

To the Board of Directors of Ulusoy Un San. ve Tic. A.Ş.
Early Determination of Risk Committee Study Report

Meeting Date	02.02.2015
Committee Members Attending the Meeting	Vedat Ceyhan, Salih Zeki Murziođlu, Nevin Ulusoy
Meeting Subject	Assessment of Risks that may Significantly Influence the Activities, Assets and Sustainability of Ulusoy Un San. ve Tic. A.Ş. (the Company).
Meeting Purpose	To evaluate the Measures taken against the Determined Risks and their Effectiveness and deliver Opinions regarding the matter to the Company Board of Directors.

The Early Determination of Risk Committee, which has been established and has started its duty with the resolution of our board of directors dated 30.10.2014 and numbered 2014/20, as per the "Corporate Management Communique" of the Capital Markets Board numbered (II-17.1), which has entered into force upon being published in the Official Journal dated 03.01.2014 and numbered 28871, and article 378 of the Turkish Trade Law numbered 6102, has convened according to its working principles, duties, authorities and responsibilities, and has made the following determinations and studies in order to diagnose the risks that may endanger the development and continuity of the Company early, to assess whether the required measures for the determined risks are being implemented or not and to manage the risks.

A. The Company's Risk Environment

1. Fundamental Risks concerning the Activities
2. Sectoral Risks

1. Fundamental Risks concerning the Activities

- a. Risks concerning Production
- b. Risks concerning Imports
- c. Risks concerning Exports
- d. Sales and Marketing Risks
- e. Financial Risks
- f. Logistics Risks
- g. Risks with respect to Human Resources and Occupational Safety

2. Sectoral Risks

- a. Natural and Geographic Risks
- b. Political and Legal Risks

B. Assessment of Measures taken regarding the Risks

C. Conclusion

No	Risk Area	Description	Scope	Measures Taken
A.1.a.	Production Risks	Process risks that may prevent the production of the products at the foreseen quality, contents and standards.	<p>1. In the process where wheat is processed as raw material, the risk of contamination of the raw material or the produced product with foreign substances at any stage of the flow route where wheat is transformed into flour or between these stages.</p> <p>2. The risk of aggregation, molding and infestation in the obscure and dead spaces of the production facilities, production teams and equipment, packing-dispatch and warehouses.</p> <p>3. The risk of interruption of production due to reasons such as breaks, failures, etc. in the main production machinery.</p>	<p>1. In the raw material input processes foreign substances are kept away from the processes by metal detectors, water treatment and waste purifiers.</p> <p>2. Continuous and regular trainings are given to the personnel on these matters, the cleaning and control processes are audited by "random sampling and period" methods.</p> <p>3. The machinery maintenance and repair works are made regularly, machinery failures are not waited for in order to make maintenance and repair and part replacements, it is ensured that the failures and interruptions that emerge are rectified urgently.</p> <p>4. It has been determined that comprehensive insurance policies have been issued against all types of machinery breakage and failures.</p>
A.1.b.	Risks Concerning Imports	The company sustains its cost and quality advantages in the export markets by wheat imports. The risk of any type of negativities that may be experienced in the markets it imports from.	1. The risk of crisis, revisions in the production and tax policies that may be experienced in the markets of countries from which imports are made.	<p>1. Critical stock levels are defined and maintained against such negativities.</p> <p>2. The world yield expectations are closely monitored, alternative imports markets are constantly followed on live basis and alternatives are kept available as substitutes.</p> <p>3. It has been determined that comprehensive insurance policies have been issued against the logistics risks in the imports processes.</p>
A.1.c	Risks Concerning Exports	The risk of any type of negativities that may be experienced in the export markets.	<p>1. The risks of anti-damping practices by countries to which exports are made.</p> <p>2. The risks of experiencing political, economic and cyclical instabilities and negativities in the markets of the export countries.</p>	<p>1. Especially against anti-damping practices, the required fight is made both by specialists in the company and by professional organizations at sectoral level, and yields results.</p> <p>2. The risk of experiencing cyclical, political and economic crises in export markets is always valid. Therefore, the Company's export department researches the export markets continuously on live basis and keeps alternative markets as substitutes.</p>

A.I. Fundamental Risks associated with the Activities

A.1.d.	Sales and Marketing Risks	Domestic sales and marketing is defined.	<p>1. The risk of unreturned current account balances emerging from forward sales to customers with credit, checks-notes and similar bonds and inability of collection.</p> <p>2. The risk of misappropriation attempts by personnel assigned for collection in the domestic fields.</p> <p>3. The risk of aggressive competition by competitors in the domestic market and entrance of new actors in the market.</p>	<p>1. Before making any credit (forward) sales, the necessary market intelligence studies are conducted as per the Company's risk policy, a risk and limit amount is determined for the customers that are decided to be worked with, and it is ensured that the continued activities remain within the defined risk and limit borders.</p> <p>2. At the locations where the Company operates in the domestic markets, audits are made by the random sampling and period methods by the assigned inspectors, and comprehensive insurance policies are issued against misappropriation attempts.</p> <p>3. The risks of new actors entering the market and the application of more aggressive sales policies by the available actors are always valid. The domestic market developments are closely monitored by the Company's domestic sales and marketing department, and reported to the management.</p>
A.1.e.	Financial Risks	Foreign exchange rate risk, interest rate risk and commodities risk are defined.	<p>1. The risk of assets and liabilities in foreign currency being impacted to the detriment of the company from the rate changes. The currency risk arises from the short positions between the company's liabilities and assets in foreign currency. The fact that liabilities in foreign currency being over the assets leads to a foreign currency short position. The company's foreign currency short position varies as based on periods and ranges around 60 mi. \$ on the average.</p> <p>2. The risks that may emerge in costs and cash flows due to an increase in the interest rate applied on both short and long term liabilities.</p>	<p>1. A significant amount of the foreign currency short position is hedged by using capital market instruments. With the positions acquired from Derivatives Exchange and the Forward contracts made with banks, the short position is monitored along the 15-20 mi. \$ band. The size of the taken position changes with the developments in the market and the applied Hedging model. For 2015, it is again planned to maintain this prudent position, and to manage the short position size within these limits.</p> <p>2. The fluctuations caused by the changes in the market interest rates on the real value of the financial instruments or future cash flows lead to the need for the Company to cope with the interest rate risk. Instead of variable interest rate, a fixed interest rate per transaction is applied in the use of short and long term foreign credit liabilities. Especially Eximbank origin loans are preferred.</p> <p>3. Domestically, Turkish Grain Board allows the purchase-sales prices</p>

			3. The risk of price changes to the detriment of the Company that may arise in the wheat prices in the international level organized markets.	it announces as the sector regulator and the actual prices to fluctuate within a certain margin. Therefore, the physical wheat stock is exposed to limited risk against the volatility in the global markets. The risks are limited with the available stock level of the Company and by the Future contract transactions made in organized markets following extra volatility in the foreign markets. Generally, the size that is Hedged ranges at 5-10% of the total stock.
A.1.f.	Logistics Risks	The operation risks in the purchasing (supply), storage and dispatch processes are defined.	1. The risks experienced in the processes of the shipment of the purchased raw materials to the warehouses of the Company, their period of staying in the stocks and their dispatch to production or sales.	1. The Company has comprehensive insurance policies issued against risks such as loss, spill, accident, etc. that may be experienced in all dispatch processes. In addition, it is protected from the risks by insurance policies issued against losses and damages that may occur during storage due to flood, fire, theft, etc. The internal control mechanisms especially in the dispatch and storage processes are adequate and their effectiveness is at reasonable levels.
A.1.g.	Risks with respect to Human Resources and Occupational Safety	The occupational safety risks with respect to work accidents that may be experienced and risks aimed for the inability to employ the work force compatible with the activities are defined.	1. Occupational health and safety risks due to work accidents that may be experienced. 2. Risks associated with the inability to employ a work force that is compatible with the job and will not interrupt the sustainability of the activities.	1. It has been observed that the personnel trainings are made continuously and regularly against work accidents that may be experienced. In addition, the necessary services are received from the Occupational Safety Specialist as per the provisions of the current legislations. 2. The Human Resources department has been established within the Company organization against the risks of the inability to use the available human resources well, experiencing confusion in roles and responsibilities due to the unavailability of the job descriptions, failure to make employee substitute planning for critical roles and positions; and it continues to take effective measures and provide the necessary reports and information to the management.

A.2. Sectoral Risks

A.2.a. Natural and Geographic Risks

1. Among the natural risks in agricultural production, primarily hail, frost, fire, draught, storm and flood disasters may be listed.
2. Although Turkey has a major potential with respect to both vegetative production and animal production, it has not been able to increase its vegetative production to the desired levels due to various reasons, and in this context, the impact of fluctuations in the supply demand balance on the prices may cause fluctuations in the Company's profit margins.
3. The fact that production is dependent on natural conditions to a large extent may lead to fluctuations in product yields and the revenues and profitability of the producers.
4. There is a product loss risk caused by bacterial, fungal and viral plant diseases and pests in our country.

Natural ve geographic risks, due to their nature, express risks that are impossible to foresee and measure beforehand. However, against the probability of the occurrence of the above mentioned risks, the Company closely monitors the product yields expected at the regional and international levels, and in order not to be caught off-guard against raw material price increases or yield drops, it reserves the critical stock levels and also tries to manage the risk by forward transactions in the commodity markets.

A. 2.b. Political and Legal Risks

1. Since wheat, which is the primary input of the Company, is directly influenced by the agricultural policies of the state, any changes that may be experienced in the agricultural policies of the state and reduce the profit margins in the sector may have a negative impact on the Company's profitability.
2. Problems that may be experienced in the global economy and the potential fluctuations in the product prices as dependent on these, may impact the agriculture sector negatively.
3. The fact that the profit margins are low and the price-focused competition understanding is dominant in the sector may lead to being negatively impacted by potential increases in the general expenses and production costs and a decrease in the sectoral profitability level.

In the sectoral sense, the political and legal risks, similar to the natural and geographic risks, are of defacto nature for the Company and it tries to manage its risks with similar methods also in this respect.

B. Assessment of Measures taken regarding the Risks

In order to be able to manage the defined risks in its fields of activity, the Company tries to take the necessary internal and external measures and gives the necessary importance and care to risk management.

C. Conclusion

It has been observed that the Company has defined the potential risks that are specific to its activities and its sector and the required studies are implemented with care by both the senior management and the department officials in order to be able to manage these risks and the necessary reporting is made.

Since this report that we have prepared in order to be submitted to the Board of Directors is the first report within the scope of the studies by our committee, risk definitions have been provided in detail; and our subsequent reports will be concentrated on determining any undefined risks and the assessment of risk management together with the available risks.

Respectfully yours,

Committee Members

Committee Chairman
Vedat CEYHAN

Committee Member
Salih Zeki MURZIOĞLU

Committee Member
Nevin ULUSOY