

Rating Action: Ulker Bisküvi Sanayi A.S.

Moody's raises Ulker's B1 Corporate Family Rating to Ba3

London, 16 October 2007 -- Moody's today raised the Corporate Family Rating and Probability of Default Rating of Ülker Bisküvi San. A.S. ("Ulker Bisküvi" or "the company"), formerly known as Ülker Gıda San. Tic. A.S. , to Ba3 from B1 reflecting the company's solid position in the Turkish biscuit market and strong profitability. The outlook is stable.

The upgrade mainly reflects: i) the company's solid position in the Turkish market for biscuits and related products, with an estimated share of approximately 60%, and the resilience to foreign competition evidenced in recent years; ii) the company's high albeit somewhat volatile profitability, strong financial metrics and adequate liquidity position in the medium term; iii) its established position in the local market, extensive distribution network, high brand recognition and large and diversified customer base; and iv) the overall positive growth prospects for the Turkish economy, which should benefit from a higher degree of stability after the general elections in July this year.

Ulker Bisküvi's rating continues to remain constrained by: i) its status as largely privately held company, coupled with less creditor-friendly policies such as dividend distributions to shareholders and related-party transactions; ii) its rather limited size and the concentration of its sales in the local Turkish market, albeit in a currently favourable market environment; iii) a degree of uncertainty as to the profitability of the company's expansion plans in neighbouring countries; iv) the negative free cash flow generation experienced over the past two years, mainly as a result of related-party transactions and opportunistic investments in financial assets.

Moody's believes that, with YTL120.6 million of cash on balance sheet and several uncommitted bilateral facilities in place with local and international banks, Ulker Bisküvi's liquidity should be adequate to cover the company's ongoing maintenance capex (around YTL16 million per year), debt obligations in the medium term and expansion capex commitments, which relate predominantly to an investment of around YTL60 million in Ideal Kek.

The outlook is stable, reflecting the company's strong market position in the Turkish biscuit market, the fragmentation of the domestic retail market and the expectation that Ulker's brand recognition will continue to be supported by product innovation. Although further upward pressure on the ratings is unlikely in the near term, a stabilisation of the company's results at current levels, the profitable internationalisation of its operations coupled with evidence of more creditor-friendly financial policies limiting related-party transactions and discretionary investments, could be positive for the rating. Ratings could be negatively impacted by a major debt-funded acquisition, lower returns from international investments or a sharp downturn in domestic demand, leading to a contraction in EBITA margins towards the mid single digits, an increase in its debt/EBITDA ratio beyond 3.0x and further deterioration in FCF generation.

The rating action follows the assignment on 4 April 2007 of a probability of default rating of B1 to the corporate family. The stable outlook was not affected.

Headquartered in Istanbul, Turkey, Ulker Bisküvi is one of the operating divisions of the larger Ulker Group. The company is involved in the manufacturing and commercialisation of a variety of consumer products including biscuits, chocolate coated biscuits, bars, wafers, crackers and baby food. In 2006, Ulker Bisküvi reported net sales and EBITDA of approximately YTL1.8 billion (USD1.26 billion) and YTL120 million (USD 84.5 million), respectively.

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