SAHA
Corporate Governance and Credit Rating Services Inc.

14 October 2016

Credit Rating

Rating (National): Long Term

(TR) A(-)

Outlook:

Stable

Rating (National): Short Term

(TR) A2

Outlook:

Stable

Ulusoy Un Sanayi ve Ticaret A.Ş.

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ULUSOY UN SANAYİ ve TİCARET A.Ş.

Rating Summary

Ulusoy Un Sanayi ve Ticaret Anonim Şirketi ("Ulusoy Un") was established in 1989 to manufacture, trade, import and export of foodstuffs such as flour derived from grains and legumes, semolina, pasta and biscuits.

The Company has two factories, one in Samsun with a wheat processing capacity of 500 tons/day and the second is located at Çorlu with a capacity of 400 tons/day for a total of 208,000 tons of annual production. Ulusoy Un also owns silos, warehouses and free zone storage facilities with a storage capacity of more than 100,000 tons.

Following our comparative analysis of the sector and examination of financial/operational risks carried on the balance sheet of the Company, as well as its domestic market position, Ulusoy Un received a long term (National) rating of **A(-)** and a short term (National) rating of **A2**.

Strengths and Risks

Strengths

- The Company is institutionalized and has adequate management.
- Location of the Company facilities creates a competitive advantage.
- Company has a high experience and recognition in the regional market. In addition, it has increased its share in exports of the sector to 6%.

Risks

- Exchange rate volatility may adversely affect the Company.
- Leverage use is at high levels

Outlook

The main factors that may affect the overall appearance of the Company in the short-term period are as follows:

- Impact of exchange rate fluctuations and developments in domestic/international raw material markets on costs of raw material and foreign currency denominated loans.
- Extending the Company's share in total exports.
- Creation of a cost advantage with the market position and competitive advantage of the Company.

Considering the above mentioned and all other factors, the Company outlook is considered to be Stable.

Economic Outlook and Analysis of the Sector

Global economy is continuing its efforts to overcome recession and the deflationary environment. Highlights of the main developments of 2015 are: Recurrence of fragile indicatives despite the first step taken, which has been expected for a while, on the controversial interest rate increase on the US economy disposing the unusual monetary expansion is raising questions on how long the FED will keep the interest rate increases. In Chinese economy, investment spending and manufacturing are reduced and the markets seem to enter into a nervous slowdown with the restructuring towards consumption and the service sector in the domestic market. This slowdown is also expected to continue in the coming years. Accordingly, sharp declines in commodity and especially oil prices led to serious losses of revenue in energy producing countries, causing a slowdown in world trade. Brazilian and Russian economies, which are among the most affected emerging market economies exposed to widespread devaluation caused by increased capital outflow, are experiencing economic contraction in excess of -3%.

According to the October 2016 Economic Outlook Report of the International Monetary Fund (IMF), Turkish economy is expected to grow 3.3 percent in 2016. According to the IMF, growth in the advanced economies is expected to increase at a moderate pace in 2015 and 2016. The growth rates in emerging economies are expected to be generally weak due to developments in oil-exporting countries and the slowdown in China. IMF forecasts a growth of 4.2% for emerging economies in 2016.

Turkish economy registered a growth rate of 4% in 2015, and the rate for 2014 is revised from 2.9% to 3%. Turkey's economy has recorded its fastest quarterly growth for the last 17 quarters with a rate of 5.7%. Growth mainly resulted from the rise in household consumption expenditure, the increase in public spending and a strong contribution of the agricultural sector.

While the domestic demand contributed to growth by 4.3 points in entire 2015, the external demand had a limited negative impact of 0.3 points. According to the production method in sector basis, the services sector with the highest share of 59.6% in GDP has contributed 2.2 percentage points to growth throughout the year. Services sector was followed by the industrial sector with a 1 percentage point contribution. Also the agricultural sector with the strongest performance in the last 10 years influenced the growth by 0.7 percentage points. The construction sector’s contribution was in a limited extent despite its positive performance in the fourth quarter.

Private consumption spending which showed a very modest increase in 2014 (1.3%) increased by 4.5% in 2015 despite the general elections and became the main drive item of the economic growth. In addition, compared to 2014, high public spending (7% vs. 0.5%) mostly consisting of consumption expenditures (personnel and material) has been the second factor in reviving domestic demand.

However, private sector investment has remained weak in contrast to public investment. Strong growth performance of 2015 reflected the significant contribution of the temporary favorable demand conditions and the expansionary fiscal policy. The foreign trade deficit decreased by 23.1% in 2015 and declined to 63.3 billion dollars. The current account deficit was realized as 32 billion and 192 million dollars. Tourism revenues decreased to USD 21.2 billion from USD 24.5 billion in 2015. Although there has been a decline in exports, a faster fall in imports led to the narrowing of the trade deficit. Positive added value of the weak oil prices on foreign trade, as well as the sluggish global trade have been determinants of a recovery in the foreign trade deficit compared to last year.

Due to the generally low elasticity of demand for agricultural products, fluctuations in economy are having relatively limited effects on the agricultural sector. Along with rapid growth of exports, Turkish flour production has increased to 13 million tons of annual capacity. According to 2014 year-end data, 2.2 million tons of flour exports has increased by 26% on tonnage basis in 2015, reaching to 2.8 million tons. Domestic consumption was almost 10.2 million tons while exports totaled 2.8 million tons. An increase of 35% in exports is witnessed in the first seven months of 2016 compared to same period of the last year. Even if this upward trend continues with a decreased pace in the rest of 2016, annual tonnage growth is expected to be 25-30%, reaching to 3.5 - 3.6 million tons.

Company Overview

Ulusoy Un Sanayi ve Ticaret Anonim Şirketi was established in 1989 to manufacture, trade, import and export of foodstuffs such as flour derived from grains and legumes, semolina, pasta and biscuits. The main activity of Ulusoy Un is production, trade and domestic and international sales of wheat flour, bran and other feed raw materials and domestic and foreign trade of various cereals, mainly wheat.

The Company has two factories, one in Samsun with a wheat processing capacity of 500 tons/day and the second is located at Çorlu with a capacity of 400 tons/day for a total of 208,000 tons of annual production. Ulusoy Un also owns silos, warehouses and free zone storage facilities with a storage capacity of more than 100,000 tons.

Ulusoy Un realized 6% of total Turkish exports in 2015 and occupied the 301st place among 1,000 most exporting firms according to the study of Turkish Exporters' Assembly disclosed in 2016. As far as total production sales are concerned, Istanbul Chamber of Industry's 2016 data placed Ulusoy Un at 373rd place among the industrial organizations with the highest production.

On March 28, 2013 the Company purchased 17% shares of SASBAŞ, Samsun Free Zone Operator.

The Company established Ulidaş Tarım Ürünleri Lisanslı Depoculuk Anonim Şirketi (Agricultural Products Licensed Warehouse) on 27 February 2015.

Affiliates and subsidiaries of the Company are as follows:

Company	Field of Activity	Stake Held (%)
Ulidaş Tarım Ürünleri Lisanslı Depoculuk A.Ş.	Licensed Warehouse	100
Sasbaş Samsun Serbest Bölge Kurucu ve İşleticisi A.Ş.	Free Zone Operator	17

Annual development of the number of employees of the company is mentioned below:

	Samsun Factory				Çorlu Factory			Total
Year	Production	Admin	Driver	Marketing	Production	Admin	Driver	
2016/06	50	54	11	31	34	20	6	206
2015	57	56	14	41	36	20	6	230
2014	52	49	11	32	17	31	7	199
2013	55	41	11	21	23	16	5	172
2012	47	49	12	7	31	16	6	168
2011	47	42	11	10	28	21	6	165

The issued capital of Ulusoy Un is TL 84.5 million and 27.81% of the Company's shares are traded at Borsa Istanbul (BIST) National Market as of November 20, 2014. Total capital is divided into 3 share groups with TL 1 nominal value each; 9,750,000 shares of Group A, 6,500,000 shares of Group B and 68,250,000 shares of Group C. Group A and B shares are registered. Group C shares traded on BIST are bearer shares and the remaining are registered shares.

Group A shares have the privilege of nominating candidates to the board of directors and Group A and B shares have voting privileges at the general shareholders' meeting. If the board of directors consists of five members, at least two members; if the board of directors consists of six or seven members, at least three members; if there are eight or nine board members, at least four members; and in cases of ten or eleven board members, at least five members are selected among the Group A shareholder nominees. Group A shareholders participating to the ordinary or extraordinary general shareholders' meeting receive 15 (fifteen) voting rights for each share and likewise Group B shareholders get 10 (ten) and Group C shareholders are accorded 1 (one) vote for each share.

The Company's capital structure as of the date of our report is as follows:

Shareholder	Shares Owned	Total TL
Fahrettin ULUSOY	35.94%	30,373,882
Eren Günhan ULUSOY	15.04%	12,699,375
Onur Erhan ULUSOY	11.86%	10,023,684
Nevin ULUSOY	9.21%	7,780,756
Mithat DENİZCİGİL	0.11%	95,362
Kamil ADEM	0.03%	26,941
Public Shares	27.81%	23,500,000
Total	**100%**	**84,500,000**

Ulusoy Un Key Financial Indicators (TL)

Key Financial Indicators	31 Dec. 2015	31 Dec. 2014
Current Assets	430,476,542	440,546,330
Fixed Assets	72,630,710	53,336,233
Total Assets	503,107,252	493,882,563
Short-Term Liabilities	326,793,283	319,988,236
Long-Term Liabilities	6,545,630	11,005,694
Total Borrowings	88,284,843	46,970,578
Total Liabilities	333,338,913	330,993,930
Equity	169,768,339	162,888,633
Sales Revenue	1,030,479,354	921,577,365
Gross Profit	78,022,472	59,384,462
Operating Profit	44,986,689	35,409,419
EBITDA	37,172,224	35,235,089
Pre-tax Profit	10,274,276	17,547,029
Net Profit	8,303,209	14,189,389

Ulusoy Un's assets increased by 2% compared to the previous year, reaching to TL 503,107,252. 40% of the Company's assets consist of trade receivables (2014: 36%). Almost all of TL 202,008,828 of total trade receivables originated from non-related party transactions. Company officials declared that open account system is applied to the customer portfolio of the domestic sales channel and this consists about 22% of the total customer risk (2014: 27%). This development is welcomed by us.

The Company mainly benefits from vendor credits along with short-term bank credits and leasing agreements time to time to finance raw material purchases and its operations. When total financial liabilities are examined; reported financial liability of TL 46,970,578 as of 31 December 2014 has increased to TL 88,284,843 as of 31 December 2015.

Revenues increased by almost 35% compared to 2014 and has reached to TL 1,030,479,354 (2014: TL 921,577,365). TL 332,616,423 portion of the revenues are from overseas sales.

Ratio Analysis

Liquidity Ratios	2015	2014
Net Working Capital / Total Assets Ratio	0.21	0.24
Current Ratio - Current Assets / Short-Term Liabilities	1.32	1.38
Acid Test Ratio - (Current Assets - Inventories) / ST Liabilities	0.89	0.83
Cash Ratio - Liquid Assets / ST Liabilities	0.14	0.21
Liquidity Ratio - (Liquid Assets + Securities) / ST Liabilities	0.51	1.52
Receivables / Current Assets Ratio	0.47	0.40
Receivables / Total Assets Ratio	0.40	0.36
Inventories / Current Assets	0.33	0.40
Inventories / Fixed Assets	1.93	3.28
Stock Dependency Ratio (1)	2.01	1.45
Inventories / Total Assets	0.28	0.35
Net Foreign Exchange Assets / Equity	1.02	1.09
Net Foreign Exchange Assets / Total Assets	0.35	0.36

(1) (Short Term Liabilities – Liquid Assets and Securities) / Inventories

Cash Ratios	2015	2014
Operational Cash (2) / Total Debt	0.05	-0.20
Operational Cash / Interest Coverage Ratio	0.49	-3.64
Operational Cash / Sales	0.02	-0.07
Operational Cash / Short Term Liabilities Ratio	0.05	-0.21
Operational Cash / Short Term Loans	0.20	-1.52
Default Rate - Free Cash (3) / (Interest + Loan Payments)	0.01	-1.83
Cash Adequacy Ratio - Free Cash / Financial Obligations	0.01	-2.42
Free Cash / Sales	0.00	-0.12
Liability Coverage Ratio – EBITDA / (Interest+Loan Pymt.+Tax)	0.30	0.54

(2) EBITDA + Working Capital Changes (Increase in Trade Payables – Increase in Trade Receivables – Increase in Inventories)
(3) Operating Cash - Capital Expenditures

Financial Structure Ratios	2015	2014
Debt Ratio - Total Debt / Total Assets	0.66	0.67
Leverage Ratio - Total Debt / Equity	1.96	2.03
Interest Coverage Ratio - EBITDA / Interest	1.03	1.92
Equity Generation (Retained Earnings / Total Assets)	0.07	0.01
Financial Liabilities / Total Liabilities	0.26	0.14
Financial Liabilities / Total Assets	0.18	0.10
Market Value Leverage - Market Value / Total Debt	0.52	0.71
Continuous Capital (4) Ratio - LT Debt / Continuous Capital	0.04	0.06
Fixed Assets / Continuous Capital	0.41	0.31
Long-Term Debt Ratio – Long-Term Liabilities / Total Assets	0.01	0.02
Short-Term Liabilities / Total Assets	0.65	0.65
Short-Term Liabilities / Total Debt	0.98	0.97
Short-Term Borrowings / Short-Term Liabilities	0.23	0.11
Tangible Fixed Assets / Total Assets	0.09	0.10
Fixed Assets / Total Liabilities	0.22	0.16
Tangible Fixed Assets / Long-Term Liabilities	7.05	4.32

(4) Long-Term Liabilities – Equity

Operating Ratios	2015	2014
Asset Turnover Ratio - Sales / Total Assets	2.05	1.87
Receivables Turnover - Sales / Accounts Receivable	5.10	5.21
Inventory Turnover - COGS / Inventories	6.80	4.93
Accounts Payable Turnover – COGS / Accounts Payable	4.07	3.27
Current Assets Turnover - Sales / Current Assets	2.39	2.09
Working Capital Turnover - Sales / Net Working Capital (5)	9.94	7.64
Tangible Fixed Assets Turnover - Sales / Tangible Fixed Assets	22.33	19.39
Fixed Asset Turnover - Sales / Assets	14.19	17.28
Equity Turnover - Sales / Equity	6.07	5.66
Working Capital Management (6)	-0.18	-0.43

(5) Current Assets - Current Liabilities
(6) Changes in working capital / Changes on sales

Profitability Ratios	2015	2014
Economic Profitability - EBITDA / Total Assets	7.4%	7.1%
Return on assets - Profit / Total Assets	1.7%	2.9%
Return on Equity - Profit / Shareholders' Equity	4.9%	8.7%
Gross Profitability - Gross Operating Profit / Sales	7.6%	6.4%
Operating Profitability - Operating Profit / Sales	4.4%	3.8%
EBITDA margin - EBITDA / Sales	3.6%	3.8%
Net Profitability - Profit / Sales	0.8%	1.5%
COGS / Sales	92.4%	93.6%
Operating Expenses / Sales	4.2%	2.8%
Financial Expenses / Sales	3.5%	2.0%

Strengths

The Company is institutionalized and has adequate management:
Company shares are traded on Borsa Istanbul National Market since 2014 and Ulusoy Un have established a corporate structure.

Location of the Company facilities creates a competitive advantage:
The close proximity of the port of Samsun to Ulusoy Un production plants and warehouses create cost advantages compared to other firms.

Company has increased its share of exports in the sector:
The rate of 4.88% in 2014 has risen to 6.11% in 2015.

Risks

Exchange rate volatility may adversely affect the Company:
The risk on significant portion of the Company's liabilities is comprised of amounts denominated in foreign currencies, mainly USD. The profitability performance of Ulusoy Un with relatively lower foreign currency denominated revenues is sensitive to exchange rate fluctuations. However, use of significant amount of hedging to minimize the exchange rate risk is deemed positive by us.

Leverage use is at high levels:
It is possible to say that the use of leverage of Ulusoy Un is higher than the industry average because of mainly foreign sourcing. Nevertheless, compared to 2014, an improvement in the leverage rate has been witnessed. Comparison of financial indicators of the Company is based on listed "Food Industry" companies on Borsa Istanbul.

Corporate Governance

The Company has provided substantial compliance with the Capital Markets Board's (CMB) Corporate Governance Principles and has implemented all of the necessary policies and measures. Even though a small number of improvements are needed, management and internal control mechanisms have been created effectively and are in operation. Majority of the corporate governance risks are identified and managed actively. The rights of shareholders and stakeholders are respected in a fair manner, public disclosure and transparency is at sufficient levels and structure and operation of the board of directors is built on sound basis. Though it does not pose a great risk, certain improvements in one or more of these areas might be required.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of SAHA Score, company's distance from the point of default, its performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. Default point analysis measures the distance from the point of default and it is based on relevant sector firms' past financial performances, ratios derived from a distinctive default statistics, and statistically derived coefficients. This analysis is based on genuine statistical study of SAHA, covering companies in the food industry in Turkey. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis covers the evaluation of the company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www,saharating,com.

Rating Definitions

Our long term credit rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered "investment worthy" by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company and economic and financial conditions may increase investment risk, but not at a significant level.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer's capacity to fulfill its obligations may weaken due to adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered "speculative" by the market.

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with Ulusoy Un Sanayi ve Ticaret A.Ş. and is based on information disclosed to public by Ulusoy Un Sanayi ve Ticaret A.Ş.

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SAHA A,Ş, has embraced and published on its web site (www,saharating,com) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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