a mortgage in the name of the bank could be established on the properties sold as such, and the contracts to this effect would be signed with the banks in question by two members of the Board having authorized signatures.

At a press conference held on 18 October 2010 to present Ormanada, and at the material event disclosure presented to the public on the same date, the following project information were disclosed:

- ❖ Ormanada project located in Istanbul Zekeriyaköy, has been designed by experts possessing international knowledge and experience, by blending the themes peace, comfort, neighbor relations, trust, sustainability, healthy lifestyles and nature around the "living together" concept.
- ❖ The project will require an investment of USD 300 million. The residential units will vary from 170 to 700 square meters in size and would be priced in the range of USD 500 thousand to USD 2.2 million per unit.
- ❖ Ormanada combines a sustainable life philosophy, the simple beauty of nature and modern architecture and design, and was planned by renowned experts in these fields. Ormanada offers a very special living place in Istanbul and is designed in collaboration with some of the leading international companies in the field of urban planning, architectural design and landscape architecture - Torti Gallas and Partners, Kreatif Mimarlık ve Rainer Schmidt Landscape Architects - to represent an encounter between global architectural values and local needs and customs. We hope that the people who will live in Ormanada, our second living project after Kanyon, will enjoy nature to its fullest.
- ❖ Ormanada offers 188 villas in five distinct designs, 71 townhouses in four architectural designs, and 25 thousand square meters of green areas. Ormanada has a total of 2,500 square meters of social living space with pedestrian and bicycle paths, two tennis courts - one of which can be covered, a basketball and multi-purpose sports field, eight playgrounds and two recreational areas. The social living spaces called Adameydan, Adamekan and Adaçarşı

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include a café-restaurant, shops, one outdoor and one covered swimming pool, a pilates-fitness center, sauna, steam room and massage rooms.

The revision studies on the project, which was launched on 18 October 2010 to include a total of 259 residential units, 188 of which were villas and 71 were townhouses; suggest the number of residential units could be increased to 269.

The project will be completed in two phases and there would be 150 residential units in the first phase, and it is projected that the second phase, which is still at the construction license issue stage, would include 119 residential units as of the date of the attached report.

Sales deals have been made and sales contracts signed for 49 residential units in the first phase and 26 units in the second phase. Furthermore, the infrastructure (construction other than the buildings: roads, electricity, water, sewage, natural gas, telephone lines etc.) and superstructure (building construction) works of the Ormanada project continue as planned.

Real estate development:

Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım was not involved as an investor in any of the projects it executed in 2012, and thus, no incentives were used.

Characteristics of the Company's manufacturing units, capacity utilization ratios and trends, overall capacity utilization ratio, explanations concerning developments observed in the production of goods and services, quantities, quality, demand and prices as compared to past terms in the field of activity

Kanyon:

Kanyon aims to provide services at higher quality standards than available at other shopping centers and office buildings. Since it has started operating in June 2006, Kanyon has been showing utmost care to keep the quality-cost balance at an optimal level without sacrificing from service standard quality of the services it provides with its personnel (training, workers' health, importance given to work safety, health services like ambulance availability, hygiene inspections, high level of security measures, hi-tech devices used).

Real estate development:

Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım provides its services with its experienced, qualified and proficient management and technical staff. All the production stages of the projects are subcontracted.

Prices, sales turnover, sales terms of the goods and services in the field of activity, changes observed in these throughout the year, developments in efficiency and productivity indices, reasons for significant changes in these as compared to years past

Kanyon:

As of 31 March 2012 the total rental income received from Kanyon is 9,820 thousand (31 March 2011: TRL 8,316 thousand). As the rental contracts were made for 5-10 years since 2006 it is expected that rental income will increase in the coming years along with contract renewals.

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Real estate development:

The revenues earned from the projects managed through service contracts constitute the operating income of Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım. The revenue proposed for 2012 will substantially be derived from the construction works to be carried out as part of Ormanada project.

As of 31 March 2011, Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım realized an investment revenue of 1,662 thousand TRL. This increase of 524% in revenues as compared to the preceding year is caused by the fact that superstructure works have also speeded up along with the infrastructure works. Significant increase is expected in revenues especially in the last quarter of 2012 thanks to the speed up of infrastructure and superstructure works.

Measures planned to improve the financial structure of the Company

Kanyon:

Existing financial and technical information technology programs were revised to provide effective budgetary and financial control. Having extended payment periods from suppliers and applying shorter collection periods are among the measures planned.

Real estate development:

Construction activity at the Ormanada project that the Company acts with the effect of construction activities in 2012, which is expected to strengthen the Company's financial structure.

Personnel and worker changes, collective bargaining agreements, personnel and worker rights and benefits

Real estate development:

As of 31 March 2012, Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım had 30 (31 December 2011: 28), and has no collective bargaining agreements. The rights and benefits offered to the staff are in line with the human resources applications of the Eczacıbaşı Group.

Information on organizational units apart from the headquarters

Real estate development:

Apart from its headquarters, Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım has a site office within the context of the Ormanada project.

OTHER ACTIVITIES

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Key factors affecting the Company's performance, changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes, investment and dividend policies implemented to enhance the Company's performance

For the associate active in the ceramic tiles market;

- **Key factors affecting the Company's performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes:**

The sales in the first quarter of 2012 has outperformed the budgeted figures thanks to the quantitative increase in foreign markets and the prices of local market in excess of the budget despite the drops in currency rates as compared to the end of 2011. The drops in currency rates has resulted in favorable effect on the period's profit by producing currency difference profits in valuation of the foreign exchange loans of Vitra Karo. In terms of operational profitability, Vitra Karo performed at budget levels despite the cost increases as explained below in detail and it is estimated that the profitability of V&B Fliesen would reach the budget level in the second quarter of the year due to technical problems in the manufacturing side.

Natural gas prices which constitute a significant share of production costs of Vitra Karo have increased by 15% in the last quarter of 2011. Again, electricity cost, another energy input, has increased by 10% in the last quarter. In addition, the prices of some manufacturing inputs (zirconium etc.) have increased and maintained its pressure on our gross profitability. As a result, the unit manufacturing cost realized as 10.94 TRL/m² as of the end of March 2012, with an increase by 25% as compared to the same period in 2011. On the other hand, the prices of natural gas and electricity as increased by the Government will further intensify such impact on gross profitability as from April 2012.

The domestic freight costs which accounts for an important part of operating costs have increased by 12,63% due to contractual reasons and increases in fuel prices during 2011. However, after some improvements in transport area, this price increase has reflected on unit square meter freight prices by around 8%. The overseas transport prices have increased by around 8% due to the currency changes between the same periods of 2011 and 2012.

Efficient stock controls implemented in 2011 also continue in 2012. The orders received in the first quarter of the year have increased by 16% as compared to the previous year and quantitative stock increase has stayed in the region of 6%.

- **Investment and dividend policies implemented to enhance the Company's performance:**

Along with the building products division strategies, a growth policy involving overseas buy-outs and/or new green-field investments is pursued.

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“Mosaic Line”, the first stage of our plant in Russia started its manufacturing activities as from June 2011. The 2nd phase has been put into operation in August 2011 and it is planned that the 3rd phase will be put into service in the second quarter of 2012.

Besides, the search for and negotiations for possible acquisitions abroad are underway. The Company has adopted a dividend policy of distributing profits after growth related investment finance requirements are met.

For the associate active in the export sales services;

- **Key factors affecting the Company’s performance, significant changes that took place in the operating environment of the Company and the policies adopted by the Company in response to these changes**

As the foreign trade capital company of the Eczacıbaşı Group, Ekom aims to provide most effective export, customs, finance and risk management services to the Group companies which make use of its services in export sales of Eczacıbaşı products. The performance of the Company is to some extent affected by changes in macroeconomic indicators. Particularly, fluctuations in foreign exchange rate policies have an impact on sales commissions, and directly affect the Company’s financial results.

The Company’s sources of finance and risk management policies

Ceramic tiles market:

In the first 3 months of 2012, the sales of Vitra Karo accounted 64% in terms of quantity and 57% in TRL basis of its total sales. As most of its income is foreign currency based, the Company covers its financing requirements by foreign exchange loans. In addition, other financial hedge instruments (forward etc.) are used to lower the risks as and when required.

Export services:

Since Ekom acts as an intermediary and it undertakes minimum risks carrying out its activities for which its equity is large enough to bear it does not need to use any outside finance. However, with the financial intermediary services it provides, Ekom has access to a wide network of banks and enjoys high credibility; it may use such outside finance should there be the need.

Development prospects for the Company

Ceramic tiles market:

Vitra Karo operates in an intensely competitive market where innovative products and maximum customer satisfaction are crucial. In this regard, the Company endeavors to design new products, which once developed, are presented to customers in major international fairs. In addition, the operational processes are continuously developed and improved to increase customer satisfaction. As a result of design, development studies and domestic sales campaigns, the number of customer orders received in the first quarter of 2012 has increased by around 16% in terms of square meter as compared to the same period in 2011.

In the local market in Turkey, a careful optimism will be observed in the new year. While Vitra Karo expects that the housing stock will not increase and shift to sales in the first quarter of

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2012, it considers the possibility of reduction in the speed of shifting to sales in the second half of the year. In addition, among the headings in which the company expects favorable effect in the mid and long term are the status of so-called “2B” lands, laws governing the urban transformation as part of earthquake measures and granting rights to foreigners to acquire property in Turkey. While growth is expected in the renovation market in Germany, one of the strategic markets of Vitra Karo, a speedy increase is expected in sales in Russia, another strategic market, once the facilities are put into operation.

In order to increase the efficiency and profitability, development activities shall be intensified so that reasonably priced substitutes of some raw materials the prices of which have increased in excess of expectations, and cost improvement activities are conducted in other areas in order to minimize the impact of possible increases in natural gas and electricity prices. On the other hand, it is aimed at minimizing the negative impact of possible increase in oil prices on the transport costs by means of controlled expenditures in the operating costs.

Export services:

Ekom increases its business volume in line with the development of the export activities of the Eczacıbaşı Group. All the necessary measures are taken to improve efficiency in this process. Activities in line with and in a complementary manner to the current business line are being pursued and put into action upon approval by the board of the main shareholder Eczacıbaşı Holding A.Ş..

R&D activities realized

Ceramic tiles market:

Eczacıbaşı Building Products Division has completed the process of establishing an R&D center at Bozüyük to serve both Vitra Karo and Eczacıbaşı Yapı Ürünleri as the “Innovation Center” of Building Products Division has started its activities in May 2011.

Export services:

Export services: Ekom has no R&D activity.

The sector in which the Company operates in and its positioning

Ceramic tiles market:

The market share of Vitra Tile Group has become 11.7% in terms of turnover in 2011. In foreign markets, Tile Group also supplies 9% of 120 million m² consumption Germany, 4% of 50 million m² consumption in the UK, 2.2% of 121 million m² in France and 0.3% of 160 million m² in Russia. The said market share data are based on market research data provided by GFK in terms of turnover for Turkey and BRG research company in square meter for overseas markets.

Export services:

Ekom, provides operation, customs, finance and risk management support services to Eczacıbaşı Group companies under an export agency scheme. Due to the specific nature of the business and the fact that only group companies are served, it is not meaningful to benchmark or position the Company at a sectoral level.

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Developments in investments, incentives used and the extent of incentive use

Ceramic tiles market:

The first and second phases of the Ceramic Tile factory investment in Russia, expected to cost around 37 million Euros in total, have been completed and production activities have started in June-August 2011.

An investment incentive certificate for TRL 12.3 million for Bozüyük investment has been approved at the beginning of 2011. With this incentive certificate, it is expected that relevant closing transactions start in the last quarter of 2012.

Export services:

Ekom makes limited investments mostly covering operational service requirements. The Company's status as a Foreign Trade Capital Company provides some advantages that the Group companies benefit from. These advantages are:

- ❖ Letter of guarantee convenience for VAT rebates,
- ❖ Letter of guarantee convenience for Inward Processing Regime,
- ❖ Discounted interest rates on TRL or foreign currency based Eximbank loans, letter of guarantee convenience on obtaining loans,
- ❖ Benefit from some state export support schemes,
- ❖ Through the approved entity status provided, convenience and speed in customs operations.

Characteristics of the Company's manufacturing units, capacity utilization ratios and trends, overall capacity utilization ratio, explanations concerning developments observed in the production of goods and services, quantities, quality, demand and prices as compared to past terms in the field of activity

Ceramic tiles market:

Vitra Karo has a wide range of products in terms of tile dimensions offered. Currently, the Company, together with its associates abroad, has a production capacity of 32-34 million m² and a capacity utilization ratio of 90-95% depending on the production diversity. Every year 8-10 new products are added to the manufacturing portfolio.

In the first quarter of 2012 the total sales of Vitra Karo increased by 8% on Euro basis compared to the same period last year. The sales in TRL have increased by 18% and the major reason why the percentage of sales in Euro has so dropped is that the currency rates have risen. Although the sales prices in Euro have decreased in the first quarter of 2012 as compared to the same period in 2011, the first quarter of 2012 is around the budget level. With the effect of the drop in currency rates, the ratio of operating profit before depreciation to the sales in the first quarter of 2012 has dropped by 7% as compared to the same period in 2011. This fact has also been proposed in the 2012 budget targets and the ratio of operating profit before depreciation to the net sales has realized at budget levels as of the end of March.

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Export services:

As the Company acts as an intermediary, it has no involvement in the manufacturing, marketing and sales policies of the products it acts as an agent for. The cost and quality of the intermediary agency services provided are regularly evaluated.

Prices, sales turnover, sales terms of the goods and services in the field of activity, changes observed in these throughout the year, developments in efficiency and productivity indices, reasons for significant changes in these as compared to years past

Ceramic tiles market:

The tile division's total production of floor and wall tile has increased 7.5% in Euro basis in the first quarter of 2012 as compared to the same period in 2011 with the positive impact of Turkish market and developments in German and French markets. In the same period the sales has increased by 3.5% in terms of square meter as compared to the last year.

The Tiles division's total production of floor and wall coverings had been 7.9 million m² in the first quarter of 2012 and 7.7 million m² in the same period of 2011.

Export services:

As the marketing and sales organizations are carried out by the manufacturing companies served, developments in these areas are beyond the reach of the Company.

Measures planned to improve the financial structure of the Company

Ceramic tiles market:

Vitra Karo has been realizing its growth oriented investments abroad through establishing new companies or acquiring existing ones, so its revenues are not limited to the home market. Within the context of the measures taken on all controllable expense and net operating capital items, an effective control mechanism is in place, aiming to increase profitability and operating cash.

Export services:

Managerial and technical measures are continuously applied to decrease the general expenses.

Personnel and worker changes, collective bargaining agreements, personnel and worker rights and benefits

Ceramic tiles market:

As of end of March 2012, Vitra Karo, together with its affiliates (including its Russian facility), employed 2,237 people (31 December 2011: 2,095) including both white and blue collars (excluding employment by subcontractors). The Company has collective bargaining agreements for its home-based operations and the blue collar personnel is subject to the rights and benefits as outlined in collective bargaining agreements. The rights and benefits offered to white collar personnel are those determined by the Eczacıbaşı Group. The salaries of white collar personnel were increased by 7% at the beginning of 2012. Upon completion of the collective bargaining

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meetings covering the blue collar workers, their wages have been increased by 11.5% to take effect as from January 2012.

Export services:

Ekom employed 15 people as of 31 March 2010 (31 December 2011: 15), and has no collective bargaining agreements. The rights and benefits offered to the staff are in line with the human resources applications of the Eczacıbaşı Group.

Information on organizational units apart from the headquarters

Ceramic tiles market:

Vitra Karo has showrooms both at home and abroad, located in Istanbul, Russia, the USA, Italy and Bulgaria. In addition, it has outlet sales points at Tuzla, Diyarbakır and Bozüyük.

Export services:

Ekom has no organization apart from its headquarters. Offices in Moscow and China registered under its name carry out marketing and import operations on behalf of manufacturers.

Sedat Birol
General Director
Member Board of Directors

M.Sacit Basmacı
Member Board of Directors