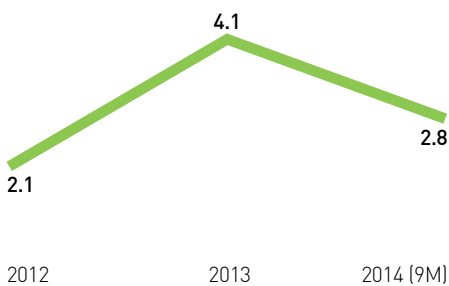


THE TURKISH ECONOMY AND OUR SECTOR IN 2014

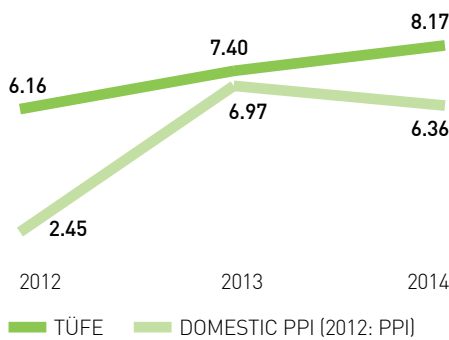
GDP GROWTH RATE - FIXED PRICES (%)



THE TURKISH ECONOMY CONTINUED TO GROW ALBEIT WITH SOME LOSS OF MOMENTUM.

The Turkish economy experienced some loss of momentum in the pace of its growth last year. Having grown by 4.1% in the first three quarters of 2013, it grew by only 2.8% during the same period in 2014. The components of growth shifted in favor of exports though this was partly due to the effects of a weak Turkish lira. Owing to TCMB interest rate policies and to BDDK-imposed restrictions on credit in general and credit cards in particular, there was a steady decline in the contributions made by consumption-related outlays to overall growth.

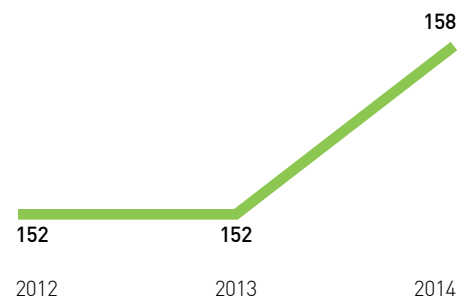
INFLATION (%)



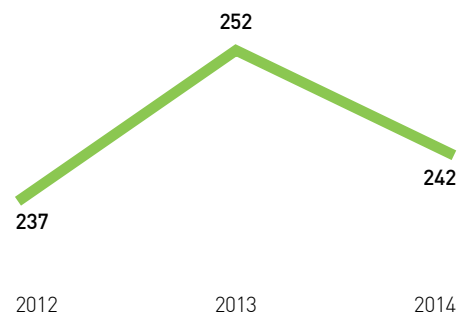
THE CPI ENDED UP ABOVE ITS 2013 LEVEL.

Although the rise in the producer price index was somewhat lower last year than the year before, inflation as measured by consumer prices was higher. In the twelve months to end-2014, TurkStat's producer price and consumer price indexes increased by 6.36% and 8.17% respectively.

EXPORTS (USD BILLION)



IMPORTS (USD BILLION)



EXPORTS MADE THE BIGGEST CONTRIBUTION TO OVERALL GROWTH.

According to provisional end-2014 figures available at this time, Turkey's exports were worth USD 157.7 billion while its imports weighed in at USD 242.2 billion. This performance corresponds to a 15.4% year-on-year decline in the country's foreign trade deficit, which was down to USD 84.5 billion. It also means that the ratio of Turkey's exports to imports was up by 4.8 points to 65.1%.

The current account deficit narrowed by 29% to USD 45.8 billion in 2014.

PLAIN MILK ACCOUNTS FOR THE BIGGEST SHARE OF THE PACKAGED MILK MARKET IN TURKEY, 93.6% OF WHICH CONSISTS OF UHT MILK.

THE DAIRY INDUSTRY

World markets

Total worldwide production of raw milk reached 754 million tons in 2012 and was up by 2% year-on according to the Food and Agriculture Organization, which also reported that 626 million tons of it consisted of cow's milk. According to DairyCo, a division of the Agriculture and Horticulture Development Board in the UK, the world's biggest producers of cow's milk are the United States, India, China, and Brazil in that order while Turkey ranks among the top ten.

According to Canadean, an international market research group, total worldwide consumption of liquid milk (including the so-called "loose" kind) reached 291 billion liters, a figure that corresponds to 17% of all beverages consumed. Packaged milk accounts for a 60% share of the beverage milk market with milk powder and loose milk contributing only 13% and 27% shares respectively. Consumption of ultra-high temperature (UHT) milk increased by 3% a year in the four years between 2011 and 2014 while that of pasteurized milk grew more slowly at 2%/year. Canadean's 2014 report projects year-on growth rates of 0.5% for loose milk, 3% for UHT milk, and 2.7% for pasteurized milk in 2014-2017.

By 2020, 60% of worldwide milk production will be taking place in "emerging economies" with only 40% coming from the rest according to Canadean. The trends towards lower-fat products and fortified products (such as infant-formula milk) is expected to continue. The demand for "green" (which is to say "eco-aware") products is also spreading in parallel with environmental awareness, especially in Europe.

Raw milk prices, which had been on the rise until 2013, fell by 9% in 2014 according to the International Farm Comparison Network, a global dairy industry association. According to IFCN, the two biggest reasons for this decline

were sluggishness in the Chinese market and restrictions imposed on milk and dairy product imports in Russia.

The Turkish market

Total raw milk production in Turkey amounted to 18.5 million tons in 2014 according to TurkStat, the Turkish Statistical Institute, and was up by 1.5% year-on. Average raw milk prices by contrast were 16% higher last year.

In its 2014 fourth-quarter report Ipsos HTP, the Turkish arm of the global market research company, said that the loose milk market, which still accounted for 53% of the total market, increased by 3.7% while the packaged milk market, though smaller, grew at almost the same pace. The growth in UHT milk, whose 93.6% share accounts for nearly the entire packaged milk market, was only 2.4%. On a tonnage basis, plain milk accounts for an 87% share of the packaged milk market.

2014 MARKET DEVELOPMENTS BY PRODUCT CATEGORY

Packaged milk

- **Plain milk:** Contributing the biggest (62.7%) share of the total packaged milk market's turnover, total tonnage in the plain milk category was down by 1.1% year-on though turnover was up by 9.6%.
- **Light milk:** The light milk category accounts for only 2.4% of the total packaged milk market. Last year its tonnage declined by 4.4% while its total turnover increased by 5.6%.
- **Fortified children's milk:** Both tonnage and turnover were down by 18.2% and 10.7% respectively in this category, which contributes a 2.5% share of the market's total turnover.
- **Fortified adults' milk:** Both tonnage (7%) and turnover (11.8%) were up in this category though its turnover amounts to only 0.8% of that of the packaged milk market as a whole.

- **Flavored milk:** The market for products in this category grew by 6.9% as measured by tonnage and by 15.1% as measured by turnover in 2014. Last year this category contributed a 13.5% share of total market turnover.
- **Pasteurized milk:** This category accounted for a 13.1% share of the market's turnover last year. While its tonnage was down by 0.5%, its turnover was up by 12.9%.
- **Organic milk:** The category contributed a 1.3% share of the market's turnover in 2014. (Source: Nielsen 2014)

Packaged cheeses

The market for packaged cheeses was worth TL 1.4 billion in 2014. This corresponded to about 80 thousand tons and to a year-on growth rate on the order of 2%. Traditional cheeses still accounted for the biggest combined share of total turnover—35% in the case of salted white and 37% in the case of kashkaval—but modern cheeses also contributed a respectable 18%. (Nielsen 2014)

Yoghurts & ayrans

As measured by tonnage, the yoghurt market shrank by 3% in 2014 to 300 thousand tons though at TL 1.2 billion, its total turnover was up by 6% year-on. Sales were up in both the homogenized (9%) and cream-top (3%) categories. The fruit yoghurt category, which contributed an 8% share of total market turnover, shrank by another 4% last year. (Nielsen 2014)

The ayran market's turnover amounted to TL 170 million on sales of 67 thousand tons. This category's turnover grew by 12% in 2014 while its tonnage was down by 1%.

Bottled ayran sales, accounting for 54% of total turnover, were up by 11%; at 42%, the share of individual-portion packaged ayran products increased by 14% year-on. Multipack products once again accounted for a 4% of this category's total turnover last year. (Nielsen 2014)