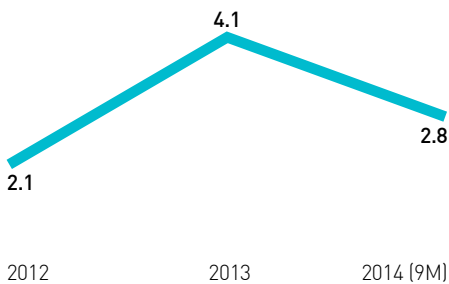


THE TURKISH ECONOMY AND OUR SECTOR IN 2014

Growth in packaged water consumption

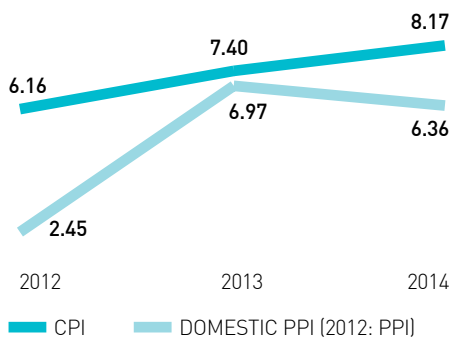
GDP GROWTH RATE - FIXED PRICES (%)



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 (%)

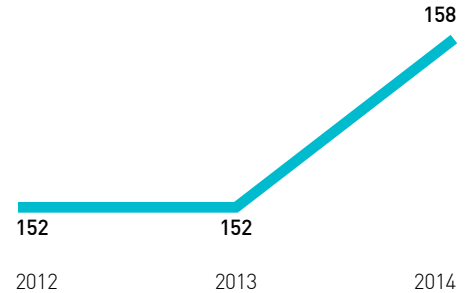


THE CPI ENDED UP ABOVE ITS 2013 LEVEL.

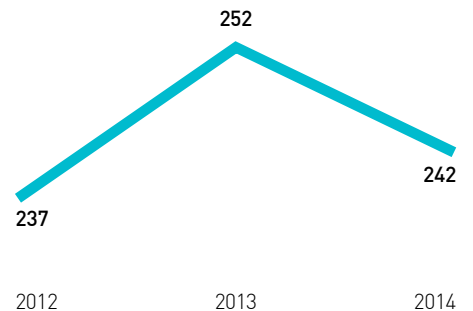
Although the rise in the producer price index was somewhat lower last year than the year before, inflation as measured by consumer prices was higher. In the twelve months to end-2014, TurkStat's producer price and consumer price indexes increased by 6.36% and 8.17% respectively.



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.

THE TURKISH PACKAGED WATER INDUSTRY

INADEQUATE INFRASTRUCTURE AND INSUFFICIENT WATER

One of the most serious problems that any country may have to face is that of not having enough water to meet the needs of a growing population. This was the situation that existed in the early 1990s when Turkey's urbanization gained ever-increasing momentum as a result of population inflows into all of the country's big cities.

Leaky water mains caused losses of up to 60% of the total flow through them while failure to undertake investments to properly exploit nearby water resources made it next to impossible for some municipalities to provide their citizenry with sufficient water.

The problem became so severe especially in İstanbul that the municipality began licensing "water stations" in an effort to alleviate it. An explosion in the number of these stations and the difficulties inherent in properly supervising them forced the health ministry to intervene: in 1998, the sale of unregulated water by the stations was prohibited.

A DECADE OF GROWTH IN PACKAGED WATER CONSUMPTION

With the banning of such sales by authorities, there was a surge in demand for water supplied in 19-liter polycarbonate (PC) carboys, which were already being used in many localities on account of public water-supply hygiene issues. Turkey first became acquainted with this new form of packaging in the late 1990s and it provided a welcome alternative to both inadequate/undrinkable mains and questionable-source non-regulated water in homes as well as at business- and workplaces. Thanks especially to its economy, to its handy accompanying apparatus, and to the convenience of delivery-on-demand, the 19-liter format accounts for the biggest share of total consumption by volume and has contributed significantly to the market's overall growth.

The Turkish packaged water industry consists of two distinct segments: "One-Way" (non-returnable PET and glass containers) and "Returnable" (PC and glass carboys). The biggest issue with which the industry must contend is that of informal (unregistered) production and the hygiene-related issues associated with it. Owing to the greater likelihood of unregulated water entering the supply chain, this problem is more serious in the carboy market. Much more important than putting licensed producers at a competitive disadvantage however are the public health risks that this water creates.

Inspections of carboy-supplied water carried out by the health ministry in 2012 and 2013 and the media storm of bad publicity that ensued when the results were announced damaged consumer confidence in carboy-supplied water no matter what the source. The result was a surge in demand for water packaged in PET and glass containers.

TOTAL SECTOR TURNOVER: TL 4.6 BILLION

According to SUDER, the Packaged Water Manufacturers Association, the packaged water sector in Turkey is estimated to have reached a total volume of 10.4 billion liters and a total turnover worth about TL 4.6 billion. The packaged water industry is currently operating at about 40% of its total capacity, which means that there is plenty of slack that could easily be put to work even if there were to be an unexpectedly strong surge in the domestic demand for its products.

PER CAPITA CONSUMPTION OF PACKAGED WATER ON THE RISE

Packaged water consumption in Turkey is rapidly approaching EU levels. In 2014 per capita packaged water consumption is estimated to have been 137 liters, of which 54 liters was supplied in PET containers and 83 liters in carboys. Some 56% of total consumption is supplied by means of

home-delivered carboys while nearly all of the remainder consists of water sold in PET containers. There are about 300 firms licensed to harvest and sell water by the Turkish health ministry.

Total retail sales of PET-packaged water increased by 16.9% and by 11.8% as measured by tonnage and turnover respectively in 2014. The biggest contributor to growth in the PET-container market was the 5-liter bottle intended for the household-consumption channel.

DEPRESSED DEMAND FOR CARBOYS

The 5% year-on contraction in the 19-liter carboy market that was observed in 2014 can be attributed to the effects of adverse media publicity on the one hand and to the steady decline in the appeal that this format has among consumers on the other.

GLASS CONTAINERS

The unfavorable publicity associated with PC carboys in general contributed to consumer perceptions that glass containers are somehow "healthier". This in turn increased demand for such packaging and encouraged established firms to supply more glass-packaged products to the market.

With consumer demand being stimulated by new brands entering the market with glass packaging in different sizes and formats of their own, this form of packaging that used to be consumed almost exclusively at restaurants, hotels, cafes, and similar away-from-home venues is now being supplied to retailers and homes as well. Owing to their consumer appeal, the 5-, 8-, 12-, 15- and 19-liter carboy formats are driving the glass-container market's growth.