

# School Milk Campaign vitality...

## 65%

Plain milk accounts for 65% of overall milk market turnover.

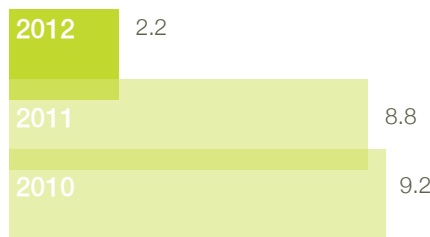
## The Turkish Economy and the Dairy Industry in 2012

The designation of UHT milk for use in the School Milk Campaign that was inaugurated for the first time in Turkey in 2012 represents a significant development for the Turkish dairy industry.

## 2.2%

The Turkish economy grew by 2.2% in 2012.

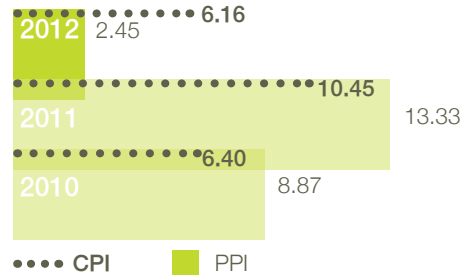
GDP Growth Rate - Fixed Prices (%)



The Turkish economy grew by 2.2% in 2012.

After growing by 8.8% year-on in 2011, the Turkish economy grew by only 2.2% in 2012.

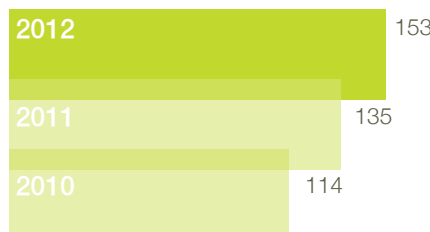
Inflation (%)



Inflation appears to be in decline.

In the twelve months to end-2012, the consumer price index (CPI, 2003 = 100) increased by 6.16%. During the same period, the producer price index (PPI) plummeted from 13.33% to just 2.45%.

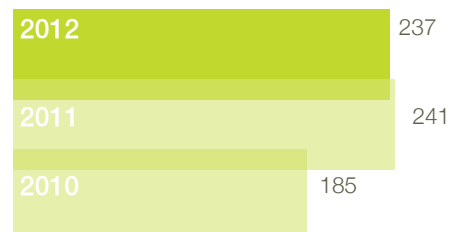
Exports (USD billion)



Increases in exports impacted favorably on economic indicators.

Turkey's total exports increased by 13.1% in value in 2012 and reached USD 153 billion while imports were

Imports (USD billion)



down slightly by 1.8% year-on and amounted to USD 237 billion. The country's terms of trade (TOT) ratio, which was 56.0% at end-2011 rose to 64.5% as of end-2012.

Source: TurkStat, CBT, Undersecretariat of Treasury

## Global milk consumption



According to the Tetra Pak Dairy Index published in May 2012, the world's total milk consumption amounted to 72.5 billion liters in 2011. Tetra Pak projects a worldwide consumption figure of 80 billion liters in 2014.

In 2012

## The Dairy Industry

### World Markets

The worldwide market for milk and dairy products (including non-packaged milk) reached some 300 million liters and accounted for 18% of all beverage consumption. Packaged milks made up a 63% share of all milk-based beverages while milk powders and unregulated milks had market shares of 12% and 25% respectively. The packaged milk market was split 41%/59% between UHT and pasteurized milk. Between 2008 and 2011, the market for UHT milk grew by an annualized compound rate of 5% while the pasteurized milk market grew by a much slower 2% year-on. It is projected that these growth rates will be 6% and 2% respectively between 2011 and 2014.

Worldwide per capita consumption of dairy products corresponded to 44 liters. This figure is likely to reach 47 liters by 2015.

Emerging and developing markets are expected to account for about a 60% share of total world production by 2020 with developed economies' share falling to around 40%.

A worldwide increase in health awareness at the individual level strengthens the demand for natural, less-processed foods. At the same time, low-/non-fat products and vitamin-/mineral-fortified products are also becoming increasingly more popular while the demand for so-called "functional" products which support bone health, brain health, heart health, and the immune system or which improve physical appearance

is also growing. There is a significant increase in consumer segmentation in all categories but especially in products that are intended for children.

In recent years there has been greater attention to fair-trade issues and to "green" products in Europe and elsewhere. Such trends are fueling launches of fortified products even by market leaders. In an associated development, packaging that is eco-friendly, biodegradable, and/or recyclable is also gaining increasing importance.

### Per Capita Milk Consumption (lt)

Northern Europe	99
North America	66
Southern Europe	57
Middle East	52
South American	49
Central Europe	47
Russia	42
Oceania & Australia	37
Southern & Southeast Asia	30
Worldwide	33
Turkey	24
Africa	13
China	6

Source: Tetra Pak

65%

Plain milk accounts for 65% of total market turnover.

UHT milk accounts for a 45.8% share of the total Turkish milk market as measured on a tonnage basis. Of that amount, the overwhelming majority (93.0%) is plain milk.

8%

The yoghurt market's turnover increased by 8%.

**The Turkish Market**

According to Ipsos KMG, a survey-based marketing research firm, UHT milk accounts for a 45.8% share of the total Turkish milk market as measured on a tonnage basis. Of that, the overwhelming majority (93.0%) consists of plain milk followed by flavored milks (4.5%) with fortified milks (1%), light milks (0.9%), and organic milks (0.2%) commanding only very small market shares.

Average prices in 2012 were higher than they were in 2011. That, together with a spate of adverse media attention, caused some UHT plain milk consumers to have recourse to lower-priced store brands and to pasteurized and even unregulated milk. This change in consumer preferences manifested itself as something of a decline in UHT milk sales. Again according to Ipsos KMG, sales of unregulated milk and pasteurized milk were 2.6 tons and 0.8 tons higher in 2012 than they were in 2011 while UHT milk sales were down by 3.5 tons. The three categories' market shares by volume last year were 52%, 2.2%, and 45.8% respectively.

The losses in UHT milk tonnage and turnover were mitigated somewhat during the year by action taken by both the government and a number of NGOs to refute adverse media reports about such milk. Probably the most important development in this direction was the decision that the milk which would be used in the national School Milk Campaign launched in 2012 would be UHT milk.

Producers also undertook communication investments that focused on the importance of milk as an effective way of overcoming diet protein deficiencies in Turkey. Such activities also helped support the demand for UHT milk.



**Market developments by product category**

**Milks**

**Plain milk:** Plain milk contributed 65% of the total market's turnover in 2012. Plain milk prices were up by 12.9% last year, which fueled about a 16.5% decline in sales on a tonnage basis and a 5.5% drop in total turnover. (Nielsen, 2012)

**Light milk:** Light milk accounted for a 2.1% of the market's total turnover. Although sales in this category were down on a tonnage basis, on a turnover basis they were up by 4%.

**Fortified milk for children:** Fortified children's milk accounted for a 3.2% share of market turnover in which total tonnage was down but turnover was up.

**Fortified milk for adults:** Sales in this category were down by 9% on a tonnage basis but increased by 2% on a turnover basis.

**Flavored milk:** Sales in the flavored milk category increased by 6.6% in 2012, though this was a relatively slower rate than what was witnessed the year before. On a turnover basis such sales accounted for 11.9% of the total market, which amounted to about 30 million liters worth about TL 133 million.

**Pasteurized milk:** Pasteurized milk sales contributed 12% of the market's turnover. This corresponded to 50.3 million liters (up by 45.3% year-on) worth TL 135.3 million (similarly up by 71.4%). (Nielsen, 2012)

**Organic milk:** Organic milk accounted for a 1% share of the market's total turnover



Total sales in the cheese category amounted to 462,000 tons worth TL 4.5 billion in 2012.

### Cheeses

Total sales in the cheese category amounted to 462,000 tons worth TL 4.5 billion in 2012. Packaged cheeses increased by 14% year-on while sales of the non-packaged sort were down by 3%. Packaged cheeses accounted for a 32% share of the total market last year, of which 50% consisted of white cheese, 33% of fresh kashkaval, and 10% of spreadable cheeses. (Ipsos HTP-2012)

### Yoghurts & ayrans

Although it grew smaller on a tonnage basis, the yoghurt market's total turnover increased by 8% in 2012. Sales of homogenized yoghurt were up by 3% on a tonnage basis while those of cream-top yoghurt fell by 11% on the same measure, with their total market share dropping by 3 points from 26% to 23%. The fruit yoghurt market, which contributed a 3% share, shrank by 8% year-on.

Intensive price competition increased the market shares of lower-priced brands. The same competition also manifested itself in greater packaging and weight diversity and in stronger growth in the "home-made yoghurt " segment.

The ayran market increased by 10% on a tonnage basis in 2012. Bottled ayran sales, accounting for 60% of the total, were up by 16%; at 37%, the share of individual-portion packaged ayran products was down by 3% year-on.

### Condiments

Ketchup sales in 2012 weighed in at 19,836 tons and amounted to TL 84 million in value. Although this represents a year-on decline in tonnage, turnover was nevertheless up. The small-package segment has begun to gain importance, a process which is being driven by the entry of new players.

In a somewhat similar manner, mayonnaise sales amounted to 10,667 tons worth TL 83 million. They too were down on a tonnage but up on a turnover basis.

### Fruit juices

The fruit juice market shrank by 5% on a tonnage basis but grew by 9% on a turnover basis in 2012. Total fruit juice sales last year amounted to 525,727 liters worth TL 1,173,075 in value.

