



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

**BOARD OF DIRECTORS REPORT**

**AS OF 31 MARCH 2013**

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

EİS Eczacıbaşı İlaç, Sınai and Finansal Yatırımlar Sanayi ve Ticaret A.Ş. ("Company") has been established on October 24<sup>th</sup>, 1951. Company does not have an actual production and has an holding structure with its Subsidiaries, Partnerships Subject to the Joint Management and Affiliates. In this structure, it directly performs property development activities; and engages in healthcare, consumer products, cosmetics and personal care products sectors through its subsidiaries.

The registered address of the Company is Büyükdere Caddesi, Ali Kaya Sokak No.5, Levent 34394, Istanbul, Turkey and registered with Istanbul Trade Registry Office under Registry No. 44943.

## **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 EİS 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 1 January - 31 March 2013, along with the impact of these on financial tables and explanations on any critical risk or uncertainties that may be arising from these for the rest of the financial year.

## **Boards and committees authorized during the period**

### **Board of Directors**

<b>Name- Surname</b>	<b>Position</b>	
F. Bülent Eczacıbaşı	Chairman of Board	Non Executive
R. Faruk Eczacıbaşı	Deputy Chairman of Board of Directors	Non Executive
M. Sacit Basmacı	Member	Non Executive
Ayşe Deniz Özger (*)	Member	Non Executive
Şenol S. Alanyurt	Independent Member	Non Executive
Akın Dinçsoy	Independent Member	Non Executive

(\*) At the Ordinary General Assembly dated 14 May 2013, Ayşe Deniz Özger has been elected as a female member of the Board of Directors instead of Dr. O. Erdal Karamercan as part of the compliance with the Communiqué No. 57 / IV on Determination and Application of Corporate Governance Principles.

- ❖ The members of the Board of Directors have been elected for a term of one year at the Ordinary General Assembly Meeting on 14 May 2013 to take office till the Ordinary General Assembly Meeting to be held in 2014.
- ❖ 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.

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- ❖ The members of the Board of Directors have not acted in contrary to the competition prohibition during the period of 1 January - 31 March 2013.

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](http://www.eczacibasi.com.tr).

There are two senior officers holding signatory powers in addition to the members of the Board of Directors as of 31 March 2013.

**Committee in charge of the Audit**

<b><u>Name- Surname</u></b>	<b><u>Position</u></b>
Şenol S. Alanyurt	President
Akın Dinçsoy	Member

**Corporate Governance Committee**

<b><u>Name- Surname</u></b>	<b><u>Position</u></b>
Akın Dinçsoy	President
M. Sacit Basmacı	Member

**Risk Early Detection Committee (\*)**

<b><u>Name- Surname</u></b>	<b><u>Position</u></b>
Akın Dinçsoy	President
Ayşe Deniz Özger	Member

- (\*) At its meeting held on 17 May 2013, the Board of Directors has established the Risk Early Detection Committee in accordance with the Turkish Commercial Code and the Capital Market Legislation.

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

Mr. Sedat Birol, the head of Pharmaceutical Division, Eczacibasi Holding is also the Chief Executive Officer. He is a Chemical Engineer, MS, and has 26 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.

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

As part of the compliance with the Turkish Commercial Code No. 6102 and the Capital Markets Law No. 6362, the amendment to the Article 7 (Registered Capital) as approved with the letter No. 2923 of 22 March 2013 of the Capital Markets Board, Turkish Prime Ministry, and the letter No. 2327 of 28 March 2013 of the Turkish Ministry of Customs and Trade and the amendment to the Article 1 (Foundation), 2 (Founders), 3 (Company Trade Title), 4 (Purpose and Subject Matter), 5 (Head Office and Branches of Company), 6 (Duration of Company), 8 (Particulars Concerning the Shares), 9 (Board of Directors), 10 (Term of Office of Board of Directors), 11 (Meetings of Board of Directors), 12 (Binding and Representation of Company), 13 (Duties of Members of Board of Directors), 14 (Remuneration and Honoraria of Members of the Board of Directors), 15 (Auditors), 17 (General Assembly), 18 (Meeting Venue), 19 (Presence of Observer at Meetings), 20 (Quorum at Meetings), 21 (Voting Right), 22 (Representation of Shareholders), 23 (Voting Procedure), 24 (Announcement), 25 (Amendment to Articles of Association), 27 (Annual Accounts), 28 (Profit and Distribution Procedure), 29 (Payment Method of Profit), 30 (Reserve Funds), 33 (Statutory Provisions), 34 (Supplementary Article), 35 (Compliance with Corporate Governance Principles and Founders of Company and cancellation of the articles 16 (Duties of Auditors), 26 (Annual Reports), 31 (Printing and Distribution of Articles of Association), 32 (Settlement of Disputes) as approved with the letter No. 4179 of 19 April 2013 of the Capital Markets Board, Turkish Prime Ministry, and the letter No. 3316 of 26 April 2013 of the Turkish Ministry of Customs and Trade have been discussed and adopted at the Ordinary Genel Ortak held on 14 May 2013 and the registration process is still underway.

**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. Our Company has not acquired its own shares.

Issued share capital of our Company is divided into 54,820,800,000 shares, each having a value of 1 Kr, all of which are bearer shares.

There is no privileged share or voting rights in the share capital of our Company and the shareholding structure is as follows:

Shareholder	31 March 2013		31 December 2012	
	Share Ratio (%)	Share Amount (TRL)	Share Ratio (%)	Share Amount (TRL)
Eczacıbaşı Holding A.Ş.	50.62	277,476,368	50.62	277,476,368
Eczacıbaşı Yatırım Holding Ortaklığı A.Ş. (*)	22.34	122,458,592	21.75	119,209,842
Other (publicly traded)	27.04	148,273,040	27.63	151,521,790
<b>Total</b>	<b>100.00</b>	<b>548,208,000</b>	<b>100.00</b>	<b>548,208,000</b>

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(\*) The amount and dates of share acquisitions made during the first quarter of 2013 by Eczacıbaşı Yatırım Holding Ortaklığı A.Ş., one of the shareholders of our company are as follows:

<b>Date</b>	<b>Quantity (lots)</b>
1 February 2013	600,000
5 February 2013	683,000
13 February 2013	846,500
14 February 2013	233,750
19 February 2013	347,500
25 February 2013	538,000

### **Profit distribution policy and ratio**

Based on CMB Decree No. 2/51, dated 27 January 2010, it is required to distribute the profit calculated on the basis of the consolidated financial statements prepared and announced to the public in accordance with the CMB Communiqué Serial XI, No: 29 “Principles of Financial Reporting in Capital Markets”, “profit from previous years” in the consolidated financial statements and “extraordinary reserves for 2012” in the statutory financial statements have been used in the distribution of the profit for the year 2012. Accordingly, it has been decided at the Ordinary General Assembly dated 14 May 2013 for the year 2012 that a dividend in the amount of 54,820,800 TRL corresponding to 10% of the issued capital of our Company be distributed and that the distribution commence at 28 May 2013.

The profit distribution made during the last 3 years is shown below.

Year	Profit Distribution	Ratio (%)		Method (%)	
	Start Date	Gross	Net	Cash	Share
2010	24.05.2011	7	5.95	7	-
2011	19.06.2012	10	8.5	10	-
2012	28.05.2013	10	8.5	10	-

### **Financing Sources of the Company**

The financial risks of Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar are closely monitored by the management of the Company. As of 31 March 2013 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.

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 company, which constantly changes its foreign exchange balance in a dynamic manner taking into account the foreign exchange fluctuations, has completed the first

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quarter of 2013 with a cash portfolio comprising 37% Euro, 34% US Dollars and 29% Turkish Lira.

## **Risk Management**

It is accepted by Eczacıbaşı İlaç, Sınai ve Finansal Yatırımlar that risks constitute an integral part of business life and these risks are managed by balancing the same according to the risk-return expectations of the entities. In order to manage the sustainable growth and to this effect, to optimize the risks taken and determine these in an efficient manner, these risks are defined and classified from general to specific and then measured and studies are carried out to eliminate/reduce or transform risks into opportunities. As a result of these studies, it is continued to monitor risks and it is re-evaluated all the time whether measures are timely taken and whether these are effective.

The primary risks that our company is exposed to are monitored under two main titles as financial risks (currency, interest, liquidity and credit) and non-financial risks (strategic and operational).

### **Financial Risks**

Financial risks are the impact of the fluctuations of the variables in the market such as currency, interest, asset prices to the financials of the company in a positive or negative manner. In addition to these risks, liquidity risk and credit risk are also other financial risks that may lead the financial soundness of the company to be adversely affected. Financial risks are examined under four sub-titles: currency risk, interest risk, liquidity risk and credit risk.

#### ***Currency Risk***

This means all risks arising from any kind of transaction of the company (either financial or operational) with the involvement of currency. These risks are followed by analyzing the currency position and following such position analysis, the necessary measures are taken. After conducting numerous analyses on the impact of balance sheet currency position/equity, currency exchange scenarios over financials, hedging transactions are carried out depending on the risk appetite of the company. Hedging transactions such as forward, option and swap, which are carried out periodically and within the designated limits are shaped according to the risk appetite of the company. Furthermore, in order to ensure that the company is affected from the currency movements of its cash and credit portfolio at a minimum level, market expectations are constantly updated and portfolios are managed in a dynamic manner depending on the up-to-date data.

#### ***Interest risk***

The positive or negative impact that the upward or downward position of interests may cause on the financials of the Company are classified as interest risk. While the company primarily manages this risk by balancing its term receivables and term debts that are sensitive to interest rates, the decision on whether to utilize loans on a short, long, fixed or variable interest based on the market expectations of the company and the pre-determined risk limits.

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***Liquidity risk***

Liquidity risk management is constituted of the ability to provide sufficient amount of cash and securities, to enable funding by way of sufficient lending opportunities and closing out market positions. Due to the dynamism of its working environment, the company aims flexibility in funding by keeping means of lending available. Liquidity risk is managed by taking into consideration the financial soundness indicators in the risk reports that are periodically prepared. The financial structure of the company is examined together with indicators such as the current ratio, liquidity ratio, total debt / total assets, NFB / Equity, the ability of the company to pay interest, and is subjected to assessment from the weakest to the strongest points and as a result of this assessment, the necessary actions relating to the working capital management are taken.

***Credit risk***

This is the risk arising from the business partners indebted to the company not being able to repay these debts. This risk is managed by credit rating studies based on historic data, intelligence work, limiting the concentration in a single business partner in the total portfolio and the collateral structure to be applied to the customers. The company, if need be, carries out transactions for the early collection of its receivables through irrevocable factoring in order to eliminate such risk. It is ensured that the local and foreign receivables are insured within the designated transaction limits upon conducting detailed customer analysis.

**Non-financial Risks**

In addition to controlling financial risks, other significant risks relating to the operations of our entities are classified as strategic and operational risks.

***Strategic risks***

Risks such as fluctuations in the demand to the products and services of the company, changes in the market shares, risks resulting from competition-related developments and political risks are all evaluated as strategic risks. In order to reduce the impact of these risks, the markets where sales are made are diversified. Besides, competitive position should be maintained by preserving the quality in products and supporting innovation significantly. Analyses on the changes of dynamics in the market and on the competitors are constantly conducted and accordingly, the necessary measures against risks that may arise are taken

***Operational risks***

Operational risks relate to events that affect the activities such as earthquake, fire and environmental accident and the operation of internal system and processes in a problem-free manner. Insurable risks are frequently reviewed and these are transferred to out of the company by insuring the risks based on a benefit-cost analysis.

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

- ❖ Ataman Ecza ve İtiryat Deposu Sanayi Ticaret A.Ş. and Ataman İlaç Kozmetik Kimya Sanayi ve Ticaret A.Ş. both owned as the sole shareholder (100%) by Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri Sanayi ve Ticaret A.Ş. in which our Company holds 48,13%

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shares have been merged under Ataman Ecza ve İtriyat Deposu Sanayi Ticaret A.Ş. as of 1 April 2013 pursuant to articles 155/1-b and 158 of the Turkish Commercial Code and articles 18 to 20 of the Corporate Tax Law in order to gather the production and distribution of the same products under a single roof and to increase the competition power in this sector by way of the synergy and savings resulting therefrom. As of the same date, the trade title of Ataman Ecza ve İtriyat Deposu Sanayi Ticaret A.Ş. has been changed as Eczacıbaşı Hijyen Ürünleri Sanayi ve Ticaret Anonim Şirketi. The general assembly decisions including the merger and trade title change have been registered by Istanbul Trade Registry Directorate as of 1 April 2013.

- ❖ In connection with the examination reports issued by the Revenue Inspectors of the Ministry of Finance following their tax examination into the services purchased by our affiliate Eczacıbaşı-Baxter Hastane Ürünleri San ve Tic A.Ş. as part of the VAT refund for the year 2008, Key Accounts Tax Office has delivered tax/fine notices in the amount of TRL 19,820 thousand including a tax amount of TRL 5,795 thousand (of which TRL 4,565 thousand is Corporate Tax and TRL 1,230 thousand is corporate withholding tax) and tax loss fine in the amount of TRL 14.025 thousand.

The said affiliated company still continues to evaluate the options with respect to the matter as to whether to file an application with Central Reconciliation Commission of the Ministry of Finance or to take legal action in order to contest such tax amount and penalties in accordance with the reconciliation provisions of Tax Procedure Law, and it will decide within legal period of time.

- ❖ We have received the tax/fine notices sent by Key Accounts Tax Office in the amount of TRL 54,558 thousand including a tax amount of TRL 16,619 thousand (of which TRL 11,366 thousand is Corporate Tax and TRL 5,253 thousand is VAT) and tax loss fine in the amount of TRL 37,939 thousand in connection with the examination reports issued by the Revenue Inspectors of the Ministry of Finance following their tax examination into the services purchased by our affiliate Eczacıbaşı-Baxter Hastane Ürünleri San ve Tic A.Ş. as part of the VAT refund for the years 2008 - 2009 - 2010, and a letter dated 3 May 2013 as notifying that TRL 4,104 thousand being the amount the deduction request for which has not been accepted in the year 2012 out of the sum declared as VAT required to be refunded due to the deliveries of goods subject to the reduced rate for the year 2010 and that, if not paid, the statutory collection procedure shall be launched.

The said affiliated company still continues to evaluate the options with respect to the said tax / fine notices in the amount of TRL 54,558 thousand as to whether to file an application with Central Reconciliation Commission of the Ministry of Finance or to take legal action in order to contest such tax amount and penalties in accordance with the reconciliation provisions of Tax Procedure Law, and it will decide within legal period of time.

On the other hand, legal action shall be taken in due course of time with respect to the letter dated 3 May 2013 issued by the Key Accounts Tax Office in the amount of TRL 4,104 thousand.



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**Nature and value of the capital markets instruments issued**

None.

**Report of Compliance with Corporate Governance Principles**

Corporate Governance Principles Compliance Report for the period of 1 January – 31 December 2012 has been issued in accordance 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 30 December 2011 and numbered 28158 (“Communiqué Serial IV; No: 56”). Full compliance with the mandatory principles under the current Communiqué No. IV/56 has been achieved and most of the principles not being mandatory have also been complied with. However due to challenges encountered in the implementation of some principles, as well as the ongoing discussions in our country and in the international platform regarding compliance with certain principles and the failure of the current market and corporate structure to meet such principles in a proper fashion, full compliance has not yet been achieved. We are closely monitoring the relevant developments while also working continuously in order to ensure that full compliance is achieved.

As of the date of issuance of the accompanying report, as part of the compliance with the SPK’s Communiqué Serial No. IV/56 on Determination and Application of Corporate Governance Principles;

- Ayşe Deniz Özger has been elected as a female member of the Board of Directors at the Ordinary General Assembly dated 14 May 2013;
- At its meeting held on 17 May 2013, the Board of Directors has established the Risk Early Detection Committee.

Report of Compliance with Corporate Governance Principles, is published under the Investor Relations section at the website, [www.eczacibasi.com.tr](http://www.eczacibasi.com.tr).

**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 2013	(Restated) 31 March 2012
<b>Liquidity Ratios</b>		
❖ Current Ratio	2.77	3.10
❖ Liquidity Ratio	2.31	2.61

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**Ratios on Financial Structure**

❖ Total Liabilities / Total Assets	0.15	0.14
❖ Consolidated Equity / Total Assets	0.85	0.86
❖ Consolidated Equity / Total Liabilities	5.48	6.39

**Profitability Ratios**

❖ Net Income / Consolidated Equity	0.00	0.02
❖ Net Income / Total Assets	0.00	0.01
❖ Net Income / Net Sales	0.00	0.05

**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 2013 the Company employs 18 (31 December 2012: 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 15 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.

**Information concerning donations during the year**

As of 31 March 2013, 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 266 thousand (31 March 2012: TRL 336 thousand).

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**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 independent 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 A.Ş. 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 affiliates 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 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 its meeting held on 29 March 2013, our Board of Directors has decided to implement a profit distribution policy in line with the following approach in accordance with the provisions of the Turkish Commercial Code, Capital Markets Regulations, Tax Legislation, other applicable legislation and the provisions of the Articles of Association as related to the distribution of

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profits and it has been submitted to the approval of the shareholders at the Ordinary General Assembly held on 14 May 2013 for the year 2012 and ratified at the meeting.

- ❖ In principle, based on the net profit of the period shown in the financial statements prepared and independently audited in accordance with the Capital Markets Legislation, it has been adopted to distribute dividends in cash and/or in terms of free shares over the “distributable profit of the period” as calculated according to the Capital Markets Legislation and other applicable legislation.
- ❖ Our Articles of Association does not contain a special provision about preferred shares, founder redeemed shares and distribution of profit to members of the Board of Directors and employees regarding distribution of profit.
- ❖ 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 legislation.

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**Evaluation of activities between 1 January - 31 March 2013**

Our company is a kind of holding company and through its subsidiaries, joint ventures and affiliates 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 affiliates operating within these business segments as listed below:

**Business Segment  
Segment/Market**

**Company Name**

**Health Sector**

Original pharmaceutical market: EIP 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 sector Eczacıbaşı-Monrol Nükleer Ürünler Ticaret ve Sanayi A.Ş.  
Moleküler Görüntüleme Ticaret ve Sanayi A.Ş.  
Monrol Europe SRL  
Monrol Poland LTD  
Monrol Egypt LTD  
Monrol Bulgaria LTD  
Eczacıbaşı Monrol-Jordan  
Capintec, Inc

**Consumer Products Sector**

Hairdressers' products market Eczacıbaşı-Schwarzkopf Kuaför Ürünleri Pazarlama A.Ş.  
Consumer products market Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri San. ve Tic. A.Ş.  
Wet wipes market Eczacıbaşı Hijyen Ürünleri Sanayi ve Ticaret Anonim Şirketi (i)

**Real estate development:**

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

**Other**

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

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- (i) Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri Sanayi ve Ticaret A.Ş. has decided at its Board of Directors meeting dated 12 November 2012 to acquire the companies of Ataman Ecza ve İtriya Deposu Sanayi Ticaret A.Ş. and Ataman İlaç Kozmetik Kimya Sanayi ve Ticaret A.Ş., both operating in the baby and kid care products market for a total consideration of TRL 60,616 thousand (TRL 48,493 thousand and TRL 12,123 thousand, respectively).

The companies, namely, Ataman Ecza ve İtriya Deposu Sanayi Ticaret A.Ş. and Ataman İlaç Kozmetik Kimya Sanayi ve Ticaret A.Ş. have been merged under Ataman Ecza ve İtriya Deposu Sanayi Ticaret A.Ş. as of 1 April 2013 pursuant to articles 155/1-b and 158 of the Turkish Commercial Code and articles 18 to 20 of the Corporate Tax Law in order to gather the production and distribution of the same products under a single roof and to increase the competition power in this sector by way of the synergy and savings resulting therefrom. As of the same date, the trade title of Ataman Ecza ve İtriya Deposu Sanayi Ticaret A.Ş. has been changed as Eczacıbaşı Hijyen Ürünleri Sanayi ve Ticaret Anonim Şirketi. The general assembly decisions including the merger and trade title change have been registered by Istanbul Trade Registry Directorate as of 1 April 2013.

- (ii) Includes the whole Kanyon Office Block and half of the Shopping Mall, which appear under the Company's assets.
- (iii) In December 2007, the Company bought half of 22 plots of land with a total area of 196,409.74 m<sup>2</sup> 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:**

Main factors affecting the performance include the competitive conditions and compulsory price practices in the market. The Company maintains its competitiveness without compromising the quality and operating expenses are kept under close scrutiny against possible adversities in market conditions.

**For the affiliates 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 Authority are the main factors affecting the performance of the Company. Session fees are determined by the Social Security Authority and on a Turkish Lira basis, the session



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charges were fixed from February 2005 to 2010 when a 5% increase bringing the price to TRL 145 became effective on April 1, 2010. However, due to the fact that SGK has not increased the session fees since April 2010, the session fees has not been revised.

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 affiliate 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.

**For the affiliate 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

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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. 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, it has acquired:

- 99.99% 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;
- the whole of Capintec, Inc, a company existing and organized under the laws of State of Delaware, the United States and operating in the manufacturing of energy metering devices and related services in nuclear medicine market on 11 December 2012.

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 itself 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**

**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 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

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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:**

The Eczacıbaşı-Baxter Hastane Ürünleri has used short-term loans denominated in TRL in the first quarter of 2013, which have been fully repaid except for the short term revolving loan of TRL 64,940 thousand.

Receivables, payables and stock levels 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 2013 and as of the end of March , it has raised a loan of TRL 900 thousand.

**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. Regular feasibility studies 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

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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**

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 TRL 10, 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 TRL 10, 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.
- ❖ The discount rates have been revised as a result of amendment to the Healthcare Implementation Communiqué published on 24 March 2013. Accordingly, discount applied to the wholesaler has been discontinued for the medical products with prices of TRL 3.55 or lower. Furthermore, of the 20-year medicines, the discount rates have been decreased from 11% to 7% for the medicines with wholasale price between TRL 3.56 and TRL 6.78 and from 28% to 20% for the medicines with wholasale price between TRL 6.79 and TRL 10.21. Likewise, the discount rates have been decreased from 41% to 20% and 28% and 20% for original and generic medicines, respectively, with prices between TRL 3.56 and TRL 6.78. The effectiveness date of the said Communiqué is 1 May 2013.

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 55 contracts within the period 2007-2011 and 19 new contracts within 2012 and new products started to be included in the portfolio under such contracts. The Company has signed 4 new contracts in the first months of 2013 and is planning to launch the related products to the market within 2014-2017. 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 and market access are 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 continue its optimization efforts in the coming period to ensure efficiency of its clinics.

**Health services:**

The furnishing works are underway at the office floor leaset at Beykoz, Kavacik where the Company will have a larger office space. The Company continues its activities at its new office as from the beginning of April 2013. The Company will launch its remote healthcare monitoring system called as "telehealth" a new field of operation as from the beginning of May.

**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 operation in 2011. A new FDG production facility investment at Malatya has been put into operation on 18 July 2012.

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The FDG production facilities in Egypt and Romania have started production in May 2012 and July 2012, respectively. A company has been established in 2011 for the FDG manufacturing plant planned to be built in Poland. In 2012, two companies, namely, Monrol Bulgaria Ltd and Eczacıbaşı Monrol-Jordan have been established as a 100% joint venture of Eczacıbaşı and Monrol for the same purpose in Bulgaria and Jordan, respectively. It is planned to put into operation the Polish and Bulgarian facilities in January 2014 and Jordanian plant in April 2014.

Apart from these, it is among the strategic targets to establish or acquire more production facilities abroad through international partnerships or act as installer or operator. This strategy will ensure the Company to develop fast with a wider geographical coverage and a wider product portfolio. Efforts to obtain European Union product licenses have been completed and it is envisaged that sales into EU countries start following signing of agreements with distributor in the second half of 2013.

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 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. In 2012, NaF product has been included in the product range.

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At Moleküler Görüntüleme, two projects have been completed for the synthesis of the molecules which are active ingredients used in radiopharmaceutic 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:

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

<b>The sector in which the Company operates in and its positioning</b>
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**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, Edmond-Pharma, Spirig, Sigma-Tau, Almirall, Tillots and Juvise. As per the 1<sup>st</sup> quarter results of 2013, Turkish pharmaceutical market has grown by 5,3%. Eczacıbaşı İlaç Pazarlama has enjoyed a growth by 17%.

**Hospital supplies market:**

The Company is active as a major player in hospital supplies, renal products and biological products markets.

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 these markets.

**Dialysis treatment market:**

RTS Renal Tedavi Hizmetleri provides dialysis treatment services. The market grows by an average 2.5% 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 third 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, telehealth 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.

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**Nuclear medicine sector:**

Eczacıbaşı-Monrol Nükleer Ürünler operates in the pharmaceuticals sector as a manufacturer of radiopharmaceuticals. Three competitors are active in the FDG market which accounted for 50% of the Company's domestic sales, and the Company remains the FDG market leader with a procurement winning rate of 55%. SPECT product category accounted for 50% of sales in 2013 and apart from the domestic market these products are exported to 25 countries. The largest export markets are Iran, Egypt and India. Exports of Eczacıbaşı-Monrol Nükleer Ürünler have increased by 164% compared to the same period last year upon consolidation of the production plant in Romania and Capintec, Inc., that has been acquired in the United States.

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.

**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 last 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-Yildiz and Antalya investments of Eczacıbaşı-Monrol Nükleer Ürünler have been completed and production started in 2011. FDG production plant investments have been completed and production and sales started in Egypt in May 2012 and Malatya and Romania in July 2012. In Bulgaria and Jordan, company establishing process for FDG manufacturing facilities has been completed and the companies, namely, Monrol Bulgaria Ltd and Eczacıbaşı Monrol-Jordan have been established as a 100% joint venture of Eczacıbaşı and Monrol. The groundbreaking ceremony for the plant in Bulgaria has been held in July. 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.



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**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.

**Hospital supplies market:**

Due to fierce competition in the procurement market, in the glass and plastic bottling line, 2,6 million units of solutions were produced and the capacity utilization ratio has decreased to 71% from 74% in 2012; at the Medifleks lines 13,1 million units of solutions were produced and the capacity utilization increased to 93% from 90% in the same period of 2012 and additionally, 5,9 million products in case of sets were produced with a capacity utilization remaining unchanged at 37% compared to the last year.

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 16 clinics. With a total of 522 HD devices an average of 113 HD patients per clinic receive services. The average number of patients per HD device is 3,5.

**Health services:**

Eczacıbaşı Sağlık Hizmetleri A.Ş. is a service provider. It has no production activity.

**Nuclear Medicine sector:**

Eczacıbaşı-Monrol Nükleer Ürünler has nine active production units located in Gebze, Ankara, Adana, İzmir, Istanbul Antalya and Malatya at home and in Egypt and Romania.

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 Eczacıbaşı-Monrol Nükleer Ürünler as based product group are provided below:

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<b>Production Unit</b>	<b>Product Group</b>	<b>Capacity</b>	<b>2013 Capacity Utilisation (%) (*)</b>	<b>2012 Capacity Utilisation (%) (*)</b>
Gebze	Mo-99/Tc-99m Gen.	15.600 ea.	70	69
Gebze	Tl-201	25.000 ea.	7	9
Gebze	I-131	46.000 ea.	61	49
Gebze	Cold Kit	110.000 Vial	58	52
Domestic	FDG	200.000 Dose	37	38
Overseas affiliates	FDG	45.000 Dose	9	-

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

Capacity utilization for I-131 products increased as a result of increasing demand. In Cold Kit product group, the 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 2013 of Eczacıbaşı-Baxter Hospital Group was realized as around TRL 3.8 million.

On the other hand, due to the fierce competition in the solution procurement market, increase has occurred in the commercial discount rates. The adverse impact of increased discounts in the solutions is TRL 4.1 million.

**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 TRL 145 as of 1 April 2010. The Company also provides monitoring and diagnostic services to peritoneal dialysis patients.

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**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.

**Nuclear Medicine sector:**

Production Unit	Product Group	2013 (*)	2012 (*)
Gebze	Mo-99/Tc-99m Gen	5,002	5,215
Gebze	Tl-201	222	343
Gebze	I-131	1,734	1,471
Gebze	Cold Kit	403	295
Domestic	FDG	4,989	5,439
Gebze	Sales of other goods and services	1,977	2,208
Overseas affiliates	FDG	1,120	-
Capintec, Inc	Energy meters	4,854	-
		<b>20,301</b>	<b>14,971</b>

(\*) Sales revenues in thousand TRL per quarter.

FDG average sales prices has increased by 3% on TRL basis as compared to same period of the last year due to increased competition, but the sales quantity has not been reduced. New launch Therasphere and project sales have favorably affected the increase of the sales of other products and services.

Major products sold at Moleküler Görüntüleme are Hot Pot, Dose Calibrator and Injector Shields, with a turnover of TRL 14 thousand during March 2013.

**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 sufficient 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.

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**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.
- ❖ Launching new activities.

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. 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.

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.

At the Ordinary General Assembly of Moleküler Görüntüleme for the year 2012, it has been decided that the registered share capital be reduced from TRL 7,500,000 to TRL 770,000 by adding the accumulated losses due to the continuing R&D project into the capital, thus ensuring shareholders' equity to be sufficient commercially.

<b>Personnel and worker changes, collective bargaining agreements, personnel and worker rights and benefits</b>
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**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 2013, the Company had 330 (31 December 2012: 294) employees.

**Hospital supplies market:**

As of 31 March 2013, Eczacıbaşı-Baxter Hastane Ürünleri had 74 workers (31 December 2012: 74) and 420 employees (31 December 2012: 425) bringing the total number of personnel to 494 (31 December 2012: 499) employees. The Company does not have collective bargaining

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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 2013 a total of 10 (31 December 2012: 10) at headquarters, 481 at clinics (31 December 2012: 488) bringing the total number of personnel to 491 (31 December 2012: 498) employees.

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 2013, the Company had 280 (31 December 2012: 274) employees.

**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 2013 the Company employs 205 (31 December 2012: 201) employees.

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 2013 the Company employs 21 (31 December 2012: 25) employees.

**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 Izmir regions.

**Dialysis treatment market:**

RTS Renal Tedavi Hizmetleri has 3 branches apart from its headquarters. In addition it has 11 subsidiaries and two branches of these.

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**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, Izmir, Antalya and Malatya, apart from its headquarters. Its affiliates and shareholding percentages are given in the table below. In addition, the Company has a sales and distribution network of 16 resellers in Turkey and 11 distributors in 23 points of sales abroad.

<b>Country</b>	<b>Affiliate's Name</b>	<b>Shareholding Structure</b>
Romania	Monrol Europe SRL	Eczacıbaşı Monrol (100%)
Poland	Monrol Poland LTD	Eczacıbaşı Monrol (49%) Monrol Europe SRL (51%)
Egypt	Monrol Egypt LTD	Eczacıbaşı Monrol (99.8%) Monrol Europe SRL (0.2%)
Bulgaria	Monrol Bulgaria LTD	Eczacıbaşı Monrol (100%)
Jordan	Eczacıbaşı Monrol-Jordan	Eczacıbaşı Monrol (100%)
Türkiye	Moleküler Görüntüleme Tic. ve San. A.Ş.	Eczacıbaşı Monrol (99.99%)
U.S.	Capintec, Inc.	Eczacıbaşı Monrol (100%)

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 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 affiliates 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.

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. In 2008 a video conference system was established in between the head office, regional offices and the production facility.

The sales of Essence brand cosmetic products and Freshies brand food products in consumer products market, Huhtamaki food service packaging products and Ermop cleaning equipment which have started during the last period continue also in 2013. Moreover, during the previous period, Sens brand fluid soap products have started to be distributed and Hijyenmax brand fluid soap started to be produced and sold.



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The company has now discontinued the sales and distribution of SMA brand infant food as of 2013, which had started to be produced and distributed in April 2011. In December 2012, UNI brand products of Eczacıbaşı Hijyen Ürünleri started to be sold and distributed.

**For the affiliates active in the wet wipes 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:**

Ataman İlaç and Ataman Ecza have been producing hygienic and personal care products, in particular wet wipes, and have been realizing the sales and distribution thereof in the Turkish market as well as abroad. While Ataman İlaç produces its rich product portfolio consisting of products such as wet wipes (baby, cosmetic, daily, etc), acetone, cologne, vaseline with its own brands (Uni, Unimed, Premax, Şelale), Ataman Ecza realizes the sales of these products as well as the OEM products of international chain stores manufactured with their own brands. Ataman İlaç also manufactures products for large and national markets with their own brands. The performance of Ataman is dependent on the market growth, competition power and the growth at the export markets of the products it manufactures.

In order to strengthen its performance, Ataman carries out promotional activities to introduce its products and marketing activities to enhance their usage. The Company carries out R&D activities to broaden its product portfolio and introduces the developed products to the market. The Company focuses on customer satisfaction with its high quality products and innovative strengths. Closely chasing the technological developments in its market, it is trying to offer the highest possible quality with the best possible technology. Development of new products and renovation of existing products by means of know-how and technology enhance the product and sales capacity.

Both companies have in a bid to provide better services and use their operating resources more efficiently in the prevailing market conditions have decided to merge at the General Assembly meeting dated 26 March 2013 under the new title Eczacıbaşı Hijyen Ürünleri Sanayi Ticaret A.Ş. and the merger has been closed following the registration on 1 April 2013.

**The Company's sources of finance and risk management policies**

**Hairdressers' products market:**

The main financial policy of Eczacıbaşı-Schwarzkopf Kuaför Ürünleri is to avoid working capital deficits. As all products are imported, certain measures are taken against foreign currency risks.

**Consumer products market:**

Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri finances receivables, stocks and fixed assets through equity. Due to purchase of new office building, as of 31 March 2013, the loan amount of TRL 21,219 thousand has been used.

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Receivables are guaranteed by sales channels. Real estate mortgages and letter of guarantees from banks are collected from clients as payment guarantees. As of 31 December 2012, 83% of the risk for receivables from wholesale resellers have been secured with existing guarantees. It is planned to have a minimum rate of 90% in this respect also in 2013.

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. 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.

**Wet wipes market:**

The receivables, stocks and fixed assets of the entities active in this market are funded from their own resources as well as with short-term borrowings. As at 31 March 2013, Ataman İlaç has outstanding loans of TRL 11,539 thousand and Ataman Ecza has outstanding loans to TRL 2,479 thousand.

Foreign sales are realized by Ataman İlaç directly to 53 countries and domestic sales are realized by Ataman Ecza. 100% shares of both Ataman İlaç and Ataman Ecza have been acquired by Eczacıbaşı Venture Marketing Consumable Products on 12 November 2013 and as of that date, both companies have been undergoing restructuring activities as part of the Eczacıbaşı Holding. As part of the restructuring process, as of 1 January 2013 it has been started to perform domestic sales through Eczacıbaşı Venture Marketing and accordingly, sales team and dealer network conversion activities have been completed.

An increase in sales is targeted with the use of the efficient and wide-spread domestic distribution power of Eczacıbaşı Venture Marketing. Additionally, increase in efficiency and reduction in expenses are expected as a result of the merger of Ataman İlaç and Ataman Ecza companies into a single company.

In connection with the inputs imported from abroad and locally purchased over foreign currency, the risk that may be caused by the sudden increase in foreign currencies to the indebtedness over foreign currency is being balanced with the receivables from domestic sales.

**Development prospects for the Company**

**Hairdressers' products market:**

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.

**Consumer products market:**

Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri manufactures 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

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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 7% in March 2013 as compared to a year ago. An average 13% growth is planned for the coming three years.

**Wet wipes market:**

Ataman İlaç will continue to grow with the investments and cooperation in internal markets and abroad. It is expected that the power of brands of Ataman İlaç and Ataman Ecza will increase with their participation to the Eczacıbaşı Holding as a result of marketing investment to be made into these brands.

It will continue to be a leader and reputable company in the sector with its quality and safe products and services. It will enhance its position as the leader of its sector for years with improvements in the upcoming years.

Based on demands, use of capacity and OEM product manufacturing and sales will be continued in several brands that are with cost-reduction effect.

Both companies have in a bid to provide better services and use their operating resources more efficiently in the prevailing market conditions have decided to merge at the General Assembly meeting dated 26 March 2013 under the new title Eczacıbaşı Hijyen Ürünleri Sanayi Ticaret A.Ş. and the merger has been closed following the registration on 1 April 2013. It is expected that the merger will substantially promote the business development.

**R&D activities realized**

**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 this manufacturing plant, 70% of the formulae have been renewed within three years. Formulae optimization for Egos branded products and new product development efforts for Selin, Detan and Defans branded products are ongoing.

**Wet wipes market:**

Ataman İlaç and Ataman Ecza are 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.

It always closely follows the consumer needs and developments in the sector in order to lead the market with its innovative products. It launches new products every year thanks to its expertise, quality and know-how.

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With the technological developments, it steadily increases its production quality.

**The sector in which the Company operates in and its positioning**

**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.

**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.

**Wet wipes market:**

Ataman İlaç is the first local producer in particular in the wet wipes category. Since 1994, it has maintained its leader position with the innovative products it launched to the market. The size of the wet wipes sector, which constitutes more than 50% of its sales, is measured as TRL 268 million in Turkey as per AC Nielsen data. At the same time, it has an innovative and sound position in the markets of those countries to which it realizes exports.

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

**Consumer products market:**

The new cleansing agents and cosmetics manufacturing plant of Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri started its production and became operational in December 2007. The total investment spending realized was TRL 17,244 thousand. Investment spending as of 31 March 2013 amounted to TRL 827 thousand. No incentives were used.

**Wet wipes market:**

Ataman İlaç, which realizes the manufacturing of the brands owned by Ataman Ecza, has moved in 2009 to the facilities that it current operates and thus has gained the opportunity to realize high standard production and an infrastructure that will double its current production without making a significant investment in the upcoming years.

In the first quarter of 2013, Ataman İlaç has made an investment for machinery and equipment amounting to TRL 15.7 thousand, fixed assets amounting to TRL 65.2 thousand and software amounting to TRL 15.8 thousand. No incentives are benefited by Ataman İlaç and Ataman Ecza.

**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**

**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.

**Wet wipes market:**

The products relating to the trademarks owned by Ataman Ecza are being produced in a single production facility. It has the cosmetic products, corresponding to 2-3% of its total turnover and products similar to acetone toll manufactured. In wet wipes and towels, capacity use has been changed between the range of 40-50% as per months.

**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**

**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.

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Eczacıbaşı-Schwarzkopf Kuaför Ürünleri's products are sold and distributed through dealers by Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri.

**Consumer products market:**

The price increases in the products of Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri are determined based on reasons such as inflation, 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 7% as of 31 March 2013 as compared to a year ago.

**Wet wipes market:**

The price increases in the products of Ataman İlaç and Ataman Ecza are determined based on reasons such as inflation, competition. Sales conditions vary based on distribution channel and customer groups and are determined by taking into consideration competitor prices and market conditions in accordance with the agreements entered into with the customers.

While the 2012 net sales of Ataman İlaç was TRL 50,798 thousand, its net sales in the first quarter of 2013 has realized as TRL 10,418 thousand.

While the 2012 net sales of Ataman Ecza was TRL 46,766 thousand, its net sales in the first quarter of 2013 has realized as TRL 12,547 thousand. Due to the restructuring, the plan for changing the current dealer network has been launched. Accordingly, sales to the dealer channels have been suspended in November and December and restructuring has been completed as Girişim dealer system and sales resumed as of 2013.

**Measures planned to improve the financial structure of the Company**

**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.

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**Wet wipes market:**

The domestic sales of Ataman İlaç and Ataman Ecza are realized as from 2013 through Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri. In this way, the commercial receivables previously remaining out of guarantee to a great extent are now secured substantially. On the other hand, reduction has occurred in number of sales days in receivables due to both the sales due date being shortened and the cash sales having increased proportionately. Compared to previous years, it is expected that net financing debt shall be reduced.

On one hand side, it is expected that the credit amounts will decrease with the collection of receivables on shorter terms and on the other hand in addition to the deduction in the loan interests, borrowing opportunities with lower costs are available due to being a company within the Eczacıbaşı Holding; and as a result of all of these, it is estimated for the borrowing costs to be significantly reduced.

2013 budgets within the company have been prepared and the expenses of all departments are being tracked in line with the targets and by comparing the budget and actual status. It is aimed to realize savings in expenses at a rate parallel to sales deviation.

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

**Hairdressers' products market:**

Eczacıbaşı-Schwarzkopf Kuaför Ürünleri 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 2013, Eczacıbaşı-Schwarzkopf Kuaför Ürünleri has 18 (31 December 2012: 16) employees.

**Consumer products market:**

As of the end of 31 March 2013, Eczacıbaşı Girişim Pazarlama Tüketim Ürünleri employed 367 (31 December 2012: 275) 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.

**Wet wipes market:**

As of 31 March 2013, Ataman Ilac has 209 (31 December 2012: 222) employees, and Ataman Ecza has 31 (31 December 2012: 86) employees. The Company has no collective bargaining applications. The rights and benefits offered to the staff shall be in line with the human resources applications of the Eczacıbaşı Group in 2013.

**Information on organizational units apart from the headquarters**

**Hairdressers' products market:**

Eczacıbaşı-Schwarzkopf Kuaför Ürünleri has no organization apart from its headquarters.

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**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

**Wet wipes market:**

Ataman İlaç and Ataman Ecza have no organization apart from its headquarters.



# **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:

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

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 been filled.

Kanyon remains as the favorite shopping center with its regular activities such as art activities, programs for kids, digital marketing and social media projects, events for youngsters and shopping campaigns. With a cooperation of Virgin Radio and Kanyon, Kanyon now has a radio station and Virgin Radio DJs are broadcasting from Kanyon with

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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. Kanyon started its free Wi-Fi service for the visitors and strengthened the innovative Kanyon perception of the visitors through "Kanyonline" offered as a combination of internet service and social media communication.

ICSC Solal Awards celebrate the best of retail marketing, rewarding the most effective campaigns in Europe and South Africa. Evaluating the best practices and high marketing performance, ICSC Solal Awards represents a "benchmark" for the quality of the projects in marketing. ICSC Marketing awards have elected the best projects in 8 categories in 2012 and a total of 105 projects from various countries have been shot off for the final. With 4 awards, Kanyon has become the brand with the highest number of awards and marked a significant success. Kanyon Box project receiving awards from a number of international contests has now been awarded with gold medal in Public Relations and silver in Alternative Revenues. Kanyon's blog serKANYONca.com welcomed by the visitors of Kanyon since 2011 has become the Silver Winner in Digital Media category. Finally, Kino Dino Dig an entertaining and teaching activity intended for kids has received silver medal in Public Relations.

Kanyon has been awarded with the gold prize in "Customer Services of the Year" in 2012 Stevie Awards (International Business), silver prize in "Customer Service Complaints Team of the Year", Kanyon Box has been awarded with gold prize in "Marketing Campaign of the Year – Retail", Youngsters at Kanyon has been awarded with gold prize in "Viral Marketing Campaign of the Year" and gold prize in "Best Video Website", SerKANYONca blog has been awarded the silver prize in "Communications and Public Relations Campaign – Social Media", Ayse Arman at Kanyon has been awarded the bronze prize in "Best PR Activity" and Go Racer with bronze prize in "Best Consumer Event".

At European Excellence Awards, which award the most successful projects in Europe, Kanyon Box project has been awarded with the best campaign prize in "National and Regional Campaigns" category in 2012. Kanyon Box has added new prizes to the success of Kanyon in international organizations. In September 2012 and March 2013, Kanyon has been awarded the "Excellent" certificate by Breeam awards regarded as sustainable, having innovative design and independent, which is first in Turkey.

With new brands added to Kanyon's brand mix solidifies the competitive power in terms of shopping. A new structuring and revision process has started with the V2.0 project with new anchor brands and youth brands added to the brand mix and existing stores have been renovated in terms of visitors flow and visual perception.

Between January – March 2013, Beymen Club, Liu Jo, 2Wins and Kahve Dünyası stores have been opened at Kanyon.

Kanyon has been considered among 5 most characteristic architectural art works in Istanbul according to an article titled "Fascinating Architecture of Istanbul" appearing in the travel

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section of 2012 October issue of Time Magazine. In the article titled “Fascinating Architecture of Istanbul” as written by Ron Gluckman, Kanyon has been named among the architectural masterpieces of Istanbul such as Topkapi Palace, Hagia Sophia, Cistern and Galata Tower which contribute the silhouette of Istanbul and has been described as the innovative face of Istanbul architecture.

**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 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.

**The Company’s sources of finance and risk management policies**

**Real estate development:**

As of 31 March 2013 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 such as SKYLIFE and others as part of the image-making campaign for Kanyon. As brand cooperation is

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becoming more important efforts to implement joint projects with the brands have started. Istanbul Shopping Fest (ISF) organized between June 9–29, 2012 for the second time 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.

**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 m<sup>2</sup> 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.

Kanyon and Kanyon Office building have fully met the criteria laid down for international “BREEAM In-Use” certificate commonly used in England and worldwide and found eligible to receive the certificate in September 2012. Kanyon has been assessed in categories such as material, energy, water, health and well-being, site use, ecology, waste management and transportation in line with “BREEAM In-Use” criteria and rated “Excellent” in building management performance.

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15 of 192 “BREEAM In-Use” certificates granted so far all over the world are rated excellent in building management performance and Kanyon and Kanyon Office buildings have ranked 16<sup>th</sup> in the world and first in Turkey which have “Excellent” certificates in shopping mall and office building categories. In March 2013, Kanyon has once again been awarded “Excellent” certificate by Breeam awards.

**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 m<sup>2</sup> 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 m<sup>2</sup> and, project works and licensing process have been completed and applications have been filed for obtaining inhabitation licenses on a lot basis. In this project which consists of two separate phases, 1. Phase housing units shall start to be delivered in May and June 2013, and it has been planned to deliver the 2. Phase units in October – November 2013.

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,

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- ❖ 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 Canyon, 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 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 273. The project will be completed in two phases and there would be 150 residential units in the 1<sup>st</sup> phase, and it is projected that the 2<sup>nd</sup> phase would include 123 residential units as of the date of the attached report.

Sales deals have been made and sales contracts signed for 70 residential units in the first phase and 48 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.

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**Real estate development:**

Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım was not involved as an investor in any of the projects it executed in 2013, 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 2013 the total rental income received from Kanyon is TRL 11,007 thousand (31 December 2012: TRL 9.820 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.

**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 in the first quarter of 2013 has been derived mainly from the construction works carried out as part of Ormanada project. It is expected that Ormanada project is completed on 31 December 2013.

As of 31 March 2013, Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım realized an operating revenue of TRL 4.231 thousand. This significant increase in revenues in the first quarter of 2013 as compared to the preceding year is caused by the fact that superstructure works have speeded up in Ormanada project.



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**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:**

Due to the fact that the construction activities at the Ormanada project under the contractorship of the Company will reach maximum speed in 2013, it is expected that such revenues will 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 2013, Eczacıbaşı Gayrimenkul Geliştirme ve Yatırım had 34 (31 December 2012: 34), 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:**

Vitra Karo's sales has underperformed by 11% as compared to the previous year. Operating earnings before depreciation remained at last year's levels despite the sales lost compared to last year but thanks to reduction in intra-group sales and cost control.

At the end of the first quarter of 2013, Vitra Karo's domestic sales has remained at last year's level. Despite the lower unit prices compared to last year, increases in terms of quantity have brought the sales to the last year's level. While the sales quantities in 2013 remain lower than last year's figure, the prices are higher but the sales revenue is still lower than last year.

While the sales at V&B Fliesen, another major producer in the Tiles Group has dropped by 3% as compared to the last year, the operating earnings before depreciation has been realized as 3% higher thanks to the elimination of the production problems to a great extent and cost control.

According to the consolidated results of the Tiles Group, despite the 7% drop in sales, the operating revenues before depreciation has realized as 11%, i.e 7% over the last year's figures thanks to the extra-group sales instead of intra-group sales and efficient control of operating expenses. The term profit has increased by 2% percent at profit side compared to the last year's losses.

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

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.

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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 quarter of 2013, the export sales of Vitra Karo accounted 56% in quantity and 55% in value 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, collar, 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.

The slowdown suffered in the rate of sales of existing residential stock in Turkish domestic market as envisaged toward the end of last year still continues in the first quarter of the year. The slowdown in domestic sales and order entries affirms that fact. The uncertainty in terms of VAT, some measures expected to be taken to protect the consumer, etc. have created disquiet in the construction sector and among the consumers. However, 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, it is observed that sales have increased rapidly in Russia, another strategic market, once the facilities are put into operation.

In order to increase the efficiency and profitability, development activities shall continue 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, efforts continue which are aimed at minimizing the adverse impact observed at gross profit level due to sales and cost increases due to lower currency rates at the level of operating profit before depreciation by means of controlled expenditures in the operating costs and savings measures.

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**Export services:**

Ekom increases its business volume in line with the development of the export activities of the Eczacıbaşı Group. 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. Efforts to use substitute raw materials and materials so as to reduce the costs in tiles sector continue increasingly.

**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 and Villeroy&Boch has become 9.2% in terms of turnover in the year 2012 in Turkey. In foreign markets, Tile Group also supplies 8.1% of 121 million m<sup>2</sup> consumption in German market, 4% of 49 million m<sup>2</sup> consumption in the UK, 2.2% of 118 million m<sup>2</sup> in France and 0.9% of 162 million m<sup>2</sup> 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.

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

**Ceramic tiles market:**

The Ceramic Tile factory investment in Russia, expected to cost around 37 million Euros in total, has been completed substantially. An investment incentive certificate for TRL 12.3 million for Bozüyük investment has been approved at the beginning of 2011. The procedure to close this incentive certificate has started in the end of 2012 and will be completed in early 2013.

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**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 m<sup>2</sup> 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.

**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:**

As of the end of March 2013, the consolidated sales of Tiles Group has underperformed by 7% in TRL bases as compared to the previous year. The sales loss has been caused by the sales drops especially in the UK, France, and United States. While the domestic sales remain at last year's level, exports are 7% lower than the last year.

As of March 2013, total production of floor and wall tiles of the tiles group has remained 10% lower than the last year as budgeted.

**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.

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**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 31 March 2013, Vitra Karo, together with its affiliates, employed 2.183 people (31 December 2012: 2.218) 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 6% at the beginning of 2013. Upon completion of the collective bargaining negotiations covering the blue collar workers, their wages have been increased by 6 for the first 6 months and 3.5% for the second half of 2013.

**Export services:**

Ekom employed 16 people as of 31 March 2013 (31 December 2012: 16), 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.

Şenol Süleyman Alanyurt  
**Independent Director**

M.Sacit Basmacı  
**Member Board of Directors**