



2017

**PINAR SÜT
ANNUAL
REPORT**



Yaşar

for a better life

Reporting Period

01.01.2017 - 31.12.2017

Commercial Name

Pınar Süt Mamulleri Sanayii A.Ş.

Trade Registry & Number

İzmir Trade Registry Office 34821 K-572

Authorized Capital

TL 80,000,000

Paid-in Capital

TL 44,951,051.25

Contact Details**Headquarters**

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Factory - Eskişehir

Organize Sanayi Bölgesi

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Eskişehir

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Web Site - Social Media

twitter.com/pinarkurumsal

facebook.com/pinarlayasam

facebook.com/PinarSutum

facebook.com/pinarprotein

facebook.com/pinarKido

facebook.com/pinarLabne

facebook.com/pinarlezzetfikirleri

twitter.com/Pinarsutum

instagram.com/pinarlayasam

instagram.com/pinarsutum

instagram.com/pinarprotein

instagram.com/pinar_kido

instagram.com/pinarlabne

instagram.com/pinarlezzetfikirleri



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Maintaining its activities to raise healthy generations, Pinar Süt has brought many first to its consumers since the first day it launched the first healthy long-life milk to the market.

One of the Working, Producing and Leading Groups in Turkey...

Since its foundation, Yaşar Group has adopted the motto of “non-stop working, producing and contributing in the country” to enrich Turkish economy, society, environment, life quality and human health without compromising corporate and ethical principles. Yaşar Group is one of Turkey’s leading groups and today operates with 22 companies, 24 factories and facilities, 2 foundations and approximately 7,500 employees and stands on “Durmuş Yaşar Enterprise” founded in 1927 by Durmuş Yaşar in İzmir to sell naval materials and coating products.

FOOD AND BEVERAGES GROUP	COATINGS GROUP	TISSUE PAPER GROUP	TRADE AND SERVICE GROUP	FOUNDATIONS
Food <ul style="list-style-type: none"> • Pinar Süt • Pinar Et • Yaşar Birleşik Pazarlama • Pinar Foods GmbH • HDF FZCO • Hadaf Foods Industries LLC Beverage <ul style="list-style-type: none"> • Pinar Su Agriculture, Husbandry and Fishery <ul style="list-style-type: none"> • Çamlı Yem Besicilik 	<ul style="list-style-type: none"> • Dyo Boya Fabrikaları • Kemipex Joint-Stock Co. • S.C. Dyo Balkan SRL • Dyo Africa Paints and Varnishes LLC 	<ul style="list-style-type: none"> • Viking Kağıt 	<ul style="list-style-type: none"> • Altın Yunus Çeşme • Bintur • Yaşar Dış Ticaret • Yaşar Bilgi İşlem ve Ticaret • Yadex International GmbH • Desa Enerji • Desa Elektrik • Arev Gayrimenkul 	<ul style="list-style-type: none"> • Yaşar Eğitim ve Kültür Vakfı • Selçuk Yaşar Spor ve Eğitim Vakfı

Most Recognized Brands in Different Sectors

Food, beverage and coating are main business branches of Yaşar Group and its flagship brands Pinar and DYO in these sectors are at the top of the “list of brands most recognized by consumers”. Yaşar Holding A.S. also operates in tissue paper, tourism, foreign trade and energy in addition to food, beverage and coating sectors and shares of subsidiary companies Pinar Süt, Pinar Et, Pinar Su, Dyo Boya, Viking Kağıt and Altın Yunus Çeşme are traded in Borsa İstanbul.

Ground Breaking Deep Rooted Establishment Presenting “Firsts” in Turkey

Yaşar Group led the way in Turkey with its innovative approach:

- First coating factory and brand, DYO
- First private dairy milk factory in international standards, PINAR SÜT
- First, first-class holiday village with 1,100 beds, ALTIN YUNUS ÇEŞME
- First paper factory in private sector, VİKİNG KAĞIT
- First natural source water in one way package, PINAR SU
- First private sector integrated meat facility, PINAR ET
- First integrated turkey facility,
- First aquaculture facility and the first culture fish production, PINAR DENİZ

An Approach Dignifying Environment and Society

Yaşar Group adopts a principal that focuses on minimizing the effects of its activities from manufacturing to trading to environment and human and maintains its operations in line with all applicable laws and regulations. Yaşar Group contributes in sports, culture and art through its long term social responsibility projects and Yaşar Eğitim ve Kültür Vakfı (Yaşar Education and Culture Foundation) and Selçuk Yaşar Spor ve Eğitim Vakfı (Selçuk Yaşar Sports and Education Foundation) designs several projects. Yaşar University is developing to become one of the most successful universities in the country.

Yaşar Group joined in United Nations (UN) Global Compact network in November 12th 2007 and released Development Statement for 2009 and 2010 and Sustainability Report for 2011-2016. To see development statement and sustainability reports released under Global Compact please visit www.yasar.com.tr.

Group signed UN Women’s Empowerment Principals “CEO Statement of Support” in 2012 and made commitments about fair gender policies with “Gender Equity Policies in the Workplace” in 2013.



Message from Chairperson

Pınar Süt, which continues its pioneering identity and innovative perspective in the sector, maintains to lead the market with its new dairy product segment.

Dear Shareholders,

Pınar Süt was founded 44 years ago in İzmir with the mission to serve our country's animal husbandry and healthy nutrition of our children. Today, while continuing our activities with our modern production facilities in İzmir, Eskişehir and Şanlıurfa, we continue to work with our natural superior quality products in a better life span of our customers in every age group. Our Company, which leads the sector with its firsts, continued its investments in 2017 with its innovative vision and maintained its growth momentum.

Turkey's economy in 2017 had a better growth rate compared to 2016 with the recovery of global economy. The positive results of a series of measures taken by the Economic Coordination Board to support the private sector were observed during the year. Growing 5.3% in the first quarter and 5.4% in the second quarter of the year, Turkey's economy had the biggest growth rate of 11.1% after 23 quarters.

20.7 Million Ton Milk Produced

In the global milk and dairy market, according to FAO, raw milk production grew by 1.4% in 2017 and reached 831 million tons. 2017, in particular Pakistan, Turkey, China, Iran and Saudi Arabia seems to increase milk production. 20.7 million tons of raw milk was produced in Turkey in 2017 according to figures of TSI.

While market of dairy products grow by 2.7% in tons in Turkey, it increased by 13.6% in turnover and reached 7.1 billion TL. (Nielsen, 2017, excluding BIM)

A noticeable growth rate was also observed in the lower segments of dairy products. Packaged cheese products, which accounted for 42% of the market share, grew by 8.1% in volume in 2017 and the market reached TL 2.7 billion (excluding Nielsen, BIM).

We Maintained Our Leadership in the Market

Having an active role in adopting "Healthy milk and dairy products" in Turkey, our Company maintained its leadership in many categories. Pınar Süt, working on contracts with more than 300 points producing at European Union standards without sacrificing quality, directly and indirectly supplies milk from more than 18,000 producers.

Producing milk, yoghurt, ayran, cheese, fruit juice, butter, cream, pudding, ketchup, mayonnaise, honey, sauce, jam, sweet and powder products, Pınar Süt grew by 16% in 2017 and obtained 1.24 billion TL turnover. In terms of sales tonnage, it achieved 5% growth and reached 338,699 tons.

In an environment where raw milk prices have entered a rapid growth trend, our Company closed the year with a gross sales profit of 196.8 million TL and a net profit of 47.1 million TL. Total actives grew 28.7% compared to last year and reached 1.2 billion TL.

Spreading to New Markets

We are moving forward with the goal of becoming a regional power especially in the close geography. Our Company exports to more than 30 countries, 67% of which are to the Gulf countries. In 2017, we started exporting to new countries such as China, Thailand, Nigeria, Israel, Japan, Vietnam and Panama. In 2017, Pinar Süt realized 20% of import of Turkey's retail dairy products, excluding milk and milk powder, by itself. Our Company reached an export turnover of 45.9 million US Dollars at the end of the year.

We Created Dairy Products Segment with Protein

Creating a new segment in Turkey in 2017, we launched Pinar Protein to the market. With 70% more protein content, we brought milk high in protein without lactose and with cacao and vanilla flavor in milk category to our consumers. In 2017, with the increase in interest in sports parallel with increasing healthy living trend awareness in the World and Turkey, we enriched Pinar Protein family. In the yoghurt category, our product ranges which contain twice more protein than standard yoghurt and which are plain and banana-oat and lactose-free took their place in the market. Parallel to our strategy of focusing on value-added products, Pinar Kids and Pinar Denge highlighted lactose-free dairy products. Considering the deficiency of vitamin D in the general population, we have developed 60% less fat UHT milk with added vitamin D and launched for sale.

Again according to the decision of the "School Health Science Board", which is shared within the scope of "Circular on Hygienic Supervision of Food Sold in School Canteens and of Food Establishments in Educational Institutions" published by the Ministry of Health this year, we have re-developed our fruit juices according to the limits. With this application, we completed our re-formulation work on our Kido product series.

In the away-from-home product range, we also made innovations in line with market trends. With the increase of demand on ingredients on different qualities for coffee preparation, Pinar Latte Art Barista Milk, which can easily make coffee foam with its special fat and protein content, was launched to the market.

We are Investing for Industry 4.0

To ensure compliance with Industry 4.0, we prioritize high-tech investments. In 2017, we have completed the investment in robot palletization with various renovation investments in our Eskişehir factory.

As Pinar Süt, we plan to continue investments in line operation and control automation systems and robot applications in 2018. Robot investments in the direction of our industry 4.0 strategy will continue in the "Robot Workshop" which will be established within the R&D center.

We Work for a Better Life

In 2017, we continued to invest in environmental and social sustainability. With the measures we have taken and the improvements we have made, we use natural resources efficiently. Pinar Süt was awarded the "CDP Turkey Climate Leaders Award" among the firms with high performance in combating climate change, and "CDP Turkey Water Leaders Award" among the firms with a leading position in water management, according to results of "2017 Climate Change Report" and "2017 Water Program Report" of Carbon Disclosure Project (CDP) Turkey. We continue to work in all of our factories in order to achieve our goal of reducing carbon footprint.

We maintained our support to education, art and sports with the activities we performed with the understanding of social responsibility which is one of the most important values of our corporate culture. With the Pinar Children's Theatre of which 30th year we have celebrated, we have reached more than 3 million children across Turkey. This year, 32,206 paintings participated in the Pinar Children Painting Contest which has been going on for 36 years. The Pinar Institute, which has been working to contribute to the healthy development of the community since 2013, became a member of the UNDP's Business Call to Action (BCtA) program as part of the The Future of Milk is in Conscious Hands project in April 2017. In this direction, we reached 938 producers in 19 different trainings in İzmir, Eskişehir, Aydın, Muğla, Denizli, Uşak, Burdur and Adıyaman in 2017. Over the last 3 years, the number of producers that have been trained has reached 6,500. We will continue to work on this area in 2018 as well.

With the responsibility that we have brought many firsts to Turkey, we continue our projects which contribute value to the country, society, environment and human. We are confidently moving towards becoming a global brand. I would like to thank all of our employees, stakeholders and supporters and our valued shareholders who have efforts in our success during 2017.

Best Regards,

İdil Yiğitbaşı
Chairperson of Board of Directors

Board of Directors

İDİL YİĞİTBAŞI
CHAIRPERSON



EMİNE FEYHAN YAŞAR
VICE CHAIRPERSON



MUSTAFA SELİM YAŞAR
MEMBER



ALİ YİĞİT TAVAS
INDEPENDENT MEMBER



YILMAZ ATTİLA
INDEPENDENT MEMBER



CENGİZ EROL
MEMBER



YILMAZ GÖKOĞLU
MEMBER



Background information of Board of Directors is given on pages 43 – 44.

Senior Management and Committees

BOARD OF DIRECTORS AND TERMS OF OFFICE

NAME SURNAME	TITLE	TERMS OF OFFICE
İDİL YİĞİTBAŞI	CHAIRPERSON	30.03.2017 – 1 YEAR
EMİNE FEYHAN YAŞAR	VICE CHAIRPERSON	30.03.2017 – 1 YEAR
MUSTAFA SELİM YAŞAR	MEMBER	30.03.2017 – 1 YEAR
ALİ YİĞİT TAVAS	INDEPENDENT MEMBER	30.03.2017 – 1 YEAR
YILMAZ ATTİLA	INDEPENDENT MEMBER	30.03.2017 – 1 YEAR
CENGİZ EROL	MEMBER	30.03.2017 – 1 YEAR
YILMAZ GÖKOĞLU	MEMBER	30.03.2017 – 1 YEAR

Limitations of Authorities

Both Chairperson of the Board and Board Members have the authorities stated under relevant articles of Turkish Commercial Code and articles 11 and 12 of our Articles of Association.

Corporate Governance Rating:

In 2017, Pınar Süt's corporate governance rating was revised upwards to 9.26 out of 10.

SENIOR MANAGEMENT

NAME SURNAME	POSITION
LEVENT RIZA DAĞHAN	DEPUTY CEO - HEAD OF FOOD GROUP*
GÜRKAN HEKİMOĞLU	GENERAL MANAGER
MUSTAFA ŞAHİN DAL	FINANCIAL AFFAIRS AND BUDGET CONTROL DIRECTOR

AUDIT COMMITTEE

NAME SURNAME	POSITION
ALİ YİĞİT TAVAS	HEAD OF COMMITTEE
YILMAZ ATTİLA	MEMBER

CORPORATE GOVERNANCE COMMITTEE

NAME SURNAME	POSITION
YILMAZ ATTİLA	HEAD OF COMMITTEE
CENGİZ EROL	MEMBER
YILMAZ GÖKOĞLU	MEMBER
GÖKHAN KAVUR	MEMBER

EARLY DETECTION OF RISK COMMITTEE

NAME SURNAME	POSITION
ALİ YİĞİT TAVAS	HEAD OF COMMITTEE
CENGİZ EROL	MEMBER
YILMAZ GÖKOĞLU	MEMBER

* Food Group includes Pınar Süt Mamulleri Sanayii A.Ş., Pınar Entegre Et ve Un Sanayii A.Ş., Yaşar Birleşik Pazarlama, Dağıtım, Turizm and Ticaret A.Ş. companies.

Pinar Süt and 2017 At a Glance

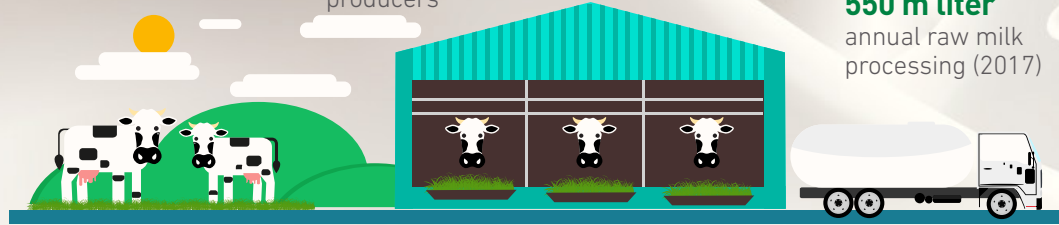
Pinar Süt continued to grow and produce in 2017.

Production in 3 different locations

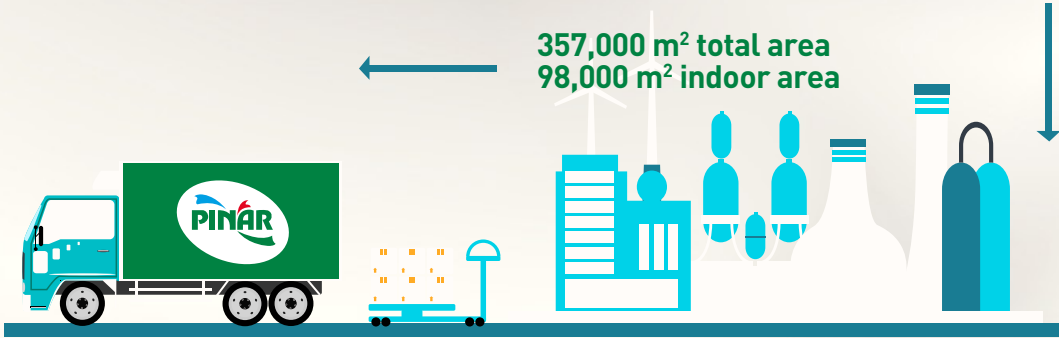


Supply raw milk from
more than **18,000**
producers

550 m liter
annual raw milk
processing (2017)



357,000 m² total area
98,000 m² indoor area



150,000
sales points



831

million ton

Milk production
in the world (FAO)

20.7

million ton

Milk production in
Turkey (TSI)

7.1

billion TL

Turkish Dairy
Market Turnover



1,135

AVERAGE NUMBER OF
EMPLOYEES IN 2017



19.9

HOURS OF TRAINING
PER EMPLOYEE

CDP Turkey Climate Leaders Award

CDP Turkey Water Leaders Award

Superbrands of Turkey

45.9 million Dollar export sales
55.1 million TL capex

1.24

billion TL

NET SALES

16%

NET SALES
GROWTH

86.1

million TL

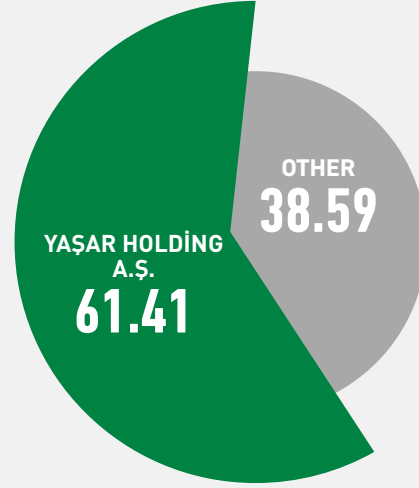
EBITDA

2017 FINANCIAL PERFORMANCE

(Million TL)	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Net Sales	1,240.1	1,067.8
Gross Profit	196.8	191.1
Gross Profit Margin	15.9%	17.9%
Net Profit	47.1	60.0
Net Profit Margin	3.8%	5.6%

(Million TL)	31.12.2017	31.12.2016
Shareholder's Equity	690.2	593.3
Assets	1,201.5	933.6
Total Liabilities/Equity Ratio	0.74	0.57

SHAREHOLDING STRUCTURE OF PINAR SÜT (%)



Company Profile

Bringing healthy milk and dairy products to its consumers since its establishment, Pınar Süt maintains its leading position in Turkey and abroad with its “My Life Spring” slogan while moves confidently to become a regional power in export markets.

Shareholder	Share Rate (%)	Share Amount (TL)
YAŞAR HOLDİNG A.Ş.	61.41	27,603,901.57
OTHER	38.59	17,347,149.68
Toplam	100.00	44,951,051.25

Pınar Süt's shares are traded at Borsa İstanbul Star Market under the ticker symbol "PNSUT".

Information on privileges related to the Company's shares can be found in the Corporate Governance Principles Compliance Report.



Pinar Süt maintains its leading identity towards the development of the sector by constantly supporting more than 18,000 producers with whom it has established a business association.

Pinar Süt, undertaking a leading role in development of milk livestock in Aegean Region since 1973 when it was founded and starting to serve as the largest factory in Middle-East and the most-advanced in Europe in 1975, Pinar Süt currently has production facilities in three different points: İzmir, Eskişehir and Şanlıurfa. Carrying out its activities meticulously, the Company produces milk, yoghurt, ayran, cheese, fruit juice, butter, cream, pudding, ketchup, mayonnaise, honey, sauce, jam, sweet and powder products.

Pinar Süt, which introduced the long-life milk for the first time in 1975, continues to follow the requests and needs of its consumers and enlarges its product portfolio every year. Being one of the most reliable brands among the Turkish consumers, the Company aims to lead the growth of especially healthy generations with its new products.

Having Turkey adopt the understanding of “healthy milk and dairy products”, Pinar Süt maintains its leadership by being among top three in every field it operates as one of the brands with the highest brand recognition with its “My Life Spring” slogan which includes “taste”, “health” and “innovation” concepts.

Serving as Yaşar Group Company which is one of the largest groups in Turkey, Pinar Süt also contributes to animal

husbandry and food sectors of the country. Engaged in production without sacrificing quality in the European Union standards and working on contract with 329 separate point, 133 of which are farms, the Company constantly supports its more than 18,000 producers it cooperates with and makes milk production in Turkey to increase.

The Company also exports its products to different countries of the world. Pinar Süt works with the aim of becoming the regional power of the close geography especially in the Gulf countries in the milk and dairy products sector with its investments and rising export volume.

The brand of the firsts

Pinar Süt maintains its leadership in the sector with many products it presented to its consumers from its establishment to today.

With the goal of “Raising healthy generations”, the Company launched the first healthy long-life milk in Turkey. Pinar Süt introduced its customers with cream cheese, labneh, fresh cheese, ready-made mayonnaise, children’s milk and organic milk for the first time with its strong R&D studies and the highest standards of production. Creating the brand which is together with consumers for generations and millions of people in Turkey, Pinar Süt maintains its activities non-stop to become worthy of the trust of its consumers.

Competitive Superiorities

With its innovative identity and strong R&D experience, Pınar Süt, widening its portfolio consisting of more than 300 products today, reaches its consumers with Turkey`s largest cold chain distribution network.

HIGH BRAND VALUE

- The first brand in Turkey to put forward healthy milk and dairy products concept
- Among Superbrands ® Turkey brands
- One of the most innovative brands of Turkey
- Holder of Social Responsibility Project of the Year in Europe (Stevie Business Awards)

QUALITY PRODUCTION, RICH PRODUCT PORTFOLIO

- Hygienic production conforming to EU norms
- More than 300 SKUs
- Innovative and pioneering identity
- Strong R&D experience
- Technological and sectoral knowledge and experience
- Energy-efficient industrial plants

WIDE DISTRIBUTION AND SUPPLIER NETWORK


- Power of Yaşar Birleşik Pazarlama that has the largest cold and frozen distribution chain in Turkey
- 150,000 points of sale
- Synergy of distribution of dairy and meat products together
- Supply from more than 18,000 raw milk producers
- Long-established relationships with producers, strong collaborations

Innovative Brand

One of the leading companies of the sector in Turkey, Pınar Süt maintains its superiority in competition with its applications based on technological advancements as well as past experience. In 2017, the Company also introduced new products to strengthen its high brand awareness and reliability. With new and effective marketing campaigns, the Company met with consumers at every place and touched their lives. With this consumer-focused approach, Pınar Süt has taken its position to the top by leaving behind the competitors in the sector both in terms of market share and reputation and brand image.

As a result of the evaluations of selection committee members of Superbrands, an independent international authority on brand management and marketing, Pınar was chosen as one of the super brands of Turkey 2017.



A close-up photograph of a pair of hands holding a white, round jar of Pinar Süt cream. The hands are positioned on either side of the jar, with fingers gently gripping it. The jar is open, showing a thick, white cream inside. The background is a textured, brown surface, possibly wood or stone. The lighting is soft and warm, highlighting the texture of the skin and the cream.

Brand strength, traceable production process, reliable suppliers, registered production, strong R&D experience are just a few of the factors behind the success of Pinar Süt...

Pınar Süt Products

Pınar Süt continues responding to changing necessities with new products meeting consumer expectations and expand its product line with strong R&D.



MILK

Boxed milk

Whole Milk
Semi-Skimmed Milk
Organic Milk
Organic Light Milk
0.1% Light Milk
60% Fat lessened D
Vitamin Light Milk
Kido (Cocoa, Strawberry, Banana) Flavored Milk
Pipetto Chocolate Milk
Kids Follow On Milk (Plain and Honey)
Toddler & Follow On Milk (Plain)
Denge Lactose-free Milk
Denge Calcium Milk
Protein Milk



YOGHURT

Natural Yoghurt
Light Natural Yoghurt
Organic Yoghurt
Strained Yoghurt
Lactose-free Yoghurt
Protein Yoghurt

AYRAN

Bottled Ayran
Ayran in Cup

DESSERTS-POWDER PRODUCTS

Kido Pudding (with Cocoa and Banana)
Chantilly Cream
Milk Powder

FRUIT JUICE

Fruit Nectar

Sourcherry Nectar
Peach Nectar
Mixed Mediterranean Fruit Nectar
Apricot Nectar
Orange Nectar
Apple-Sourcherry Nectar



100% Fruit Juices

100% Orange Juice
100% Apple Juice
100% Peach-Apple Juice
100% Apricot-Apple Juice
100% Mixed Fruit Juice

Fruit Beverages

Crazy 2 Orange-Peach
Crazy 2 Pineapple-Peach
Crazy 2 Apple-Strawberry
Crazy 2 Apple-Pear

FLAVORS

Cocoa Sauce
Kremilla
Mayonnaise
Light Mayonnaise
Ketchup (hot and sweet)
Mustard
Cream
Pınar Clotted Cream



300+

PRODUCT
VARIETY**CHEESE****Modern Cheese**

Cream Cheese
Pinar Original
Pinar Original Light
Labneh
Labneh Light
Toasting Cheese Slices
Burger Cheese Slices
Açbitir Kashar Cheese Slices
Açbitir Cheddar Cheese Slices
Full Fat Cheese Triangles
Half-Fat Cheese Triangles
Cheese Triangles Light
Breakfast Triangles Cheese
Go Cheddar
Go Fresh Kashar
Go String Cheese

Traditional Cheese

Fresh Kashar
Strained White Cheese
Full Fat White Cheese
Light White Cheese
Breakfast White Cheese
Breakfast Kashar Cheese
Organic White Cheese
Lactose-free White Cheese

Special Cheese

Cheddar Cheese
Halloumi Cheese

**BUTTER**

Butter in Cup
Traditional Butter
Roll Butter (Block)
Butter in Folio Pack
Practical Butter

**AWAY FROM HOME
CONSUMPTION (AFH)****Milk**

Milk (Full Fat, Semi-Skimmed,
Fat-free)
Boxed Milk
Latte Art Barista Milk (Full fat)

Cheese

Labneh
Pinar White
Fresh Cheese
Pizzarella
Toasting Cheese Slices
Kashar
Shredded Mozzarella
Diced Mozzarella
Cheese Triangles
Burger Cheese Slices
Full Fat White Cheese

**Butter**

Serving Size
Roll Butter (Block)

Jam and Honey

Serving Size Strawberry Jam
Serving Size Sour Cherry Jam
Serving Size Honey

Cream

UHT Cream
Sour Cream

Yoghurt

Natural Yoghurt (Semi-fat, Full-fat)

Ayran

Ayran in Cup

Milk Powder

Fat-free Powder Milk
Full-fat Power Milk
Whey Powder

Sauce

Service Mayonnaise
Service Ketchup
Bucket Mayonnaise
Bucket Ketchup
Sachet Mayonnaise
Sachet Ketchup
Barbecue Sauce Sachet
Barbecue Sauce Bucket
Hot Sauce Sachet
Hot Sauce Bucket
Garlic Mayonnaise Sachet
Garlic Mayonnaise Bucket



25
NEW PRODUCT
NUMBER
IN 2017



Innovations for Changing Trends

In 2017, Pinar Süt presented many new products at 150,000 retail outlets by listening to the changing demands and needs of consumers.

Products High in Protein

Pinar Süt developed new products in compliance with the increasing healthy living trend in the world and Turkey. As a result of increasing interest in sport and shifting of eating habits towards food low in fat and high in nourishment, Pinar Süt launched Pinar Protein family to the market in 2017.



With 70% more protein content, milk high in protein without lactose and with cacao and vanilla flavor in UHT milk category was launched to the market. In this new category, Pinar Süt's turnover reached 55.2% (market excluding Nielsen-BİM, 2017). In the yoghurt category, products which contain twice more protein than standard yoghurt and which are plain and banana-oat and lactose-free met with the consumers.

In the functional product category as an extension of the same trend, D Vitamin supplemented with 60% Less Fat UHT Milk was introduced to the market, taking into account the lack of vitamin D in the general population.



Again according to the decision of the "School Health Science Board", which is shared within the scope of "Circular on Hygienic Supervision of Food Sold in School Canteens and of Food Establishments in Educational Institutions" published by the Republic of Turkey Ministry of Health this year, we have re-developed our fruit juices for school canteens according to the limits. In addition, in accordance with this circular, re-formulation studies have been completed in the Kido product line.

Special for Away-From-Home Consumption

In the away-from-home product range, Pinar Süt also made innovations in line with market trends. With the spread of coffee consumption and therefore coffee chains in Turkey, a special product was developed for this area. With the increase of demand on ingredients on different qualities for coffee preparation, Pinar Latte Art Barista Süt, which can easily make coffee foam similar to cream with its special fat and protein content, was launched to the market. Thus, an important need in this field was satisfied.

On the export side, targeting the Gulf countries, Fresh Cream Cheese which is suitable for the taste of this region, spreadable and which has a soft texture was produced and launched to the market.





Pınar Süt continues its activities by taking into account consumer requests and needs with its new products that are suitable for healthy living trend.



**9 million 111
thousand tons**

**AMOUNT OF COW MILK
COLLECTED BY COMMERCIAL
DAIRY BUSINESSES**

Sector Overview

In recent years, the trend of healthy living, which is getting widespread all over the world, also brings significant changes in milk and dairy products sector. Especially for consumers in big cities, packaging is designed to be quick and easy-to-use for fast life.

In 2017, reformulated diverse products which provide additional benefits with the power of R&D to consumer mass who eat healthily and practice sports continued to be developed.

Consumers are demanding milk and dairy products that provide more vitamin and mineral supplementation, disease prevention, heart-friendly or digestion ease with the influence of concepts such as "staying healthy" and "being fit". According to FAO, milk production of world's milk and dairy market in 2017 grew by 1.4% compared to a year ago and reached 831 million tons.

2017, in particular Pakistan, Turkey, China, Iran and Saudi Arabia are envisaged to increase milk production. In North America, milk production grew by 2% and reached 98.3 million tons. During the same period, milk production in the European Union grew by 0.4% and reached 164.2 million tons (FAO).

Looking at the packaged plain milk market, it is estimated that this area reached 302 million liters in 2017, growing by 1.2%. The UHT milk market grew by 1.5% and reached to 224 million liters while the children's milk market was 16 million liters with 3% growth (Euromonitor).

Sector in Turkey

According to TSI figures, Turkey produced 20.7 million tons of raw milk in 2017. The amount of cow milk collected in commercial milk businesses in 2017 was recorded as 9 million 111 thousand tons.

The base price of raw milk has increased in Turkey in 2017. The raw milk price determined by the National Dairy Council increased from 1.21 TL per liter in the first 7 months of 2017 to 1.30 TL in August-September and to 1.40 TL in October-December.

While market* of dairy products grow by 2.7% in tons in Turkey, it increased by 13.6% in turnover and reached 7.1 billion TL. The total share of box dairy products in the market was 28% while the share of cheese products in the market was 38% (* Milk, cheese, yoghurt, butter and ayran-Nielsen, market excluding BIM).

Packaged cheese products had a growth in quantity by 8.1% in 2017. According to Nielsen data, the regularly growing packaged cheese market reached 2.7 billion TL in 2017. In the packaged milk segment, 2017 quantity growth was 2.5% (Nielsen, market excluding BIM).

Functional milk market in Turkey also grew faster in 2017 with increased consumer awareness of lactose-free milk. With the number of working mothers increasing day by day, the demand for value-added children's milk segment also increased. On the other hand, protein category parallel to healthy life trend was created.

As one of the most growing areas, fruity yogurt grew in quantity base by 76% in adult market (Nielsen, market excluding BIM).



Total fruit juice market shrank by 3.8% and decreased to 486 thousand tons in 2017. In terms of turnover, it grew by 3.6% and reached to 1.5 billion TL (Nielsen, market excluding BIM).

Another sub-category ketchup market reached volume of about 26 thousand tons in 2017 with 7% growth on quantity basis. Ketchup market reached a size of 148 million TL with a growth of 14% in turnover. The mayonnaise market, on the other hand, reached 15 million tons in volume in 2017 with a growth rate of 8% and reached 144 million TL with a growth rate of 15% in terms of turnover.





Activities in 2017

Pinar Süt maintained its strong position in many categories in the dairy products market where it operated in 2017.

With 70% more protein content, milk high in protein without lactose and with cacao and vanilla flavor in UHT milk category was launched to consumers. In the yoghurt category, high-protein plain and banana-oat varieties of High-Protein yoghurt, obtained by concentrating the natural protein in milk, were presented to the market.

Pinar Süt increased its share in Turkey's Dairy Products Market* in terms of both tonnage and turnover in 2017. In the market where the Company have a turnover share of 13.2%, significant growth was recorded in milk, cheese and ayran categories (* Milk, cheese, yoghurt, butter and ayran - except BIM, Nielsen).





EXPORT TO
30 COUNTRIES

7
NEW EXPORT
MARKETS

In 2017, Pinar Süt achieved a turnover of 1.24 billion TL. The sales volume of the Company, which grew by 16% on turnover basis, increased by 5% and reached to 338,699 tons. In 2017 when raw milk prices have entered a rapid growth trend, our Company had gross sale profit of 196.8 million TL and EBITDA amount was 86.1 million TL. While Pinar Süt closes the year with the net profit of 47.1 million TL, its total actives grew by 16% and reached to 1.2 billion TL. As the Company's 2017 export turnover become 45.9 million dollars, fixed asset expenditures became total of 55.1 million TL.

20% SHARE IN EXPORT OF DAIRY PRODUCTS

Turkey's export in milk and dairy products in 2017 was 415 million dollars. According to TSI data, the biggest turnover share of this export was the packaged cheese category with 77%.

In 2017, Pinar Süt realized 20% of import of Turkey's retail dairy products, excluding milk powder, by itself. The Company moves forward with the goal of becoming a regional power especially in the close geography.

Pinar Süt exports to more than 30 countries, 67% of which are to the Gulf countries. Among the main exporting countries are Saudi Arabia, Qatar, United Arab Emirates (BAE) and Kuwait; Outside the Gulf Region are Iraq, the TRNC, Azerbaijan and Russia.

In 2017, the Company participated in different fairs such as Specialty and Fine Food and Gulfood, World Travel Catering & Onboard Services to enter new markets and strengthen brand awareness. The Company aims to increasingly maintain its activities in this field.

NEW MARKETS

- Pinar Süt, one of the first seven Turkish companies to receive export licenses to Russia in 2014, accelerated its exports to Russia in 2017.
- TURQUALITY, the state-sponsored first and only branding program, was resumed in 2017. In this context, Pinar Süt has also carried out studies.
- In 2017, the Company expanded its target markets and spread to new export destinations. Exports started to China, Thailand, Nigeria, Israel, Japan, Vietnam and Panama.
- Pinar, the Turkish-type Labneh's inventor, won the "Gulf Product of the Year Award" given to the world's leading companies for fast-consumption products every year for the third consecutive time in this category.



- The US started to work with its new dealer in the Texas area. Thus, the distribution network in this country was expanded and the Pinar products were provided to reach more American consumers.
- In 2017, studies began on digital media platforms to reach more consumers in Azerbaijan market after Iraq.





Pinar Süt Customers and Consumers

Pinar Süt continues to touch the lives of customers at every age with, in every category where it has production its effective marketing campaigns, new product launchings and strong communication.

Offering a range of products for different target groups, the Company constantly works to keep customer satisfaction at the highest level with its uncompromising approach and its widespread distribution network at over 150 points. The Company processes the most quality raw materials in its state-of-the-art production facilities for its product range consisting of milk, yoghurt, cheese, butter, ayran, fruit juices, flavorings and desserts.

Pinar Süt defines its main target group as “mothers who want the best for their child and family” with milk and dairy products. It carries out campaigns and communication studies for them.

Closely following the trends in Turkey and world, the Company keeps launching innovations to market with its strong R&D to meet the requests of consumers. These new products are being introduced to a wide range of customer profiles through effective marketing activities carried out from different channels.

In subcategories other than milk and dairy products, the Company aims to reach more selective and niche target groups, especially with the products that provide additional benefits that it has created recently.

Strong Brand Communication

Pinar Süt adopts a different approach in marketing studies. Instead of the classical demographic approach, the target groups are determined via the lifestyle. Making developing new products in line with the needs and expectations of consumers as a priority in new product activities, Pinar Süt makes use of the power of digital media in brand communication. Pinar Süt decided to increase the share of digital media in brand communication budget.

Continuing to invest in product categories where it is strong during 2017, Pinar Süt raises its power by leaving its competitions behind in categories where an opportunity of development is seen.

The Company is following the strategy of bringing the right product to the right target group in today's marketing world, where consumers are exposed to all kinds of messages. In this direction, besides mass media usage, special importance is given to alternative communication channels. Activities that can be linked to the consumers are realized. The launch of the Pinar GO series, designed considering the needs of a fast urban life in mind, is an example of this activity.

Pinar Süt focuses on value added products in the milk category which is its main business branch. The Company developed a new dairy segment in 2017. Pinar Kids and Pinar Denge highlighted lactose-free dairy products when Pinar Protein Milk was launched.

In cheese category, where the Company is one of the leaders, strategy to increase share was maintained. In parallel with this strategy, activities were conducted focused on Strained White Cheese, Labneh and Pinar GO products.

SUCCESSFUL COMMUNICATION CAMPAIGNS

The communication campaigns that Pinar Süt performed on product groups basis throughout the year:

Milk Group

Pinar Süt took part in TVs with the "Büyüdüm" (I Grew Up) campaign at the beginning of the year. Throughout the year, the Company continued to communicate with consumers through social media sharing. TV broadcasts and social media activities were carried out within the scope of the "Hep Yanımda" (Always by My Side) communication campaign specially prepared for Mother's Day.

Protein Product Group

Pinar Protein Milk, which was launched in April, was promoted in May. Then, in October, Pinar Protein Yoghurt was launched.

In May-November and December, the Pinar Protein Family continued to communicate on TV and digital media with an intense frequency. The Company also came together with consumers with social media, event sponsorship and sports hall events. Pinar Protein Süt was chosen as the most innovative milk product of 2017 by Marketing Turkey Magazine.

MILK GROUP

PRODUCT	REVENUE SHARE	POSITION
Plain Milk	26.7%	Leader
Kido Milk	23.3%	Leader
Light Milk	62.5%	Leader
Kid's Milk	82.6%	Leader
Lactose-free Milk	58.0%	Leader
Organic Milk	100%	Leader
Protein Milk	55.4%	Leader

CHEESE GROUP

PRODUCT	REVENUE SHARE	POSITION
Total Spreadable Cheese	32.3%	Leader
Labneh Cheese	45.2%	Leader
Strained White Cheese	17.3%	Second
Sliced Cheese	31.6%	Leader
Fresh Cheese	49.5%	Leader
Cheese Triangles	16.3%	Second
Cream Cheese	13.2%	Third

Source: Nielsen, 2017 Market excluding Bim

Increasing its market share in Turkey's Dairy Products category in 2017, Pinar Süt is in the market with many products where it keeps its leading position for long years. In 2017, the Company continued to increase our share especially in the cheese category.





Flavored Milk Group

Kido character was developed and the product was relaunched. Communication activities for the brand were held throughout the year. In 2017, Pinar Pipetto cocoa-flavored milk beverage was launched. With the launch of Pipetto, accessible priced flavored milk/fun was aimed.



Pinar Children's Milk

TV, digital and open air exchanges were conducted in April-July and December.

Lactose-free Product Group

During January-April and October-December 2017, intensive communication campaigns involving TV, radio, open air and digital media were held.

Cheese Group

In 2017, Pinar Labneh "Lezzet Verir Neye Değse" (Flavours Whatever It Touches) campaign was repeated on TV, press, outdoor, radio and internet campaigns. In addition to sponsorship and social media activities, outdoor advertisements were made in the Aegean region during summer.



Pinar Go's innovative products continued to be advertised in digital media. In addition, product tasting promotions were performed by consumers.

An advertising campaign was organized on TV, radio, press and outdoor venues for Pinar Strained White Cheese with the motto "Pinar Yaparsa En Güzelini Yapar" (Pinar Always Makes the Best).

"Emoji" icons were used on triangle cheese packaging to increase interaction with consumers. Emoji gifts were given in the markets.

Cheesecake recipe with Pinar Original was explained to consumers with video and recipe cards.



Yoghurt-Ayran Group

To show that it can be used for different purposes after consumption, a side of the yoghurt buckets has been redesigned as a flowerpot. In

addition, at the end of the year, the winners of the 36th Pinar Children Painting Contest were printed on yoghurt packaging. In Ayran packaging, new and dynamic designs have been introduced.

Fruit Juice Group

In the 200 ml Crazy Fruit beverage products, the fruit contents were renewed and the number of varieties decreased by targeting consumer expectations and sales optimization. The "Crazy 2" concept was created with 2 fruit mixes and the packaging designs were redesigned within the concept. Products which would get the likings of children with fun designs and taste and mothers with new contents which do not contain artificial flavorings and colorings were launched to market as of December.

Sauce Group

For the Pinar glass mayonnaise product, during the new year season, the brand communication was carried out with messages rich in content, ads pop-ups in mobile application and notification to mobile users.

AWAY-FROM-HOME CONSUMPTION CHANNEL

In 2017, Pinar Süt also made special marketing efforts for increasingly demanding Away-From-Home Consumption products. Serving a wide customer portfolio ranging from hotels to restaurants, catering companies to schools, Pinar Süt chose to communicate with the chefs-cooks that they have designated as "Opinion Leaders" here. The Company continues to develop innovative and practical products with the goal of providing consumers with healthy foods that make life easier by correctly understanding their needs.

Presentation Activities on the Away-From-Home Consumption Channel

- In the SIIRHA İSTANBUL Fair held on November 16-18, 2017 at the İstanbul Congress Center, many tastes where many chefs met with Pinar products were shared. Drinks and recipes prepared with Sour Cream and Latte Art Barista Milk products were presented to the participants and visitors. In this fair, "Kısık Ateş" (Low Heat) social platform which was created to increase communication between chefs was also launched.



- Pinar sponsored the Gastro entertainment Fair held in İstanbul Volkswagen Arena on 16-17 September 2017.

- Pinar participated in the Gurme İzmir Fair held in İzmir Fair Area on April 26-29, 2017 and shared the tastes created by different consultant chefs' with Pinar products.

- Pinar brand was among the supporters of the "National Cooking Camp" held in Bolu Mengen. Pinar Cream family and fresh cheese products in the kitchen are transferred to the student chefs by professional chefs.





- Pinar Latte Art Barista Milk product was introduced to industry representatives and coffee shops in Coffee Festivals organized in İstanbul, Ankara and İzmir.

DISTRIBUTION NETWORK

Pinar Süt maintains competitive strength in the market thanks to the widespread and effective distribution power of Yaşar Birleşik Pazarlama (YBP). 83% of Pinar Süt's sales are realized by the Yaşar Group Company YBP.

With 9 regional directorate, more than 100 dealers and 150 thousand points of sale, YBP distributes Pinar Süt and Et products. In addition to this, the Nar'ca branded products brings Turkish coffee and single-drink granule coffees of Kahve Dünyası and products of Mars Group, one of the producers of global chocolate, to consumers in the freshest, healthiest and fastest way.

With a strong team and more than 1,200 distribution vehicles, Yaşar Birleşik Pazarlama which is one of the biggest sales and distribution formations in Turkey serves with 3 different air-conditioning levels, 17 different categories and more than 500 product types.

The Company also builds its entire trading system based on efficiency, operational excellence and reporting. Following its operations with the most effective software systems that use the latest technology, YBP organizes training programs aimed to boost the sales skills of both business partners and personnel.

YBP Dealer Logistics Satisfaction Survey reports an operational satisfaction. According to a survey conducted in 2017, satisfaction level of about 100 dealers from logistic operations and provided services was measured as 93%.

Main Fairs Attended in 2017

- Dubai GULF FOOD 2017 Fair / 28 February-2 March 2017
- 8th Gurme İzmir (Olivetech) Fair / 26-29 April 2017
- İzmir International Fair / 18-27 August 2017
- Gastro Entertainment / September 16-17, 2017

Pinar Communication Center

Customer's requests and complaints to Pinar Communication Center (PIM) on 444 76 27 number which can be called without region number anywhere from Turkey are lively answered by the operators. At 92% successful call response rate, 88% of the calls are answered within 15 seconds at PIM.

Acting in line with the principle of "consumers and customers first", Pinar Su, with its customer-oriented understanding, reviews and considers all requests and suggestions to call center. With a customer satisfaction rate of 92%, PIM also quickly returns to consumers by reviewing and resolving requests and suggestions from social media through its official Twitter account. twitter.com/InfoPinar





R&D Activities

Pınar Süt commenced its R&D Center as of January 26, 2017.

Fulfilling relevant competencies on the issue in 2016, the Company formed its R&D Center. With the employment of doctoral personnel, labor force was strengthened in terms of quality and quantity. Within its strong R&D experience, Pınar Süt has introduced 25 new products and 48 new product packages to the market in 2017.

Science and Technology Focused Projects

The Company carries out projects focused on science and technology as well as product and packaging under the roof of R&D Center. Activities are still on progresses on issues such as new product and package development, reformulation on products, cost optimization, product and process improvement.

Pınar Süt aims to produce a larger number of TÜBİTAK-TEYDEB projects with R&D Center, industry and university business association. Within this scope, the project titled "Production of Value-added Products from Whey" is supported by TÜBİTAK. The project follow-up process continues for 2 other TÜBİTAK projects in the project application.

The Bil-Tek Academy, which was established under the roof of the R&D Center, conducts trainings on topics such as Healthy Nutrition, Advanced Food Processing Technologies and Sensory Analysis Techniques.

FUTURE TARGETS

With the new R&D Center, Pınar Süt will continue to develop innovative products and packages in the sector in the near future.

With the power of innovation which provides competitive superiority to the brand, creating difference with high value-added innovative products in Turkey and export market is among the most important targets of Pınar Süt.

25
NEW PRODUCTS

48
NEW PRODUCT
PACKAGES



High Quality

Pınar Süt works with the highest quality standards in accordance with international standards at every point of production from raw material supply to final product in its facilities equipped with the latest technology.

Having acquired the principle of adding value to human life and health with the highest quality products, Pınar Süt carried out Company visits and audits to existing and potential suppliers in 2017. The Company has trained its employees on HACCP, food safety and hygiene issues in line with annual plans.

Under the project "Sütümüzün Geleceği Bilinçli Ellerde" (The Future of Milk is in Conscious Hands), awareness trainings were organized for 1,000 raw milk producers in areas of animal nutrition, quality and hygiene. Also supporting the work of the Specialized Subcommittee of the Ministry of Food, Agriculture and Livestock of the Republic of Turkey on a sectoral basis, the Company provided sustainability trainings to its employees in 2017 with its internal trainers as a demonstration of sustainability.

Spreading to New Countries with High Technology

Pınar Süt spreads to new markets in exports with its technological development which is ahead of the sector. Adopting the principle of working with the latest technology in every field such as production method, machinery, equipment, marketing, product and quality development, packaging, information systems, logistics and product usage, the Company successfully passed the inspections made by the Ministry in order to make cheese exports to South Korea in 2017.

Leading the Turkish dairy industry with the activities jointly performed with Ministry of Food, Agriculture and Livestock since 2000 within the scope of European Union export standards, Pınar Süt has become one of the first companies to receive approval for export of UHT milk to European Union. Pınar Süt continues to expand its EU approved product list with EU approval audits.

With its permission of export to Russia as granted by the Russian Federal Service for Veterinary and Phytosanitary Surveillance, Pınar Süt continues to export with different product varieties.

During the last season, the Company increased the Halal product range by implementing the Halal Documentation process within the scope of TSE SMIC.

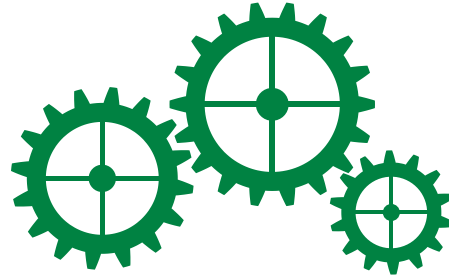


Productivity Activities

Pınar Süt attaches great importance to the development of its technological and operational processes.

Projects that are implemented with Operational Cost Improvement (OMI) models in productivity create significant improvements in Company costs. Productivity projects realized with the findings and ideas of employees are encouraged and rewarded by the management. For this purpose, the “Yaşar Group Sustainability Contest” was organized as a demonstration of the economic, environmental and social dimensions of the Group’s sustainability as well as the Operational Efficiency Competitions held among the Yaşar Group’s companies in 2017. Pınar Süt also contributed to this competition with various optimization and productivity projects.

As well as effective and efficient resource utilization, contributing to the continuity of internal corporate sustainability and corporate values, projects beneficial to society and activities towards meeting the needs of future generations are of great importance for Yaşar Group. In addition, the goal that employees hold onto economic, social and environmental sustainability is always maintained.



LINE PRODUCTIVITIES

Pınar Süt acts on the basis of high level productivity in all production facilities. Daily productivity is measured on the production lines in the plant and output is analyzed regularly.

Production line productivities are consolidated and recorded on a weekly, monthly and yearly basis. Line productivities are discussed at periodic meetings, from a continuous improvement perspective. As a result, necessary steps are taken in order to reach the determined goals in the entire production process. Line capacity utilization is evaluated in the most efficient way.

Cost optimization opportunities are created on production lines and are recorded with operational cost optimization system database. All technological and operational processes in the sector in the world and Turkey is closely monitored. Automation and advanced robot technology investments are made. Pınar Süt regularly provides training to all its employees to prevent wastage, increase operational efficiency, food safety, and widespread the awareness of work and health safety.



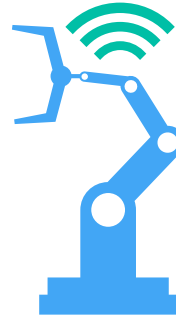
Investments

In 2017, Pinar Süt invested a total of TL 55.1 million to realize renovation and maintenance works in its facilities as well as investments that brought capacity increases.

Pinar Süt continued to follow up an investment program in line with changing sectoral conditions, further promoting the use and knowledge of technology in the direction of "innovation" and "change", which are integral parts of the corporate culture.

In 2017, the investment of Robot Palletization was completed with various renovation investments in UHT milk lines in Eskişehir Facility. In İzmir factory, butter line, renewal of central ventilation systems and modernization activities were carried out. Activities on the cream pasteurization line continued. Activities relating milk powder tower are still on progress.

COMPLIANCE WITH INDUSTRY 4.0



To ensure compliance with Industry 4.0, Pinar Süt prioritizes high-tech investments.

In 2018, the Company plans to continue investments in important points such as line operation and control automation systems and robot applications.

In the Industry 4.0 strategy, which is aimed at bringing together the industry with digitization,

automation and information technology, the Company aims to be able to do business with standard work with minimum work force by adapting the processes of technology-oriented processes. In this direction, robot investments will continue at the Robot Workshop, which will be established within the Pinar Süt R&D Center.

INFORMATION TECHNOLOGIES STUDIES

In 2017, Pinar Süt has also undergone significant changes in the information technology infrastructure. Issues such as business continuity, data security and cost improvement have also improved significantly.

55.1 million TL
2017 TOTAL
INVESTMENT AMOUNT

Strong Cooperation with Suppliers

Pınar Süt is continuing to support suppliers with the training programs it organizes while working in partnership with suppliers who are manufacturing conforming to the European Union Standards and adopting the Company's quality understanding.

Working with more than 18,000 raw milk producer, Pınar Süt chooses the businesses it collaborates carefully in line with "Pınar Quality Criteria". Thus, fulfilling its promise of tasty and healthy product to consumers, the Company develops long term cooperation Purchasing, R&D and Quality Assurance functions.

In order to have the quality milk raw material, Pınar Süt procures milk from 329 different points, of which 15 have "Disease Free Enterprise" and 7 have "AB Certified Enterprise" certificate, 133 of farms with a manufacturing at European Union standards and adopting quality approach of Pınar Süt.

Pınar Süt works with raw milk suppliers and approved suppliers for other raw materials, food additives and packaging are selected through the Purchasing Department. The companies that can supply materials according to the Pınar Quality Criteria are determined as suppliers and included in the system if the extensive trial work is positive.

Suppliers are regularly checked every year and are evaluated according to the criteria established under the Supplier Evaluation Procedure. As a result of the evaluation, it is aimed to continuously improve the procurement activities with corrective or preventive activities.

Pınar Süt supplies 76% of the total organic raw milk purchase from Çamlı Yem Besicilik, one of Yaşar Group companies.

Pınar Süt also conducts training programs for suppliers on important topics such as milk quality, herd health, animal nutrition and preventive medicine in order to inform the producers and raise awareness for producing healthy milks.





Pınar Süt Family

Adopting fair human resources policies, Pınar Süt actively carries out internationally accepted modern human resources policy implementations.

With the idea that employees have a critical role to become the most reliable and long-established companies in Turkey, the Company active implements internationally recognized modern human resources practices.

The fair human resources policy, which is shaped and implemented by Pınar Süt based on Yaşar Group's corporate culture, adopts the principle of "People First". The Company chooses its employees from individuals who are educated, experienced, have a high sense of belonging and ownership, open to all scientific developments, value information sharing and unity spirit, participatory management understanding and success oriented work.

In order to increase the loyalty and satisfaction of its employees, many activities were organized in 2017.

- Pınar Süt, which uses e-learning application with the brand "Yaşar Akademi", enriched its education in 2017. Pınar Süt employees were able to access the training without time and space limitations, giving a total of 22,722 hours and an average of 19.9 hours of training per person.
- An Employee Support Center was established in 2017 to help solve the problems that Pınar Süt employees face in their business and personal lives that negatively affect their performance and productivity, and to increase personal peace and happiness and corporate belonging and satisfaction.
- With an average number of employees of 1,135 in 2017, the Company has provided internship opportunities to 149 university and 45 high school students who was regarded as future employees.
- Support for the recruitment of women workers was maintained. The rate of female employees had an increase of 6.4% and reached to 19.4%.
- Believing that workplace peace has an important place on the path of society peace, Pınar Süt's Collective Bargaining Agreement with Tek-Gıda Labor Union covers the dates between January 1, 2016 and December 31, 2017.

22,722 hours
TOTAL TRAINING PERIOD

194
INTERNSHIP
OPPORTUNITY
FOR STUDENTS

Sustainable Environment Understanding

In 2017, Pınar Süt continued to invest in environmental and social sustainability. The Company, adopting approach of responsibility towards society and nature and stakeholders of Yaşar Group to which it is affiliated, uses the natural resources in the most efficient way with the measures it took in every field and improvements carried out with this purpose.

Pınar Süt was awarded the “CDP Turkey Climate Leaders Award” among the firms with high performance in combating climate change, and “CDP Turkey Water Leaders Award” among the firms with a leading position in water management, according to results of “2017 Climate Change Report” and “2017 Water Program Report” of Carbon Disclosure Project (CDP) Turkey.

Carbon and Water Footprint Calculation

Based on the year 2011, Yaşar Holding initiated an additional carbon footprint calculation led by Carbon Leader. In this context, in 2017, “Corporate Carbon Footprint” calculation and reporting studies were carried out also at Pınar Süt. Pınar Süt aims to reduce its carbon emissions by 15% by 2020.

To observe the consumption of natural resources and awareness towards environment, Yaşar Holding intends to perform water footprint calculating and reporting in certain pilot regions. Pınar Süt continues to work in the



Eskişehir Facility in order to ensure that water consumption is controlled during production processes.

Water and carbon footprint studies were carried out in Eskişehir Facility in 2017. İzmir Factory started to work to make the application of Productivity Improvement Project (VAP) in 2018. In this context, it is aimed to reduce carbon emission in the factory.

Step by step, Pınar Süt realizes its activities in parallel with the path it started by that Yaşar Holding signed United Nations Global Compact (UNGC) in 2007.

Yaşar Holding lists five areas of concern within the approach of sustainability: "Energy and Climate Change", "Water Consumption and Waste", "Material Consumption and Waste Materials", "Health and Safety" and "Social Contribution", and Pınar Süt also uses this framework to define its approach to sustainability and its priorities on the environment.

ENVIRONMENTAL POLICY APPROACH

Pınar Süt applies methods that do not harm environment and human health and reduce resource consumption. Fulling complying with all laws and legislations on power, occupational health and safety, the Company maintains its activities on raising awareness of customers and suppliers.

Continuing to work with waste minimization, recycling and reuse principles, Pınar Süt continuously improves its maintenance programs and aims to reduce energy use with new investments.

Passing the OHSAS 18001 audit conducted by TSE in 2017, Pınar Süt renewed its certificate as a result.

The activities to put an end to the use of ammonia gas in cooling systems of İzmir Factory production units were completed. 400 pine saplings were planted on the outside of Şanlıurfa Facility and new plantation activities were carried out for landscaping.

Including its suppliers in a registry system based on sustainability, Pınar Süt evaluates environmental management system of its suppliers and operation of these systems. The Company also supports them to perform necessary improvements.

IMPROVING POWER CONSUMPTION

Pınar Süt successfully passed the TS ISO 50001-2011 Energy Management System audit and renewed its certificate in 2017.

The Company creates environmental action plans and programs at the beginning of every year and makes improvements to decrease resource and energy consumption throughout the year.

Within the scope of energy productivity activities of the year 2017;

- In Eskişehir Facility, projecting studies for additional biological pond to wastewater treatment plant were maintained.
- In Eskişehir Facility, the use of economical motor and LED lighting transformations were carried out.
- Through the activities carried out in the İzmir Factory, the consumption of cationic polyelectrolyte in the treatment plant was reduced and the treatment costs were improved.
- Reduction of energy consumption was achieved by reducing steam consumption through steam survey study conducted at İzmir Factory.
- Sludge dewatering technology used in the purification plant in İzmir Factory was changed and the use of lime was terminated; saving on environment, energy and consumption costs.
- Optimization studies were carried out in İzmir Factory with energy analyzer in the lines with high energy load.

PACKAGING WASTE MANAGEMENT

Valuing environmental awareness, the Company continues to search for alternatives and solutions to identify possible situations that may negatively affect the environment due to production and utilization activities and reduce the most of them.

Having an Industrial Waste Management Plan, Pınar Süt is constantly realizing environmental improvements. Entries for all internal audits and examinations are also being made available to the online system, which is opened by the Republic of Turkey Ministry of Environment and Urbanization.

All wastes that are the result of production and use activities are disposed by sending the license holder companies, identified by the Republic of Turkey the Ministry of Environment and Urbanization. Evaluable wastes are sent back to the licensed firm for recycling to be regained to the economy. Organic and domestic wastes are also sent to the storage areas of the metropolitan municipalities.

With the Seveso Notification made to the Ministry of Environment and Urbanization in accordance with the "Regulation on Major Industrial Accidents", the Ministry assesses possible environmental and human effects of chemical substances in Pınar Süt and determines the establishment level.



Business Association with Çevko

Through the Environmental Protection and Packaging Waste Recovery and Recycling Trust (ÇEVKO), where Pınar Süt is a member, the Company organizes training for consumers and municipal authorities on the collection of wastes at source, recovery and recycling.

In addition to trainings related to raising environmental awareness of employees, the Company organizes trainings as part of the ISO 14001 Environmental Management System. In addition, annual Environmental Management System audits are carried out by the Turkish Standards Institute (TSE).

Having the "Environmental Permit Certificate" in İzmir, Eskişehir and Şanlıurfa Factories as granted by the Turkish

15%
2020 CARBON
EMISSION REDUCTION
TARGET

Ministry of Environment and Urbanization, Pınar Süt is subjected to regular inspections and controls by competent authorities within the scope of compliance with environmental legislation.

Developing "Greenhouse Gas Monitoring Plan" pursuant to the Communiqué on Monitoring and Reporting of Greenhouse Gas Emissions, the Company notified the Ministry of Environment and Urbanization and completed its software for the Greenhouse Gas Inventory Management System.

Pınar Süt continues its activities in line with its management systems policy as a Company that invests in its environment, uses natural resources in the most efficient way, and operates in compliance with the environmental legislation.

GAINS AT LOGISTIC

With the concept of green logistics, Pınar Süt aims sustainable work in this field. With the new route optimization model, the Company provides efficiency in intercity land transport operations throughout the country, creating a logistical model based on more and faster transport volume with less distance. The Company also acts in parallel with environmental sustainability vision.

Green Logistics Steps

Yaşar Group companies carried out approximately 40,000 intercity shipments throughout the country in 2017. Semis were used at 90% rate in durable shipments and 60% in frigorific shipments.

The average age of the fixed vehicle fleet, which shipped nationwide in 2017, was 4.9. The exhaust emissions of these vehicles are also ensured to comply with Euro 4 and Euro 5 norms. Intermediate shipments made through dealers and region warehouses were minimized and direct shipment was made to the main warehouse of about 70 national chain stores throughout the country.



Third party service providers from whom logistic services are taken within Lean Six Sigma philosophy are regularly analyzed. Sigma performance level of all logistics service provider companies in 2017 was 3.95.

The Company works to optimize the "Reverse Logistics" process, which means transportation of returning vehicle to production sites. Thus, the occupancy rate of the vehicles which were given the duty to return within the scope of reverse logistics operations in 2017 was increased to 97%.



Corporate Social Responsibility

Continuing to work on social responsibility under Pinar brand, Pinar Süt provides important support in the fields of education, sports, arts and environment and sustainability.

To construct a conscious and healthy society, in 2017, the Company also spent a lot of time in social responsibility activities in different fields.

PINAR CHILDREN'S THEATER

Since 1987, when Pinar Children's Theater was founded, it has aimed to contribute to the cultural and personal development of children by instilling the love of theater. The story of the Pinar Children's Theater, which reached to millions of children until today with 45 different plays, was rewritten in 2017 with the documentary entitled "Adı Küçük Kendi Büyük Bir Tiyatro" (A Grand Theatre Named Children) from the eyes of Coşkun Aral.

For the gala of the documentary, a night was organized where the people from the world of art and business came together with Yaşar Holding Vice Chairperson İdil Yiğitbaşı as the host. In this documentary, there are interviews where actors like



More than 3 million
NUMBER OF PINAR
CHILDREN'S THEATRE
WATCHERS

16,900
NUMBER OF CHILDREN
ATTENDED TO PINAR
PAINTING WORKSHOP

Vahide Perçin, Bülent İnal, Yıldırım Beyazıt, Necmi Yapıcı, Melek Şahin and Evrim Alasya relay the memories of Pinar Children's Theater.

Pinar Children's Theater, which has reached to millions of children for free across the Turkey since the day it was established and also has an effective school role in helping to gain many successful actors and actresses, exhibited the new play "Fairy Train" in 2017-2018 school year in various schools in İstanbul. At the Profilo Shopping Center, thousands of little theatre lovers experienced a visual feast. Pinar Children's Theater will continue to be shown in many cities in 2018 as part of the new play touring program.

INTERNATIONAL PINAR CHILDREN PAINTING CONTEST WITH KEEN PARTICIPATION

The Pinar Painting Contest has been running for 36 years with the aim of increasing primary school children's interest in the fine arts, particularly painting and drawing, and its main theme in 2017 was "My Dreams for Future". In addition to the seven regions of Turkey, TRNC, Germany, Qatar, the United Arab Emirates and 32,206 paintings from social media joined the competition. The award ceremony of the 36th Pinar Painting Contest took place at Art Week organized at Şile Doğa Holiday Village this year.

Children participated in the workshop under the supervision of Professor Painter Zahit Büyükişliyen had a week full of art. The talented children, many of whom had the chance to see İstanbul for the first time, left the Art Week with smiling faces.

PINAR CHILDREN PAINTING WORKSHOP IN ITS 2ND YEAR

Pinar Children Painting Workshop was organized in 2017 for the first time. Held between March 3 and April 16, Pinar Children Painting Workshops were organized in 6 cities which are Şanlıurfa, Adana, Ankara, İzmir, Samsun and İstanbul and 7 points. About 16,900 little painters were reached during Pinar Children Painting Workshop.



SUPPORT FOR SPORTS

Pinar is the main sponsor of the Karşıyaka Basketball Team and continues its support to sport and contributes to the development of basketball.

PINAR KSK

Pinar contributes to the protection of sports, education and cultural assets within the scope of sports communication studies with the concept of "social citizenship". With this corporate culture approach, Karşıyaka Sports Club continues to be supported under the leadership of Yaşar Holding's Founder and Honorary President Selçuk Yaşar. Since 1998, Pinar supports Pinar Karşıyaka Basketball Team and thousands of young athletes as the main sponsor.



Pinar supports Pinar Karşıyaka to unite people, youngsters and children of İzmir around sports to make İzmir a city of basketball, and its recent achievements include Turkish Cup Championship, Presidential Cup Championship and Turkish Basketball League Championship. Pinar Karşıyaka also successfully represented Turkey in EuroChallenge and Euroleague. Besides its support for Pinar Karşıyaka Basketball Team, Pinar provided about 25,000 children with the opportunity of sports in young teams and sports schools, together with Pinar Karşıyaka Basketball Branch.

PINAR INSTITUTE



Pinar Institute works non-stop since 2013 to contribute to healthy development of the society. The Institute develops projects aimed at raising awareness of the society and creating quality living awareness in food, health and nutrition. The Institute also conducts literature research in issues such as healthy nutrition and food. The Pinar Institute became a member of the UNDP's Business Call to Action (BCTA) program as part of the "The Future of Milk is in Conscious Hands" project in April 2017.



With BCTA membership, the project has been linked to the goals of "End Hunger", "Healthy Individuals", "Qualified Education", "Decent Work and Economic Growth"



and “Responsible Consumption and Production” targets set by United Nations Sustainable Development Goals. In this direction, we reached 934 producers in 19 different trainings in İzmir, Eskişehir, Aydın, Muğla, Denizli, Uşak, Burdur and Adıyaman in 2017. Participation of female producers were the focus within the project. In addition to the training activities, activities have been initiated in order to carry out quality and productivity-based individual studies with the producers.

To gain nutrition awareness in early ages and to raise healthy individuals with “Let’s Move with Joy and Diet Healthy” conducted by Pınar Institute, around 3,000 children in 30 independent kindergarten in İzmir were educated during 2016-2017 education year. At the same time, considering child-oriented family structure, families were reached and a story book was distributed to the children in kindergartens that apply the project. This project was in the finale in Social Impact category in “Sustainable Business Awards” 2017 organized by “Sustainability Academy”. Also, Fortune Türkiye Magazine was also in special attachment of People Shaping the Future Fortune-Sustainability Academy. The data and results obtained from the project were published and presented on national and international academic platforms. Licensed toys and educational materials designed to improve the project’s fiction have been completed in 2017 with the collaboration of the Industrial Design Department of the Yaşar University Faculty of Art and Design. As a result of a total of 17 months of work, a design showing different uses of nutrient pyramid from felt cloth was developed.



PınarEnstitusu PınarEnstitusu PınarEnstitusu

PRIVATE PUBLICATIONS

Yaşam Pınarım Magazine

Pınar has established an important link with its consumers, business partners, academic and bureaucratic parties with the Yaşam Pınarım Magazine which has been released since 2004. The quarterly magazine is distributed free-of-charge and contain useful information especially for parents. Yaşam Pınarım has been sent to more than 10,000 people each month as e-bulletin since 2013.

Pınar Newspaper

Pınar Newspaper, an important reference source for farmers who are engaged in dairy and meat farming, features topics such as stockbreeding, dairy technology, and animal health. The quarterly newspaper is issued for 4,000 producers who supply milk to Pınar.

Life with Pınar

Providing useful information to parents through parent-child communication via Twitter, Instagram and Facebook accounts, Pınar also enlightens young people on topics such as sports and environmental awareness. Pınar, which also includes social responsibility and sustainability issues in its accounts, aims to bring different target groups together.

pinarlayasam pinarkurumsal pinarlayasam

SPONSORSHIPS

Pınar participates and supports many congresses in fields such as R&D, sustainability and marketing. The Company also sponsors activities that support the development of cooking, gastronomy and culinary culture in Turkey. In line with this, Pınar Süt sponsored 3 congress/submit/forum, 1 symposium and 28 activities in 2017.

AWARDS AND CERTIFICATES

Holder of CDP Turkey`s Climate Leaders Award

Pınar Süt had A- score in Climate and Water categories of CDP Turkey and classified within “leadership”. The Company was deemed worthy of this award for the second time after last year.



Two Awards from the Stevie Awards to Pınar

Pınar got “Bronze Stevie” award at Stevie Awards with 2 social responsibility project “Painting Contest” and “Pınar Süt FSC press kit”.

Among Turkey`s Super Brands

As a result of the studies conducted by Superbrands jury members and Nielsen, Pınar has become one of the super brands of Turkey.

Pınar Protein Süt, “The Most Innovative Product” of Turkey

In the study “The Most Innovative Products of 2017” realized with the cooperation of Wizsight Araştırma with poltio.com for Marketing Türkiye, Pınar Protein Süt was chosen as “the Most Innovative Product” in milk and dairy products category.

Pınar Labneh, “Product of the Year in Gulf” for the 3rd time

Pınar, the leading brand in the Gulf and Middle East countries, received the “Product of the Year in Gulf” award for the third time in 2017 in the world’s most prestigious international food and beverage fair at the Gulfood Fair in the fast food “Labneh” category.

Leader at “Corporate Social Responsibility”

In Corporate Social Responsibility Study conducted by Capital Maganize and GFK Research Company, Yaşar Group Honorary President Selçuk Yaşar was ranked 5th among “15 Most Responsible Leader”. Pınar Children’s Theatre was among the Top 10 CSR Projects in the Business World. Yaşar Holding - Pınar was ranked 12th and 13th respectively on the eyes of business world and public in terms of corporate social responsibility.

“Turkey’s Best Managed Food Production and Supply Company” Award

At QM Awards 2017 Awards which was held 8th time this year, Pınar was chosen as “the Best Governed Food, Production and Supply Company of Turkey” as a result of QM voting where 60 thousand tourism professional in 45 categories in 10 branches participated.

Two “Gold Medals” to Pınar Süt

Pınar Süt was awarded with “Gold Medal” by İzmir Chamber of Commerce in tax payment and foreign exchange providing categories according to pure commercial profit declaration in 2017.

Milestones

Pinar Süt, one of the leader of packaged milk and dairy products sector, has brought many firsts and successes for 44 years.

Growing with Firsts

- 1973** • Pinar Süt is established.
- 1975** • Turkey's first UHT milk and packaged dairy products are introduced to consumers
- 1976** • The Company begins producing Turkey's first processed cheese and chocolate milk.
- 1978** • Pinar kashkaval cheese slices and cream cheese are introduced to consumers.
- 1980** • Pinar Cheddar Cheese is produced.
- 1982** • The Company begins exporting milk, cheese, butter, yoghurt and strawberry milk to Central Europe, the Turkish Republic of Northern Cyprus and the Middle East.
- 1983** • Çamlı Yem is founded to provide high quality feed for the livestock of Pinar Süt's raw milk suppliers.
 - Pinar Mayonnaise, Turkey's first domestically-manufactured mayonnaise goes on sale.
 - Pinar Original, Turkey's first pasteurized cheese, and the powdered product, Chantilly Cream, go into production.
 - Cheese Triangles goes into production.
- 1984** • Pinar Süt begins exporting Pinar Labneh cheese to Kuwait.
- 1985** • Pinar Labneh is introduced to the Turkish market.
- 1990** • Pinar begins producing fruit juices.
- 1991** • Turkey's first pasteurized milk goes on sale.
- 1992** • Pinar Süt is awarded with the TSE's Golden Packaging award for the introduction of the country's first foil-sealed yoghurt cap.
- 1993** • Pinar Süt becomes the first food industry Company in Turkey to be awarded TS ISO 9002 Quality Management System certification.
- 1994** • Pinar Süt receives another TSE Golden Packaging award for its 10-liter bag-in-box pack.
 - The Company becomes the first dairy products Company in its sector to receive TS ISO 9001.
- 1995** • Long-life fruit yoghurts and ready-to-serve desserts go into production.
 - Light, Extra Light Yoghurt and Light Triangle Cheese are introduced to market.
- 1997** • Pinar Süt opens its Eskişehir Plant.
- 1998** • 100% Pure Pinar fruit juices go on sale.
- 1999** • Pinar Süt introduces the Denge branded milks (lactose-free, high-calcium, enriched with A, D, E vitamins).
- 2001** • UHT milk in aseptic bottles goes into production.
- 2004** • Pinar introduces its Kafela and Çikola milk product line.
 - TS 13001 HACCP Food Safety Management System Certification is awarded.
- 2005** • Pinar Organic Milk, Turkey's first organic milk, is introduced to the market.
- 2008** • Lean Six Sigma starts at the Company as a first in Turkey's food industry.
 - Pinar Milk for Kids is introduced to the market.
- 2010** • Honey Flavored Pinar Kid's Milk, and Pinar Breakfast White Cheese products go on sale.
- 2011** • Consumers are introduced to Pinar's Gourmet series including cheddar cheese spread, thyme & olive-cheese spread, triangular cheese and Pinar organic yoghurt.
- 2012** • Clotted Cream, Turkey's first creamy tasting clotted-cream with 50% less calories goes on sale.
 - Pinar Professional is established to cater for the away-from-home channel.
- 2013** • Pinar Süt is awarded with TS 18001 Occupational Health and Safety Management System and TS EN ISO 50001 Energy Management System certification.
 - Pinar Süt becomes licensed to export milk and dairy products to EU Countries.
 - Pinar Institute is established to raise awareness of society about food, health and nutrition.
- 2014** • Enjoyment cheese and organic butter are launched
- 2015** • Pinar Süt Şanlıurfa Plant goes into operation.
 - Strained White Cheese is launched.
- 2016** • Pinar Go Cheese series and Pinar Aç-Bitir Sliced Cheese are presented to consumers' taste.
- 2017** • Pinar Protein product group is released to market.

CORPORATE GOVERNANCE PRACTICES AND FINANCIAL INFORMATION

BOARD OF DIRECTORS

İdil Yiğitbaşı - Chairperson

Graduated from Boğaziçi University Business Administration Department in 1986 and completing MBA in Indiana University, İdil Yiğitbaşı started her professional life in Yaşar Holding as President Assistant. Yiğitbaşı served as top-level manager and board member for a number of group companies, especially in the food industry, in the areas of strategy and marketing and acted as Vice Chairperson of Yaşar Holding Board of Directors from 2003 to 2009. Yiğitbaşı served as the Chairperson of Yaşar Holding Board of Directors from April 2009 to April 7, 2015 and was appointed on April 2015 as the Vice Chairperson of Yaşar Holding, Chairperson of Pinar Süt and Viking Kağıt companies, Board Member at Yaşar Group companies. İdil Yiğitbaşı is Board Member of İzmir Culture, Arts and Education Foundation (İKSEV), a Board Member of Turkish Industry and Business Association (TÜSİAD) and Member of Union of Turkish Dairy, Meat and Food Industrialists and Manufacturers (SETBİR), Member of Consultancy Board of Aegean Industrialists and Businessman Association (ESİAD) and of Aegean Young Businessmen Association (EGİAD) member of İzmir Economic Development Coordination Committee (İEKK) and Corporate Governance Association of Turkey (TKYD).

Emine Feyhan Yaşar - Vice Chairperson

Feyhan Yaşar received a bachelor's degree from Boğaziçi University Administrative Sciences Faculty in 1978 and a post-graduate degree in Department of Economics from Dokuz Eylül University. Feyhan Yaşar started her career in 1978 at DYO as a Human Resources Expert and served as Personnel Affairs Coordinator, Tourism Coordinator and Executive Committee Member, and acted as Vice Chairperson and Board Member. Feyhan Yaşar served as Vice Chairperson of Yaşar Holding Board of Directors (1997 - 2003) and Chairperson of Yaşar Holding Board of Directors (2004 - 2009) and still serves as Vice Chairperson of Yaşar Holding Board of Directors. Feyhan Yaşar holds office as Chairperson of the Board of Directors of Pinar Su, Pinar Et, Altın Yunus, HDF FZCO and as Board Member at other Yaşar Group companies, and is also Board Member of Yaşar Group companies. Feyhan Yaşar, acting as Chairperson of Beverages Industry Commission of Union of Chambers and Commodity Exchanges of Turkey, also serves as Vice Chairperson of Yaşar Education and Culture Foundation, Board Member of Corporate Governance Association of Turkey (TKYD), and member of the Board of Trustees at Yaşar University, Turkish Education Foundation (TEV), Health and Education Foundation (SEV), and Boğaziçi University Foundation (BÜVAK). She is a member of Turkish Industry and Business Association (TÜSİAD), Union of Turkish Dairy, Meat and Food Industrialists and Manufacturers (SETBİR) and Aegean Industrialists and Businessmen Association (ESİAD). Feyhan Yaşar is consular agent of Luxembourg in İzmir.

Mustafa Selim Yaşar - Member

Graduated from Paris-Académie Arqueille Sorbonne in 1976, the New York University in 1980 and from the Pace University Business Administration-Finance Department in New York in 1981, Mustafa Selim Yaşar started his career at Yaşar Dış Ticaret A.Ş. in the same year. After working in Yaşar Dış Ticaret A.Ş. in various positions for 8 years, he served as CFO in Yaşar Holding A.Ş. between 1988 and 1996; moreover, he served as President of Coatings-Chemistry and Beverage Group in the same years. Mustafa Selim Yaşar held the positions of Board Chairperson and CEO of Otak-Desa A.Ş. and Desa Enerji A.Ş. from 1997 to 2000. Acting as Chairperson of Board of Directors of İzmir Teknopark A.Ş., BDS İş Geliştirme Ltd. Şti. and Yüzey İnşaat Taahhüt A.Ş. since 2000, Mustafa Selim Yaşar served as Board Member, Board Chairperson and President of Assembly of the Aegean Region Chamber of Industry from 1991 until 1997 and served as Vice Chairperson of Aegean Industrialists and Businessmen Association, of which he is a founding member, for 4 years. Having functioned as Deputy Chairperson of İzmir Metropolitan Municipality Council and as a member of Karşıyaka Municipal Council from 2004 to 2009, Mustafa Selim Yaşar currently serves actively at a number of non-governmental organizations. Acting as Chairperson of Board of Directors of Desa Enerji A.Ş., Dyo Boya A.Ş. and Yaşar Birleşik Pazarlama A.Ş. since March 2014, Mustafa Selim Yaşar also holds office as Chairperson of Board of Directors of Yaşar Dış Ticaret A.Ş. and Yaşar Holding A.Ş. since March 2015.

Ali Yiğit Tavas - Independent Member

Ali Yiğit Tavas graduated from Ege University Faculty of Agriculture Department of Agriculture Technology as Certified Agriculture Engineer in 1979 and started his career as Production Engineer in Pinar Süt in the same year. He served as Technical Promotion Expert and Chief of R&D Department and was transferred to Pinar Et in 1984 and worked as Production Manager, R&D Manager, Assistant Technical General Manager, General Manager and Food Group Production Director Assistant. Tavas served as Assistant Director in Yaşar Food Group Meat and Meat Products Assistant Director from 2001 to 2003 and then retired from the group. Serving as Production Coordinator in Abaloğlu Holding between 2004 and 2006, Ali Yiğit Tavas still acts in the Board of Directors of other companies in Yaşar Group.

BOARD OF DIRECTORS

Yılmaz Attila - Independent Member

Yılmaz Attila, born in 1951, graduated from Ege University Faculty of Agriculture Department of Agricultural Equipment and Machinery in 1976. Attila served as Research Assistant at Çukurova and Ege Universities between 1977 and 1981 and worked in Göktepe Plastik A.Ş. and Beşikçioğlu Ltd. between 1981 and 1985 as project engineer. Yılmaz Attila joined Pınar Entegre Et ve Yem Sanayi A.Ş. in 1985 as Manager of Feed Factory and worked as Deputy General Manager between 1988 and 1990. Between 1990 and 1994, Attila worked as General Manager in Cevher Jant ve Motor Ticaret A.Ş. and Abaloğlu Yem Sanayi A.Ş. respectively. Between 1994 and 2010, Attila worked in Kipa Kitle Pazarlama Ticaret ve Gıda Sanayi A.Ş. and Tesco Kipa Kitle Pazarlama Ticaret ve Gıda Sanayi A.Ş. in various positions including General Manager and Member of Board of Directors and Executives.

Cengiz Erol - Member

Cengiz Erol had his bachelor's degree in Business Administration from Ege University in 1974, his master's degree in finance and accounting from the State University of New York (SUNY) in 1979 and his doctorate degree in International Trade and Finance from State of New York University in 1983. Erol worked as an Assistant Professor of Finance at Çukurova University from 1983 to 1985, as Associate Professor of Finance at Yarmouk University in Jordan from 1985 to 1990 and in the Department of Business Administration at the Middle East Technical University (METU) from 1990 to 1993, and as Professor of Finance in Middle East Technical University from 1993 to 2010. He was an Advisor to the CEO of Ereğli Demir Çelik Fabrikaları A.Ş. between 1991 and 1994, Board Member at Ankara Sigorta and Chairperson at Ankara Emeklilik Sigorta between 2000 and 2003, advisor to the Board of Directors at İnterfarma Tıbb. Mal. A.Ş. from 2002 to 2004, Board Member at İnterfarma Tıbb. Mal. A.Ş. from 2004 to 2008, Head of the Department of Business Administration at METU from 2008 to 2010 and worked as Assistant to President of METU and Member of Executive Board of Student Assessment, Selection and Placement Center (ÖSYM). After holding the office as the Head of the Department of International Trade and Finance at İzmir University of Economics from 2011 to 2013, Erol served as faculty member in the same department and the Manager of the Institute of Social Sciences from 2010 to 2015. Erol serves as Board Member for a number of Yaşar Group companies since March 2014.

Yılmaz Gökoğlu - Member

Yılmaz Gökoğlu has a bachelor's degree from Ankara University Faculty of Political Sciences Economics-Finance Department in 1977, served as an Account Expert at the Ministry of Finance from 1978 to 1982 and joined Yaşar Group in 1983. Working in various senior management positions in the group especially in financial operations and inspection fields, Yılmaz Gökoğlu was elected as a member of Yaşar Holding Board of Directors in April 2007. Acting as General Secretary of Board of Directors in Yaşar Holding, Gökoğlu also serves as Member of Board of Directors in companies included in the Group, and he also has Independent Auditor and Certified Public Accountant licenses.

Members of the Board of Directors of the Company, which is affiliated to the Yaşar Group, may hold seats on the boards of directors of other Group companies, and there may be various transactions by and between these companies that may be considered under the scope of Article 395/1 of the Turkish Commercial Code. However, the parties to such transactions are Group companies only, and necessary permissions are obtained at the general assembly meeting of each relevant Company.

RISK MANAGEMENT, INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT

RISK MANAGEMENT

The scope, working principles and procedures applicable to the Corporate Risk Management activities carried out at Yaşar Group companies were formulated in accordance with the Regulations and the applicable terminology, tasks and responsibilities, processes, reports and safety procedures were created.

The "Corporate Risk Management" in the Company is being applied as a systematic process where risks are defined, analyzed, controlled and monitored. This method ensures minimizing the costs incurred in relation to contingencies that result negatively, as well as their impact upon the value of Group companies' assets.

Risk Management Policy

Adhering to risk management strategies to minimize the probability and impact of risks that may affect not just the shareholders but all the stakeholders of Group companies, Yaşar Holding Board of Directors also controls and follows up the required actions.

Works of Early Detection of Risk Committee

The Early Detection of Risk Committee carries out its activities in order to detect risks earlier and create an effective risk management system.

It creates risk inventory prioritized in line with risk management policies and procedures, and the works to carry out corporate risk management by the committee in order to follow up the results upon determining appropriate risk strategies and taking required actions, and required guidance is made.

Future Risks Regarding Sales, Productivity, Income Generation Capacity, Profitability, Debt/Equity Ratio and Similar Matters

Under the risk management policy and procedures adopted by Yaşar Holding companies, works are underway to create the risk inventory for all Company activities and take necessary actions.

Along the line;

- The Group companies' risk exposure is classified under the headings of strategic, operational, financial, external and compliance risks, and analysed according to their impact and probability,

- Existing controls for significant risks are reviewed with respect to their design and implementation, and the most appropriate strategies and actions are identified,
- Results of the actions are followed up,
- Findings and likely developments are reported to appropriate units for assessment.

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ACTIVITIES

Implementations aimed at eliminating events that will adversely affect the achievement of the Group companies' goals, or at mitigating their impact and probability are reviewed under "controls". An internal control system composed of the definitions of standards for business processes, policies and procedures, job descriptions, and authorization structures is implemented. The management sets up control systems, including those that prevent/identify and improve, for efficient and productive conduct of the Group companies' businesses.

The internal control systems established at the Group companies are intended to ensure the efficiency and effectiveness of operations, reliability of the financial reporting system, compliance with legal regulations, and provide assurance in these aspects. In this respect, all control systems are established by the management as preventive/ detective and curative for the Company to carry out its operations effectively and productively.

The oversight of the Group companies' accounting systems, of the public disclosure of financial information, of independent auditing and of the operation and effectiveness of the internal control systems are basically fulfilled by the Audit Committee set up by Company's Board of Directors. While carrying out the said function, the Audit Committee benefits from findings of corporations conducting confirmation under Group Audit Directorate, Independent Audit and Certified Public Accountant.

Under the internal auditing activities; effectiveness of Company's current risk management system, sufficiency, effectiveness and productivity of internal audit system are assessed and recommendations are made to improve them. Also, determination and application of required actions for detections and suggestions in this respect are closely monitored.

LEGAL DISCLOSURES

Information on the Extraordinary General Assembly Meetings within the Year, If Applicable

Resolutions taken in the Ordinary General Assembly meeting held on 30 March 2017 were applied. No Extraordinary General Assembly Meeting was held in 2017. Further information on the General Assembly meetings can be found in section 2.3. General Assembly Meetings of the Report for Adoption to Corporate Governance Principles.

Affiliated Companies Report

The conclusion part of the report that is prepared by the Company's Board of Directors, on relations with the controlling Company and affiliated companies pursuant to Article 199 of the Turkish Commercial Code, is quoted below.

Pursuant to Article 199 of the Turkish Commercial Code no. 6102 that went into force on 1 July 2012, within the first three months of the current operating year the Company's Board of Directors is obliged to issue a report on the Company's relations with the controlling Company and the companies affiliated to the controlling Company during the past operating year, and to incorporate the conclusion part of the said report in its annual report.

Necessary disclosures on the transactions our Company carried out with the associated parties are covered in the present report. In this report prepared by the Company's Board of Directors concluded that in all transactions the Company carried out during 2017 with its controlling Company or with its affiliates, an appropriate counter-performance was provided in each transaction according to the conditions and state known to us at the time the transaction and/or the action was realized or taken or avoided to be taken; that there were no actions taken or avoided which might potentially cause loss to the Company, and that there are no transactions or actions that would require equalization within this scope.

Donations and Grants

The Company may donate to foundations and such other persons and/or institutions established for various purposes in line with limitations set forth by Capital Markets Board and other relevant regulations.

The Company made total TL 276,850 grant to various institutions and corporations in 2017.

Disclosure on Lawsuits Filed Against the Company with a Potential Impact on the Company's Financial Standing and Activities and Possible Results

Disclosure on the matter is stated in footnote 14 of our financial statements issued for the period of 01.01.2017 - 31.12.2017.

Disclosure of Administrative or Judicial Sanctions Against the Company or the Members of the Governing Body on Account of Practices Violating the Provisions of Legislation

There are no administrative or judicial sanctions imposed against the Company or the members of the governing body on account of any practice violating the provisions of legislation.

Amendments of Articles of Association Made During the Year

The amendment of article 4 titled "Head Office and Branches of the Company" and article 6 titled "Registered Capital" of Company's articles of association was approved with the letter of Turkish Republic Prime Ministry Capital Markets Board dated 13.03.2017 and no: 29833736-100-E.3342, and preliminary permission letter of Turkish Republic Ministry of Customs and Trade, Internal Trade General Directorate dated 15.03.2017 and no: 50035491-431.02-E-00023387601, and it was accepted, certified unanimously upon submitting for approval of shareholders at the Ordinary General Assembly meeting for 2016 executed on 30.03.2017.

Financial Rights Provided to the Members of the Board of Directors and Senior Executives

Financial rights provided to Chairperson, Board Members and Senior Executives are determined under wages policy stated in our web site. In the twelve months period that ended on 31.12.2017, remuneration and similar payments made to the members of the Board of Directors and senior executives amounted to TL 7,283,278.

Disclosures Concerning Special Audit and Public Audit Conducted During the Fiscal Year

Ordinary audits were conducted by various public institutions during 2017 and there is no significant notice given to us officially.

Disclosure About the Company's Shareholders' Equity

It is seen that existence of issued capital in amount of 44,951,051TL was protected greatly with an equity level of TL 690,165,850 as of 31 December 2017.

AGENDA

AGENDA OF ORDINARY GENERAL ASSEMBLY FOR THE YEAR 2017 OF PINAR SÜT MAMULLERİ SANAYİİ A.Ş. HELD ON 30 MARCH 2018

1. Opening and Election of Meeting's Chairman,
2. Authorizing the Chairman to sign the minutes of General Assembly Meeting,
3. Reading, negotiations and approving the Annual Report for 2017 prepared by the Company's Board of Directors
4. Reading and negotiating the Independent Audit Report for 2017 fiscal year,
5. Reading, discussion and approval of 2017 Financial Statements,
6. Acquitting the Company's directors of their fiduciary responsibilities for 2017 operations,
7. Laying down the Independent Audit Firm designated by the Board of Directors for the approval of the General Assembly pursuant to the Turkish Commercial Code and the Capital Markets Board requirements,
8. Determining the number of Board directors and their terms of office; making elections in accordance with the number of Board directors so determined; designating independent Board members,
9. Determining the rights provided to the Board directors such as compensation and attendance fees, bonuses and premiums pursuant to Article 408 of the Turkish Commercial Code,
10. Informing shareholders, pursuant to Article 12 of the Corporate Governance Communiqué no. II-17.1 issued by the Capital Markets Board, about guarantees, pledges, mortgages and sureties that have been granted by the Company in favor of third parties and about any income and benefits that may have been derived,
11. Informing shareholders about any donations that were made during the year and laying down the donation limit set under the Capital Market legislation for the approval of the General Assembly,
12. Deliberating and voting on matters pertaining to the year's profits,
13. Authorizing the Company directors to engage in the transactions as per Articles 395 and 396 of the Turkish Commercial Code,
14. Wishes and opinions.

STATEMENT OF INDEPENDENCE

28/03/2017

As a candidate for independent member for the Board of Director of PINAR SÜT MAMULLERİ SANAYİİ A.Ş. ("The Company"), I declare that;

- I or my spouse or my up-to-second-degree relatives have not been employed in managing positions involving significant tasks and responsibilities in the last five years by the Company, other companies which are managed or significantly influenced by the Company or shareholders who manage or significantly influence the Company and legal persons managed or significantly influenced by such shareholders and I or my spouse or my up-to-second-degree relatives do not individually or collectively own more than 5% of its capital or voting rights or preferred shares and have not been engaged in major commercial activity with them,
- I have not been a shareholder (5% or more), manager with significant tasks and responsibilities or board member of companies which have provided significant services or products for or purchased them from the Company within the scope of agreements in the last five years including auditing (including tax audit, legal audit or internal audit), rating or consultancy services,
- I have the professional education, knowledge and skills required to fulfill the requirements of the tasks which will be assigned to me as an independent board member,
- Except for academicians and provided that it is in accordance with the related legislation, I am not working full-time at public institutions,
- I am resident in Turkey as per the Income Tax Law 193 dated 12/31/1960,
- I possess solid ethical standards, professional reputation and experience which will allow me to make contributions to the Company, maintain its objectivity regarding any conflicts between the Company and its shareholders and make unbiased decisions considering the interests of the beneficiaries,
- I am capable of allocating time for the Company which will allow getting sufficiently engaged in Company business and fulfill the requirements of assigned tasks,
- I have not been a board member for more than six years in the last ten years,
- I do not hold the position of independent board member at more than three companies managed by the Company or the shareholders managing the Company or more than five stock-exchange-quoted companies,
- I am not registered and announced as a board member on behalf of the selected legal person, and therefore I will serve at the board of directors of the Company as an independent member.

Best Regards,

Ali Yiğit TAVAS



STATEMENT OF INDEPENDENCE

28/03/2017

As a candidate for independent member for the Board of Director of PINAR SÜT MAMULLERİ SANAYİİ A.Ş. ("The Company"), I declare that;

- I or my spouse or my up-to-second-degree relatives have not been employed in managing positions involving significant tasks and responsibilities in the last five years by the Company, other companies which are managed or significantly influenced by the Company or shareholders who manage or significantly influence the Company and legal persons managed or significantly influenced by such shareholders and I or my spouse or my up-to-second-degree relatives do not individually or collectively own more than 5% of its capital or voting rights or preferred shares and have not been engaged in major commercial activity with them,
- I have not been a shareholder (5% or more), manager with significant tasks and responsibilities or board member of companies which have provided significant services or products for or purchased them from the Company within the scope of agreements in the last five years including auditing (including tax audit, legal audit or internal audit), rating or consultancy services,
- I have the professional education, knowledge and skills required to fulfill the requirements of the tasks which will be assigned to me as an independent board member,
- Except for academicians and provided that it is in accordance with the related legislation, I am not working full-time at public institutions,
- I am resident in Turkey as per the Income Tax Law 193 dated 12/31/1960,
- I possess solid ethical standards, professional reputation and experience which will allow me to make contributions to the Company, maintain its objectivity regarding any conflicts between the Company and its shareholders and make unbiased decisions considering the interests of the beneficiaries,
- I am capable of allocating time for the Company which will allow getting sufficiently engaged in Company business and fulfill the requirements of assigned tasks,
- I have not been a board member for more than six years in the last ten years,
- I do not hold the position of independent board member at more than three companies managed by the Company or the shareholders managing the Company or more than five stock-exchange-quoted companies,
- I am not registered and announced as a board member on behalf of the selected legal person, and therefore I will serve at the board of directors of the Company as an independent member.

Best Regards,

Yılmaz ATILÄ



PROFIT DISTRIBUTION PROPOSAL

At the Board meeting of our Company dated March 5, 2018;

When the net distributable profit is calculated for 2017; considering Turkish Commercial Code, Capital Markets Regulation, Corporate Tax, Income Tax and other legal regulation provisions, articles of our articles of association regarding profit distribution and our Profit Distribution Policy, according to the financial statements of our Company audited independently and prepared based on Turkish Accounting Standards and in accordance with Communiqué II-14.1 of Capital Markets Board, net distributable period profit is calculated as TL 47,082,544 and no General Legal Reserves were kept as legal limit is reached being TL 47,082,544 which is the net period profit of 2017.

Out of the distributable profit calculated, it is resolved to submit the following matters for the approval of Ordinary General Assembly;

to distribute First Dividend to Shareholders in amount of TL 9,471,879 equal to 20% of distributable profit, a considering donations in amount of TL 276,850 made within the year parallel to CMB regulations; to reserve Board Allocation not exceeding 5% stipulated in the articles of incorporation over the remaining amount and to distribute Second Dividend to Shareholders in amount of TL 7,609,521 equal to 32.30% of our nominal issued capital (TL 44,951,051) together with First Dividend amount over the remaining amount (Total net amount of First and Second Dividend is TL 14,519,190); to keep Legal Reserves in amount of TL 1,671,385; and to keep the entire remaining amount as Extraordinary Reserves.

Cash dividend shall be paid in net amount of TL 0.3230 for each share traded in exchange market with a nominal value of TL 1.

Please kindly be informed.

Sincerely,

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

PINAR SÜT MAMULLERİ SANAYİİ A.Ş. PROFIT DISTRIBUTION TABLE FOR 2017 (TL)

1.	Paid up/Issued Capital	44,951,051	
2.	General Legal Reserves (According to Legal Records)	58,653,504	
Information of the privileges if there is any privilege on profit distribution as per articles of incorporation			
		According to CMB	According to Legal Records
3.	Period Profit	40,945,976	40,518,626
4.	Taxes (-)	6,136,568	[768,232]
5.	Net Period Profit (=)	47,082,544	39,750,394
6.	Accumulated Losses (-)	0	0
7.	General Legal Reserves (-)	0	0
8.	NET DISTRIBUTABLE PERIOD PROFIT (=)	47,082,544	39,750,394
9.	Donations Made within the Year (+)	276,850	
10.	Net Distributable Period Profit after Adding Donations	47,359,394	
11.	First Dividend to Shareholders		
	- Cash	9,471,879	
	- Total	9,471,879	
12.	Dividend Distributed to Privileged Shareholders		
	- To Board Members	1,880,000	
14.	Dividend Distributed to Dividend Shareholders		
15.	Second Dividend to Shareholders	7,609,521	
16.	General Legal Reserves	1,671,385	
17.	Statutory Reserves		
18.	Special Reserves		
19.	EXTRAORDINARY RESERVES	26,449,759	19,117,609

TABLE OF DIVIDEND RATES

	GROUP	TOTAL DISTRIBUTED DIVIDEND		TOTAL DISTRIBUTED DIVIDEND/ NET DISTRIBUTABLE PERIOD PROFIT	DIVIDEND EQUAL TO 1 TL NOMINAL VALUE SHARE	
		CASH (TL)	BONUS (TL)	RATE (%)	AMOUNT (TL)	RATE (%)
NET	There is no privileged share group for profits.	14,519,190		30.84%	0.3230	32.30
	TOTAL	14,519,190		30.84%	0.3230	32.30

PINAR SÜT MAMULLERİ SANAYİİ A.Ş. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

a) During the operating period ended 31 December 2017, PINAR SÜT MAMULLERİ SANAYİİ A.Ş. ("the Company") achieved compliance with the entirety of the mandatory articles of the Corporate Governance Principles appended to the "Communiqué No: II.17.1 on Corporate Governance ("the Communiqué") issued by the Capital Markets Board of Turkey (CMB).

b) Our Company spends maximum effort to achieve full compliance also with the non-compulsory Corporate Governance Principles. Justifications for currently non-implemented non-compulsory principles are presented herein below, and it is considered that the said matters do not lead to any major conflicts of interest under the current circumstances.

It maintains its position for the principles numbered 1.3.11 as their implementation is non-compulsory.

While the Company intends to achieve full alignment with the principles numbered 2.1.2, the hardships in practice create obstacles against full compliance

Alignment with the principles numbered 1.5.2 and 4.6.5 cannot be realized due to the fact that these principles do not fully coincide with the market and the Company's existing structure.

Under the corporate governance compliance works of our Company in 2017, assessment of Board of Directors regarding committees were Included in annual report of 2016, and the coverage of director's responsibility insurance was expanded to exceed 25% of the Company capital.

Our Company will continue to monitor the changes in legislation and implementations regarding compliance with the principles and to carry out the necessary work also in the future.

PART II - SHAREHOLDERS

2.1. Investor Relations Department

The investor relations department handling communication with the investors has been set up at the Company pursuant to Article 11 of the Communiqué. Investor Relations Department reports to the Company's General Manager, Gürkan Hekimoğlu.

Contact information for Investor Relations Department is presented below:

Head of the Investor Relations Department: Gökhan Kavur (holds Capital Markets Board Advanced Level License)

Investor Relations Department Officer: Aslı Kahyaoğlu

Phone: 0 232 495 00 00

Fax: 0 232 489 17 89

E-posta: investorrelations@pinarsut.com.tr

The Investor Relations Department is mainly charged with the following:

- Ensure that records of correspondence by and between the investors and the Company, and of other information and documents are maintained in a reliable, secure and up-to-date manner,
- Respond to shareholders' written requests for information about the Company,
- Prepare the documents related to the general assembly meetings, which need to be made available for the information of, and review by, shareholders, and take necessary steps to make sure that the general assembly meetings are carried out in accordance with the applicable legislation, the Company's articles of incorporation and other bylaws,
- Supervise and monitor that obligations arising out of the capital market legislation are fulfilled, including all aspects of corporate governance and public disclosure,
- Ensure that investor relations activities are properly conducted.

Having obtained the views of other units when necessary and in coordination with such units, the Investor Relations Department is responsible for providing shareholders and potential investors with information about the Company's activities, financial standing, and strategies, with the stipulations that it may not divulge any information which is confidential and/or in the nature of a trade secret and that it must not do so in any way that might lead to information asymmetry and for managing communication moving on both directions between shareholders and Company managers.

During the reporting period, the Unit held one-on-one contacts with nearly 60 investors, and responded to more than 100 queries by phone or e-mail. In addition, two webcast meetings have been organized, which were open to all analysts and addressed the Company's activities and financial results for 2016 and 2017 first half. "Investor Presentations" covering the Company's periodic operating results were published on the Company's website. The website and investor presentations have been updated regularly to make sure that up-to-date information is made available to the investors at all times. Maximum attention is paid to achieving compliance with the legislation in fulfilling investor requests

2.2. Use of Shareholders' Rights to Obtain Information

The fundamental principle in shareholders exercising their right to obtain information is that there should be no discrimination among shareholders. All information and documents that shareholders may need to exercise their shareholders' rights in a sound manner are made equally available to all shareholders on the Company's corporate website. During 2017, utmost care was paid, under the supervision of the "Investor Relations Department", to respond to requests for information received from shareholders within the framework of the requirements of capital market laws and regulations and without delay.

Such requests for information are generally about such issues as general assembly meeting dates, information on financial statements that are disclosed, developments in the sector and profit distribution. All requests for information, except in the case of information that was in the nature of a trade secret and information that it was deemed to be in the Company's interest to keep confidential, were responded to without making any distinctions among shareholders and in line with any statements that may previously have been made within the framework of capital market laws and regulations. Information and disclosures that might affect the exercise of shareholders' rights are announced in the "Investor Relations" section on the Company website, and there have been no information or disclosures during the reporting period, other than those disclosed under the Capital Market legislation. While the request to have a special auditor appointed is not an individual right provided for under the Company's articles of incorporation, no such request was received during 2017.

2.3. General Assembly Meetings

Pursuant to "Article 19 - Meeting Quorum" of the Company's articles of incorporation, the quorum requirements at annual and extraordinary General Assembly meetings are subject to the provisions of the Capital Market Law and of the Turkish Commercial Code.

Within 2017, on March 30, 2017, 2016 ordinary general assembly meeting took place at Pınar Süt Plant located at Kemalpaşa Asfaltı No: 317 Pınarbaşı/İZMİR. At the 2016 ordinary general assembly meeting, 82.09% of the Company's capital was represented. During the meeting, shareholders electronically or physically attending the meeting or their proxies expressed their comments and wishes. Shareholders did not propose any agenda items during the said General Assembly meeting, either.

Representative of Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. attended the meeting, and no media members attended. In addition to shareholders, representatives of the independent auditors were also sent written invitations to attend the meetings. Invitations to the general assembly meeting were made by the Board of Directors.

The Company's General Assembly meeting announcements were promulgated under "Article 22 - Announcements" of the Company's articles of incorporation, and in accordance with the relevant provisions of the Turkish Commercial Code and with other regulations, communiqués, Capital Markets Board requirements to be published under the said Code, as well as other applicable legislation. The meeting announcement was published in the Turkish Trade Registry Gazette minimum 21 days (excluding the dates of the meeting and announcement) in advance. The meeting announcement was also published on the corporate website, and shareholders whose addresses were on record with the Company were sent letters in which they were informed about the meeting date, location, and agenda. Prior to the general assembly meeting, the meeting date, place and agenda, the information that the Informational Document regarding the agenda is posted on the website, and the profit distribution proposal to be submitted by the Board of Directors to the general assembly were publicly disclosed in material event disclosures. The Informational Document drawn up for 2016 Ordinary General Assembly meeting covered detailed descriptions about each general meeting agenda item, as well as all the explanations, information and documents required by the legislation.

The Company's annual report and the informational document for the general assembly meeting were made available for shareholders' information at the Company headquarters and on its corporate website as of 21 days before the General Assembly Meeting date. To facilitate attendance to the Company's general assembly, shuttle buses were provided for transportation to the address of the General Assembly. During the general assembly meeting, issues on the agenda were explained impartially and in detail so as to be clear and intelligible. Shareholders were given equal opportunities to express their thoughts and to ask questions, and a healthy climate of debate was created.

Minutes of General Assembly meetings are kept available for shareholders at all times at the Company headquarters. In addition, the minutes of the Company's General Assembly meetings for the past 12 years are also accessible in the Investor Relations section of the Company website at www.pinar.com.tr.

At the Company's General Assembly meetings, information was presented to the shareholders on the amount and recipients of the donations and grants made during the reporting period. This matter was addressed as a separate agenda item. An upper limit was set for the donations to be made during 2017 at the meeting. The Donations Policy was approved by 2015 Ordinary General Assembly.

2.4. Voting Rights and Minority Rights

Article 8 of the Company's articles of incorporation grants the following privilege regarding nominations to the Board of Directors:

"Should the Board of Directors be constituted of five members, three of them shall be elected from among the nominees indicated by Group A shareholders, one member each shall be elected from among the nominees indicated by Group B and Group C shareholders. In case the Board consists of seven members, four of them shall be elected from among the nominees indicated by Group A shareholders, two members shall be elected from among the nominees indicated by Group B shareholders, and one member shall be elected from among the nominees indicated by Group C shareholders. In case the Board consists of nine members, five of them shall be elected from among the nominees indicated by Group A

PINAR SÜT MAMULLERİ SANAYİİ A.Ş. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

shareholders, three members shall be elected from among the nominees indicated by Group B shareholders, and one member shall be elected from among the nominees indicated by Group C shareholders.

Managing member(s) can be selected if decided accordingly by the Board of Directors. However, Board Chairperson and managing member(s) are selected among the candidates nominated by Group A shareholders."

With respect to the exercise of voting rights, the Company's articles of incorporation contain no provisions preventing nonshareholders to vote by proxy as an appointed representative. Article 23 of the Company's articles of incorporation, which governs the exercise of voting rights, reads as follows:

"Save for the votes to be cast in the Electronic General Meeting System, voting is conducted through open ballot and by raising hands during a General Assembly meeting. However, upon demand by those possessing at least one-tenth of the capital which shareholders present at a meeting represent, recourse must be had to secret ballot. CMB rules pertaining to proxy voting are reserved."

There are no other companies in which the Company has a cross-ownership. Minority rights are not represented on the Board of Directors. The articles of incorporation do not set minority rights to be less than one twentieth of the capital.

2.5. Dividend Rights

Company decisions on profit distribution are based on the Turkish Commercial Code, Capital Markets Regulations, Tax Regulations and other applicable legislation as well as the profit distribution clause of the articles of association and a consistent policy balanced between the benefits of the shareholders and the Company in line with the CMB Corporate Governance Principles is applied.

The Company's annually reviewed policy for profit distribution is to pay out cash dividends and/or bonus shares corresponding to minimum 20% of the distributable profit for the period, which is calculated in accordance with the capital market regulations and other applicable legislation, taking into consideration the economic conjuncture, market projections, the Company's long-term strategies and long-term investment and financing policies, the Company's financial position, profitability and cash position, to the extent allowed by relevant regulations and finances.

Unless decided otherwise on profit distribution in the relevant general assembly meeting, the profit distribution is intended to be realized in May of the year of the relevant general assembly meeting, the latest, and the date of profit distribution is decided by the General Assembly. General Assembly or Board of Directors (if authorized) may decide on distribution of dividends in installments in accordance with the Capital Market Regulations.

The Company's Articles of Incorporation permit distribution of advances on dividends, and the Board of Directors may decide to distribute advances on dividends restricted to the relevant fiscal year, provided that it is authorized by the General Assembly of Shareholders and in accordance with the Capital Markets Regulations.

The Company's Dividend Policy for 2013 and thereafter, which was formulated in line with the capital market legislation, has been laid down for approval at the 2013 Annual General Assembly Meeting and publicly disclosed. Our Dividend Policy is publicly disclosed also via our website.

The Company's 2016 profit distribution was completed on May 31, 2017.

2.6. Transfer of Shares

Transfer of shares is subject to the relevant provision of the Turkish Commercial Code (TCC).

PART III - PUBLIC DISCLOSURES AND TRANSPARENCY

3.1. Corporate Web Site and Its Content

The Company's corporate website (www.pinar.com.tr) contains all the matters as required by Corporate Governance Principles. The Company's website is available in both Turkish and English. The Company continuously improves and upgrades the services provided by its website, which is actively used.

3.2. Annual Report

The Company's annual reports contain all the information specified in the Corporate Governance Principles; however, remuneration of the board of directors and senior executives and other benefits provided to them individually are disclosed not individually but as a cumulative amount.

PART IV - STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders are kept informed about all matters concerning the Company other than those which are considered a trade secret through CMB material disclosures within the framework of CMB regulations, Turkish Commercial Code, Competition Law, Tax Laws, and Turkish Code of Obligations.

Stakeholders are able to convey any transaction they consider to be illegitimate or unethical to the Corporate Governance Committee or the Audit Committee via Yaşar Group Ethics Committee. The Audit Committee reviews the complains received regarding the Company's accounting and internal control system and independent audit, and handles the notifications of Company employees in relation to the Company's accounting and independent audit, observing the confidentiality principle.

Furthermore, the communication mechanism is established with the Corporate Governance Committee and the Audit Committee also via the processes that provide stakeholder participation in management as discussed under Article 4.2 herein below.

4.2. Stakeholders' Participation in the Company's Management

A customer relationship management system has been set up with the aims of strengthening customer communication, satisfying customer needs and expectations, and increasing customer satisfaction. This system makes it possible to maximize customer satisfaction by listening to and understanding what customers say. Customer audits are successfully carried out, as are chain store audits.

Customer requests and complaints received by Pinar Communication Center (PIM) through 444 76 27 are responded to, and information is provided to consumers on the topics conveyed as soon as possible. PIM Twitter account serves to review the requests and suggestions received via the social media, upon which the team gets back to the consumers. PIM service quality and the satisfaction of consumers with which PIM interacts are measured at regular intervals by means of polls.

During producer training meetings, information is provided on livestock health, hygiene and correct milking practices, continuance of the herd, ensilaging and important considerations during ensilaging, harmful substances that can be contained in fodders and control thereof.

Existing and potential suppliers are visited and inspected in line with the annual schedule. Class A suppliers are identified and certified.

Technical training programs are offered to Regional Sales Directorates, which address technical properties of the products, and their superior qualities over similar products. Training sessions are organized to provide guidance on how to satisfy customer needs and expectations in a technical sense. The Company assesses the feedbacks received from these meetings.

Aware that high levels of employee motivation and loyalty create a significant advantage in achieving success more quickly, Pinar Süt has been soliciting feedback from its personnel through employee opinion surveys that have been conducted regularly every other year since 1998. Since 2015, the Employee Opinion Survey was turned into an online application covering all employees at the Group. These surveys are used as a key tool whereby employees are able to provide feedback to the Company management.

Average training time per employee at Pinar Süt in 2017 was 22,722 hours, with total training time amounting to 19.9 hours.

4.3. Human Resources Policy

The fundamental mission of the Company's human resources policy is to ensure the management of human resources who are innovative, who are committed to the principle of total quality, and who contribute towards the Company's competitive advantage by easily adapting to change and development at the Company. The Company did not receive any complaints about discrimination as of 2017.

The Company's basic human resources policies are set forth clearly in the Company's Personnel Regulations, which are issued to all noncontract employees against their individual signature. In addition to basic policies, these regulations also contain information about working hours, hiring principles and processes, termination, and discipline. Human resources policies and practices pertaining to employees who are covered by collective bargaining agreements are spelled out in such agreements. Job descriptions are devised for all of the Company employees. Performance and rewarding criteria for the white-collar employees are disclosed in the White Collar Employee Regulation, while the rewarding criteria for our blue-collar workers are described in the Collective Bargaining Agreement.

Basic policies:

- a)** Staffing at the Company is determined according to the criteria of business economics. All employees agree that honorable employment is only possible through productive work.
- b)** The Company conducts intramural and extramural training programs within the framework of plans that are devised for each level in order to ensure the progression of its employees.
- c)** The Company is mindful of equality of opportunity in all promotions and appointments throughout its organization. As a matter of principle, appointments are made from among the Company's own personnel.
- d)** By means of a career planning system in which progression plans are implemented, employees who have potential are provided with the broadest possible opportunities for advancement.
- e)** Employees' performance is evaluated on the basis of their fulfillment of targets and their competencies.
- f)** Job descriptions and performance standards are documented for positions at every level from the highest to the lowest and these serve as the basis for employee evaluations.
- g)** Employee Opinion Surveys are conducted once in two years, seeking employees' views about the working environment, development and career, salaries and fringe benefits, job satisfaction, managers, engagement, corporate reputation, corporate structure and management policies. Improvements are made in line with the feedback that is received in this way.
- h)** A safe workplace and safe working conditions are a matter to which the Company gives great importance. Under the Company's occupational

PINAR SÜT MAMULLERİ SANAYİİ A.Ş. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

health and safety regulations, all legally mandated measures are taken to prevent occupational risks, ensure health and safety, and eliminate risk and accident factors. An ongoing effort to make improvements is carried out through regularly conducted safety meetings.

i) Our management style is “.... [to] maintain our existence as a Company that acts fully respectful of the laws and ethical rules, and embrace total quality philosophy and participatory management.”

j) An essential principle at the Company is that all employees will be treated equally and without making any discrimination among them with respect to language, race, color, sex, political beliefs or philosophy, creed, religion, sect, or similar reasons. Due measures have been taken to protect this fundamental constitutional right of employees.

There are five workplace representatives at Pınar Süt (three at Pınarbaşı plant and two at Eskişehir plant).

At İzmir Plant: Günay Aslan - Milk Powder Manufacturing Foreman, Cumhur Aşkın – Process Machines Foreman, Arzu Pehlivan – Cheese Packager

At Eskişehir Plant: Erdoğan Yörüksoy - Tetrapak Operator, Tuncay Özdemir - Machinery Maintenance Foreman.

The duties of these representatives are to,

- a)** Hear workers' wishes and resolve their complaints exclusively with respect to matters at the workplace,
- b)** Ensure continued labor peace through worker-employer cooperation and labor fairness,
- c)** Are mindful of workers' rights and interests; assist in the implementation of the working conditions which are provided for in labor laws and in collective bargaining agreements.

All employees are kept informed about Company procedures, organizational changes, changes in rights and benefits, and other practices and decisions that may affect them by means of regulations and announcements prepared within the framework of the Company's prescribed announcement regulations as well as via the Company intranet and bulletin boards.

4.4. Rules of Ethics and Social Responsibility

In order to fulfill its responsibilities related to public health and the nature, the Company has made it a principle to continually oversee and improve its environmental performance, while integrating with its manufacturers, suppliers and employees in the conduct of its production activities. The Company seeks to make contributions that are beneficial to employees and to the community in the areas of culture, art, sport, and education through Pınar art competitions, Pınar children's theater, sponsorship of Pınar Karşıyaka basketball team, farmer training programs, its newspaper Pınar, and its magazine Yaşam Pınarım.

The Company supports education by collaborating with organizations such as Yaşar University and Yaşar Education and Culture Foundation.

Continuing its operations at the Company headquarters, Pınar Institute was founded in order to contribute to the development of healthy society by engaging in research, supporting such research and education, publishing the results of such activities, and involving itself in similar endeavors.

Within the scope of “The Future Of Our Milk Is In Good Hands” project developed to educate raw milk producers on animal health, nourishment, hygiene, and sanitation, total 934 producers were reached in 19 different trainings in cities of Eskişehir, Aydın, Muğla, Denizli, Uşak, Burdur and Adıyaman during 2017, and activities were started to conduct one-to-one works based on quality and productivity under Pilot Regional Applications in İzmir, Eskişehir and Aydın.

“Let's Move with Joy and Diet Healthy” project conducted by Pınar institute to grow healthy individuals and raise awareness for nourishment from young ages is applied to 39 independent kindergartens in İzmir city giving education to nearly 3,000 children through teachers having Educating the Educators Events.

The project of licensed toys and education materials conducted with the collaboration of Yaşar University Art and Design Faculty, Industrial Design Department to develop the edition of “Let's Move with Joy and Diet Healthy” project was completed in 2017. The Food Pyramid made of designed felt cloth prepared within the scope of the project is construed to be used for different areas.

Pınar Institute Bulletins published quarterly to raise awareness and consciousness in food, health and nutrition subjects, are delivered to all employees within Yaşar Group.

The Company conducts its activities within the framework of values which are adhered to by Yaşar Group companies and whose approach to the production of goods and services involves compliance with laws and the rules of ethics, concerns itself with national problems without becoming involved in politics, and values the environment and nature. These values are known to all Company employees. A summary version of Yaşar Group Rules of Ethics is posted on the Company's website.

PART V – BOARD OF DIRECTORS

5.1. Structure and Formation of the Board of Directors

Members of the Company's Board of Directors:

Name Surname	Title	Whether or Not Independent Member	Whether or Not Executive Member	Term
İdil Yiğitbaşı	Chairperson	Not Independent Member	Not Executive	1 year
Emine Feyhan Yaşar	Vice Chairperson	Not Independent Member	Not Executive	1 year
Mustafa Selim Yaşar	Member	Not Independent Member	Not Executive	1 year
Ali Yiğit Tavas	Independent Member	Independent Member	Not Executive	1 year
Yılmaz Attila	Independent Member	Independent Member	Not Executive	1 year
Cengiz Erol	Member	Not Independent Member	Not Executive	1 year
Yılmaz Gökoğlu	Member	Not Independent Member	Not Executive	1 year

The office of General Manager of the Company is held by Gürkan Hekimoğlu. The engagement of Company directors in the activities set forth in Articles 395 and 396 of the Turkish Commercial Code is subject to the approval of the General Assembly of shareholders. With the exception of those activities, there are no other limitations imposed on what Board directors may do and external positions held, if any, are stated in their résumés covered in annual reports. Members of the Board of Directors of our Company, which is affiliated to Yaşar Group, may hold seats on the Boards of Directors of other Group companies, and there may be various transactions by and between these companies that may be considered under the scope of Article 395/1 of the Turkish Commercial Code. However, the parties to such transactions are Group companies only, and necessary permissions are obtained at the General Assembly Meeting of each relevant Company.

The General Manager's resume is provided in the Company's annual report, and the resumes of Board of Directors members are given both in the Company's annual report and also on the corporate website. In accordance with the Capital Market legislation, independent Board directors have submitted their declarations of independence to the Corporate Governance Committee that acts as the Nomination Committee and the declarations were published in the annual report.

Two independent member candidates were presented for 2017 to the Corporate Governance Committee that acts as the Nomination Committee. The declarations of independence and resumes of these individuals have been discussed in the Corporate Governance Committee meeting of March 28, 2017 and in the meetings of the Board of Directors, and it has been decided to nominate all of them as independent members. No situations arose that prejudiced independence as of 2017 operating period. There are 2 women members on the Board of Directors. Hence, the Company has secured a ratio of not less than 25% with respect to the number of women members on the Board of Directors.

5.2. Operating Principles of Activity of the Board of Directors

The operating principles of the Board of Directors are regulated as follows in Article 10 of the Company's articles of incorporation: Accordingly; "The Board of Directors shall convene as the Company's affairs and operations may require. However, the Board must meet at least monthly.

Board of Director's meetings are convened with a majority of its full membership and decisions are passed with a majority of those present in the meeting."

The agenda for the Board of Directors meetings are set by the Chairperson of the Board, in consultation with the other Board directors and the General Manager.

The details of the 2017 activities of the Board of Directors are provided below:

During the reporting period, the Board of Directors convened 51 times. The Board of Directors shall convene upon a summons in the form of a written request made by its chairperson or by any director. The agenda of the meeting is sent to the members minimum two weeks prior to the date of the meeting. Usually, all members attend the meetings. There were no unresolved disputes over issues during the 2017 reporting period. The questions raised during the meetings are not entered into record. No board directors have preferential voting or veto rights. An insurance coverage has been obtained. Damages which may be caused to the Company by the faults of Board Members during their tasks are insured to cover 25% of the capital.

5.3. Number, Structure and Independence of the Committees Established Under the Board of Directors

The Audit Committee, the Corporate Governance Committee and the Early Detection of Risk Committee have been set up at the Company.

The Corporate Governance Committee fulfills the duties of the Nomination Committee and the Remuneration Committee. When performing their activities, the committees under the Board of Directors adhere to the operating principles that are posted also on the Company website.

The Audit Committee is headed by Ali Yiğit Tavas and its other member is Yılmaz Attila. Both members are non-executive and independent Board members. The Audit Committee meets at least on a quarterly basis and holds at least four meetings in one year. Within the scope of the Committee's activities, information has been obtained on operations and internal control systems from Company executives and findings related to the audit from independent auditors. The Committee oversees the operation and efficiency of the Company's bookkeeping system, public disclosure of financial information, independent audit and internal control system. The Audit Committee also supervises the designation of the independent audit firm, drafting of the independent audit agreement, initiation of the independent audit process, and the activities of the independent auditor. The Committee reports on the fairness and accuracy of annual and interim financial statements that will be publicly disclosed to the Board of Directors.

Corporate Governance Committee Chairperson is non-executive independent board member Yılmaz Attila, Committee Members are nonexecutive

PINAR SÜT MAMULLERİ SANAYİİ A.Ş. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

board members Cengiz Erol and Yılmaz Gökoğlu and Investor Relations Department Managers Gökhan Kavur. Corporate Governance Committee meets at least four times a year, held at least on a quarterly basis. The Corporate Governance Committee establishes whether the Corporate Governance Principles are implemented at the Company, the grounds for non-implementation, if applicable, and the conflicts of interest arising from failure to fully comply with these principles. The Committee proposes improvement actions to the Board of Directors. Corporate Governance Committee oversees the activities of the Investor Relations Department.

Within the scope of the duties of the Nomination Committee, the Corporate Governance Committee works to create transparent system to deal with the matters of identifying, evaluating, training, and rewarding candidates suitable for board membership and to establish policies and strategies applicable to that system. In addition, the Committee evaluates the nominations for independent Board membership including the management and shareholders, taking into consideration whether the candidate bears the independence criteria or not, and presents its relevant assessment to the Board of Directors for approval.

Within the scope of the duties of the Remuneration Committee, the Corporate Governance Committee formulates its proposals regarding the principles for compensating the Board directors and senior executives, in view of the long-term goals of the Company.

The Early Detection of Risk Committee is responsible for early detecting the risks that may endanger the existence, development and survival of the Company, taking necessary measures for the identified risks, and managing the risks. The Committee is headed by Ali Yiğit Tavas, a non-executive and independent board member, and its members are Cengiz Erol and Yılmaz Gökoğlu, non-executive board members.

According to the Corporate Governance Principles, all members of the Audit Committee, and the heads of Early Detection of Risk Committee and Corporate Governance Committee must be independent Board members. The Manager of the Investor Relations Department was assigned as a member to the Corporate Governance Committee by the Board of Directors. Since there are two independent members on the Company's Board of Directors, the same member serves on more than one committee under the Board of Directors.

Upon assessment held by Company's Board of Directors, it was determined that all committees of the Company are created in accordance with the legislation, activities were effectively conducted in line with working principles created before and published in the Company's web site, periodically enough number of meetings was held during the year and as a result of such meetings; the Audit Committee provided efficiency of auditing Company's accounting system and financial details and disclosing them to public and submitted their views, suggestions about this matter to board of directors regularly, that Corporate Audit Committee concluded determinations on strengthening the compliance to Corporate Management Principles and submitted to board of directors with their recommendations, that Early Detection of Risk Committee reviewed early warning systems and models for risks and determined risks.

5.4. Risk Management and Internal Control Mechanism

The Board of Directors essentially supervises risk management and internal control activities through the Early Detection of Risk Committee. In its fulfillment of these functions, the Early Detection of Risk Committee makes use of the findings of the bodies performing certification under the Group Audit and Risk Management Coordinator, independent audit and certified accountancy.

5.5. Strategic Targets of the Company

The Board of Directors sets the Corporate Strategy and Goals in line with the Company's vision and growth and profitability expectations. The principles that will steer these strategies are determined by the senior management and the extent at which the goals are achieved are assessed in the monthly meetings, along with the activities and past performance.

5.6. Financial Benefits

The rights provided to the Board directors are decided at the General Assembly meetings and are publicly disclosed through the minutes of the meetings issued. The Remuneration Policy that describes the remuneration system and implementations for the Company's Board Members and executives with administrative responsibility is available on our website. The Company's annual reports do not present the rights provided to senior executives on an individual basis, but state a cumulative amount.

The Company does not lend money, extend credit, or make available loans under the name personal loans via a third party to any of its directors or executives, nor does it provide guarantee in their favor.

STATEMENT OF RESPONSIBILITY

STATEMENT OF RESPONSIBILITY PREPARED IN ACCORDANCE WITH ARTICLE 9 OF THE PRINCIPLES NOTICE RELATING FINANCIAL REPORTING IN CAPITAL MARKET NO II-14.1 OF CAPITAL MARKETS BOARD

The financial statement and financial report for the 12 months period ending on 31.12.2018 issued in accordance with Capital Market board-Communiqué on Principals on Financial Statements numbered II-14.1 and approved by the Board of Directors of our Company is attached.

We hereby declare that

a) regarding the period of 01.01.2017 – 31.12.2017, the balance sheet, income statement, equity change statement, cash flow statement and financial statements' footnotes as well as activity report of the board of directors which were audited independently and accepted by the Resolution of the Board dated 01 March 2018 and no: 208/9 of Pınar Süt Mamulleri Sanayii A.Ş. were examined by us,

b) that our financial statements and activity report does not include any declaration contrary to truth in important matters or any deficiency which may arise any misleading information as of the date of explanation in line with the information we have in the area of our duty and responsibility within the Company,

c) that assets, liabilities, financial status and losses and profits of the Company are honestly reflected on the financial statements issued in accordance with financial reporting standards in force and that our activity report honestly reflects the development and performance of business, financial status of the enterprise, important risks it faces and ambiguities in line with the information we have in the area of our duty and responsibility within the Company.

Best Regards,

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

Erdem DURĞUT
Accounting Manager



Mustafa Şahin DAL
Financial Affairs And Budget
Control Director



Yılmaz ATTİLA
Audit Committee Member



Ali Yiğit TAVAS
Head of Audit Committee





**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ON THE BOARD OF DIRECTORS' ANNUAL REPORT
ORIGINALLY ISSUED IN TURKISH**

To the General Assembly of Pinar Süt Mamulleri Sanayii A.Ş.

1. Opinion

We have audited the annual report of Pinar Süt Mamulleri Sanayii A.Ş. (the "Company") for the 1 January - 31 December 2017 period.

In our opinion, the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements regarding the Company's position in the Board of Directors' Annual Report are consistent and presented fairly, in all material respects, with the audited full set financial statements and with the information obtained in the course of independent audit.

2. Basis for Opinion

Our independent audit was conducted in accordance with the Independent Standards on Auditing that are part of the Turkish Standards on Auditing ("TSA") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities in the Audit of the Board of Directors' Annual Report section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors ("Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Our Audit Opinion on the Full Set Financial Statements

We expressed an unqualified opinion in the auditor's report dated 1 March 2018 on the full set financial statements for the 1 January - 31 December 2017 period.



4. Board of Director's Responsibility for the Annual Report

Company management's responsibilities related to the annual report according to Articles 514 and 516 of Turkish Commercial Code ("TCC") No. 6102 and Capital Markets Board's ("CMB") Communiqué Serial II, No:14.1, "Principles of Financial Reporting in Capital Markets" (the "Communiqué") are as follows:

- a) to prepare the annual report within the first three months following the balance sheet date and present it to the general assembly;
- b) to prepare the annual report to reflect the Company's operations in that year and the financial position in a true, complete, straightforward, fair and proper manner in all respects. In this report financial position is assessed in accordance with the financial statements. Also in the report, developments and possible risks which the Company may encounter are clearly indicated. The assessments of the Board of Directors in regards to these matters are also included in the report.
- c) to include the matters below in the annual report:
 - events of particular importance that occurred in the Company after the operating year,
 - the Company's research and development activities,
 - financial benefits such as salaries, bonuses, premiums and allowances, travel, accommodation and representation expenses, benefits in cash and in kind, insurance and similar guarantees paid to members of the Board of Directors and senior management.

When preparing the annual report, the Board of Directors considers secondary legislation arrangements enacted by the Ministry of Customs and Trade and other relevant institutions.

5. Independent Auditor's Responsibility in the Audit of the Annual Report

Our aim is to express an opinion and issue a report comprising our opinion within the framework of TCC and Communiqué provisions regarding whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited financial statements of the Company and with the information we obtained in the course of independent audit.

Our audit was conducted in accordance with the TSAs. These standards require that ethical requirements are complied with and that the independent audit is planned and performed in a way to obtain reasonable assurance of whether or not the financial information and the analysis made by the Board of Directors by using the information included in the audited financial statements in the annual report are consistent and presented fairly with the audited financial statements and with the information obtained in the course of audit.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Mehmet Karakurt, SMMM
Partner

İstanbul, 1 March 2018



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH**

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Pinar Süt Mamulleri Sanayii A.Ş.

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Pinar Süt Mamulleri Sanayii A.Ş. (the "Company"), which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements comprising a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing ("SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors ("Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters



Key audit matter

How our audit addressed the key audit matter

Fair value measurements of land, land improvements, buildings and machinery and equipment:

(Refer to the Notes 2.6.3 and 10)

In accordance with TAS 16, "Property, Plant and Equipment", land and land improvements, buildings and machinery and equipment are carried at fair value on the financial statements. The revaluation gain on property, plant and equipment amounting to TL120.327.212 before tax, was appraised by independent professional valuers at 31 December 2017. The related revaluation gains accounted in the statement of financial position as other comprehensive income under revaluation fund of equity after the deferred tax impact deducted.

This was a key audit matter since the total amount of land, land improvements, buildings and machinery and equipment as of 31 December 2017 represents a significant share of the total assets of the Company, and these valuations include estimations and assumptions that are sensitive to the location and zoning status, benchmark prices per m2, and the construction costs per m2.

The following audit procedures were addressed in our audit work on the fair value measurement of land, land improvements, buildings and machinery and equipment:

- We assessed the competency, capability and objectivity of the independent professional valuers who were appointed by Company management, in accordance with relevant audit standards.
- We checked and confirmed completeness, and reconciled the input data on a sample basis, in terms of m2, location and zoning status of the properties used by the independent professional valuers with the Company's records.
- In accordance with the provisions of "SIA 620: Use of Work of Expert", we involved our expert to evaluate the assumptions and methods used by Company management on a sample basis, as an addition to the evaluations performed by the independent professional valuers who were appointed by Company management.
- We evaluated the compliance of the disclosures on the fair value determination of land and land improvements, buildings machinery and equipment in the financial statements in accordance with the relevant accounting standards.



4. Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with TAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

5. Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence. We also communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2017 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.
3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 1 March 2018.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Mehmet Karakurt, SMMM
Partner

İstanbul, 1 March 2018

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

FINANCIAL STATEMENTS

AT 1 JANUARY - 31 DECEMBER 2017

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

**(CONVENIENCE TRANSLATION INTO ENGLISH -
THE TURKISH TEXT IS AUTHORITATIVE)**

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CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS) AT 31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	31 December 2017	31 December 2016
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	4	1.329.702	502.652
Trade Receivables		250.218.193	184.074.763
- Trade Receivables from Related Parties	5	237.729.307	173.044.085
- Trade Receivables from Third Parties	6	12.488.886	11.030.678
Other Receivables		8.940.609	3.995.102
- Other Receivables from Related Parties	5	1.264.623	18.029
- Other Receivables from Third Parties	7	7.675.986	3.977.073
Inventories	8	145.837.859	103.894.123
Prepaid Expenses	9	4.538.093	4.676.913
- Prepaid Expenses to Third Parties		4.538.093	4.676.913
Current Income Tax Assets	25	171.581	-
Other Current Assets	18	26.141.384	20.593.514
- Other Current Assets from Third Parties		26.141.384	20.593.514
TOTAL CURRENT ASSETS		437.177.421	317.737.067
NON-CURRENT ASSETS			
Financial Investments		73.682.096	76.912.081
- Available-for-sale Financial Investments	27	73.682.096	76.912.081
Other Receivables		13.359	13.359
- Other Receivables from Third Parties	7	13.359	13.359
Investments in Associates Accounted for Using Equity Method	3	72.476.747	68.474.264
Property, Plant and Equipment	10	614.771.847	467.910.244
- Land		162.713.500	136.679.902
- Land Improvements		13.860.000	13.146.798
- Buildings		79.739.500	75.171.942
- Machinery, Plant and Equipment		319.726.099	222.693.884
- Vehicles		399.442	490.747
- Furniture and Fixtures		11.779.410	12.726.292
- Construction in Progress		26.553.896	7.000.679
Intangible Assets	11	1.926.208	1.285.725
- Other Intangible Assets		1.926.208	1.285.725
Prepaid Expenses	9	1.492.836	1.260.407
- Prepaid Expenses to Third Parties		1.492.836	1.260.407
TOTAL NON-CURRENT ASSETS		764.363.093	615.856.080
TOTAL ASSETS		1.201.540.514	933.593.147

The financial statements at 31 December 2017 and for the year then ended have been approved for issue by Board of Directors of Pinar Süt Mamulleri Sanayii A.Ş. on 1 March 2018. General Assembly and specified regulatory bodies have the right to make amendments after statutory financial statements issued.

The accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)
AT 31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	31 December 2017	31 December 2016
LIABILITIES			
CURRENT LIABILITIES			
Short-Term Borrowings	13	83.904.341	28.067.744
- Short-Term Borrowings From Third Parties		83.904.341	28.067.744
- Bank Borrowings		83.904.341	28.067.744
Short-Term Portion of Long-Term Borrowings	13	9.961.784	8.097.564
- Short-Term Portion of Long-Term Borrowings From Third Parties		9.961.784	8.097.564
- Bank Borrowings		9.961.784	8.097.564
Other Financial Liabilities		-	3.510.364
- Other Miscellaneous Financial Liabilities	13	-	3.510.364
Trade Payables		240.777.554	184.764.984
- Trade Payables to Related Parties	5	17.070.297	15.042.960
- Trade Payables to Third Parties	6	223.707.257	169.722.024
Payables Related to Employee Benefits	16	2.643.950	2.508.357
Other Payables		22.210.525	28.904.622
- Other Payables to Related Parties	5	19.867.521	26.940.123
- Other Payables to Third Parties	7	2.343.004	1.964.499
Deferred Income		23.189	53.947
- Deferred Income From Third Parties	9	23.189	53.947
Current Income Tax Liabilities	25	-	272.538
Short-Term Provisions		1.285.045	1.162.925
- Short-Term Provisions for Employee Benefits	16	1.285.045	1.162.925
Other Current Liabilities	18	310.185	136.031
- Other Current Liabilities to Third Parties		310.185	136.031
TOTAL CURRENT LIABILITIES		361.116.573	257.479.076
NON-CURRENT LIABILITIES			
Long-Term Borrowings	13	53.333.333	31.111.111
- Long-Term Borrowings From Third Parties		53.333.333	31.111.111
- Bank Borrowings		53.333.333	31.111.111
Trade Payables		45.819.864	23.197.010
- Trade Payables to Third Parties	6	45.819.864	23.197.010
Long-Term Provisions		19.144.782	17.029.559
- Long-Term Provisions for Employee Termination Benefits	16	19.144.782	17.029.559
Deferred Income Tax Liabilities	25	31.960.112	11.438.027
TOTAL NON-CURRENT LIABILITIES		150.258.091	82.775.707
TOTAL LIABILITIES		511.374.664	340.254.783

The accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)
AT 31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	31 December 2017	31 December 2016
EQUITY			
Equity Attributable to Owners of the Parent Company		690.165.850	593.338.364
Share Capital	19	44.951.051	44.951.051
Adjustment to Share Capital	19	16.513.550	16.513.550
Other Comprehensive Income/ (Expense) not to be Reclassified to Profit or Loss		253.424.549	163.129.312
- Gain/ (Loss) on Revaluation and Remeasurement		251.904.848	163.695.910
- Increase/ (Decrease) on Revaluation of Property, Plant and Equipment	10	261.716.422	172.665.882
- Actuarial Gain/ (Loss) Arising from Defined Benefit Plans		(9.811.574)	(8.969.972)
- Share of Other Comprehensive Income of Investment-in-Associates Accounted for Using Equity Method that will not be Reclassified to Profit or Loss		1.519.701	(566.598)
Other Comprehensive Income/ (Expense) to be Reclassified to Profit or Loss		56.943.935	57.832.637
- Gain/ (Loss) on Revaluation and Classification		44.991.591	48.091.944
- Gain/ (Loss) on Revaluation or Reclassification of Available-for-Sale Financial Investments	27	44.991.591	48.091.944
- Share of Other Comprehensive Income of Investment-in-Associates Accounted for Using Equity Method that will be Reclassified to Profit or Loss		11.952.344	9.740.693
Reserves on Retained Earnings		59.129.038	55.024.248
- Legal Reserves	19	59.129.038	55.024.248
Distribution to shareholders		(5.537.877)	(5.537.877)
Retained Earnings		217.659.060	201.405.899
Net Profit for the Year		47.082.544	60.019.544
TOTAL EQUITY		690.165.850	593.338.364
TOTAL LIABILITIES		1.201.540.514	933.593.147

The accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
 STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
 FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	1 January - 31 December 2017	1 January - 31 December 2016
PROFIT OR LOSS			
Revenue	20	1.240.050.704	1.067.776.692
Cost of Sales	20	(1.043.294.850)	(876.662.891)
Gross Profit from Trading Operations		196.755.854	191.113.801
GROSS PROFIT	20	196.755.854	191.113.801
General Administrative Expenses	21	(39.338.098)	(37.768.974)
Marketing Expenses	21	(89.426.761)	(77.320.871)
Research and Development Expenses	21	(11.983.563)	(10.965.769)
Other Income from Operating Activities	22	9.963.406	11.644.364
Other Expense from Operating Activities	22	(7.524.316)	(14.047.114)
OPERATING PROFIT		58.446.522	62.655.437
Income From Investing Activities	23	5.815.137	5.383.488
Expense From Investing Activities	23	(1.331.483)	(269.506)
Share of Results of Investment-in-Associates	3	4.911.202	8.390.164
OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE)		67.841.378	76.159.583
Financial Income	24	4.944.429	2.011.419
Financial Expenses	24	(31.839.831)	(14.495.052)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		40.945.976	63.675.950
Tax (Expense)/ Income from Continuing Operations		6.136.568	(3.656.406)
- Current Tax Expense	25	(768.232)	(4.161.275)
- Deferred Tax Income	25	6.904.800	504.869
PROFIT FOR THE YEAR CONTINUING OPERATIONS		47.082.544	60.019.544
PROFIT FOR THE YEAR		47.082.544	60.019.544
Earnings Per Share		1,0474	1,3352
- Earnings per 1 Kr number of 100 shares from continuing operations	26	1,0474	1,3352

The accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	1 January - 31 December 2017	1 January - 31 December 2016
OTHER COMPREHENSIVE INCOME			
Items not to be Reclassified to Profit or Loss		93.929.101	(2.374.825)
Increase in Revaluation of Property, Plant and Equipment		120.327.212	-
Change in Tax Rates	10	(6.304.836)	-
Share of Other Comprehensive Income of Associates Accounted for Using Equity Method that will not be Reclassified to Profit or Loss		2.210.410	(187.760)
- Gains (Losses) on Remeasurements of Defined Benefit Plans of Associates Accounted for Using Equity Method	3	(305.721)	(187.760)
- Revaluation Increases (Decreases) of Property, Plant and Equipments of Associates Accounted for Using Equity Method	3	2.516.131	-
Actuarial Gain/ Loss Arising from Defined Benefit Plans	16	(1.052.004)	(2.733.831)
Taxes Relating to Other Comprehensive Income that will not be Reclassified to Profit or Loss		(21.251.681)	546.766
- Gains (Losses) on Revaluation of Property, Plant and Equipment, Tax Effect	25	(21.462.083)	-
- Actuarial Gain/ (Loss) Arising from Defined Benefit Plans, Tax Effect	25	210.402	546.766
Items to be Reclassified to Profit or Loss		(888.702)	(4.554.776)
Gains (Losses) on Remeasuring or Reclassification Adjustments on Available-for-sale Financial Assets		(3.229.985)	(5.316.740)
- Gains (losses) on Remeasuring Available-for-sale Financial Assets	27	(3.229.985)	(5.316.740)
Share of Other Comprehensive Income of Associates Accounted for Using Equity Method that will be Reclassified to Profit or Loss		2.211.651	483.639
- Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets	3	446.436	(617.547)
- Gains (losses) on Foreign Currency Translation Differences of Associates Accounted for Using Equity Method	3	1.765.215	1.101.186
Taxes Relating to Other Comprehensive Income that will be Reclassified to Profit or Loss		129.632	278.325
- Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets, Tax Effect	25	129.632	278.325
OTHER COMPREHENSIVE (EXPENSE)/ INCOME		93.040.399	(6.929.601)
TOTAL COMPREHENSIVE INCOME		140.122.943	53.089.943

The accompanying notes are an integral part of these financial statements.

**CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.**

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED AT 31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Share capital	Adjustment to share capital	Other Comprehensive Income/ (Expense) not to be Reclassified to Profit or Loss			Other Comprehensive Income/ (Expense) to be Reclassified to Profit or Loss			Reserves of retained earnings	Distribution to shareholders	Retained earnings	Net profit for the year	Total equity
			Increase/ (decrease) on revaluation of property plant and equipment	Actuarial gain/ (loss) arising from defined benefit plans	Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit and loss	Gain/ (Loss) on revaluation or reclassification of adjustments of financial assets	Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit and loss						
Previous Period													
1 January - 31 December 2016													
Balance at 1 January 2016	44,951,051	16,513,550	176,218,583	(6,782,907)	(96,104)	53,130,359	9,257,054	50,558,849	(5,537,877)	186,701,497	62,235,907	587,149,962	
Transfers	-	-	(3,552,701)	-	(282,734)	-	-	-	-	66,071,342	(62,235,907)	-	-
Total Comprehensive Income - Profit for The Year	-	-	-	(2,187,065)	(187,760)	(5,038,415)	483,639	-	-	-	60,019,544	53,089,943	-
- Other Comprehensive Income/ (Expense)	-	-	-	-	-	-	-	-	-	-	60,019,544	60,019,544	-
Dividends	-	-	-	(2,187,065)	(187,760)	(5,038,415)	483,639	-	-	-	-	(6,929,601)	-
	-	-	-	-	-	-	-	4,465,399	-	(51,366,940)	-	(46,901,541)	-
Balance at 31 December 2016	44,951,051	16,513,550	172,665,882	(8,969,972)	(566,598)	48,091,944	9,740,693	55,024,248	(5,537,877)	201,405,899	60,019,544	593,338,364	
Current Period													
1 January - 31 December 2017													
Balance at 1 January 2017	44,951,051	16,513,550	172,665,882	(8,969,972)	(566,598)	48,091,944	9,740,693	55,024,248	(5,537,877)	201,405,899	60,019,544	593,338,364	
Transfers	-	-	(3,509,753)	-	(124,111)	-	-	-	-	63,653,408	(60,019,544)	-	-
Total Comprehensive Income - Profit for The Year	-	-	92,560,293	(841,602)	2,210,410	(3,100,353)	2,211,651	-	-	-	47,082,544	140,122,943	-
- Other Comprehensive Income/ (Expense)	-	-	-	-	-	-	-	-	-	-	47,082,544	47,082,544	-
Dividends	-	-	92,560,293	(841,602)	2,210,410	(3,100,353)	2,211,651	-	-	-	-	93,040,399	-
	-	-	-	-	-	-	-	4,104,790	-	(47,400,247)	-	(43,295,457)	-
Balance at 31 December 2017	44,951,051	16,513,550	261,716,422	(9,811,574)	1,519,701	44,991,591	11,952,344	59,129,038	(5,537,877)	217,659,060	47,082,544	690,165,850	

The accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	31 December 2017	31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES		37.492.404	44.930.570
Net Profit (Loss) for the Year		47.082.544	60.019.544
Profit for the Year from Continuing Activities		47.082.544	60.019.544
Adjustments Related to Reconciliation of Net Profit (Loss) for the Year:		41.082.622	14.920.011
Adjustments for Depreciation and Amortization	10	26.343.810	24.499.319
Adjustments for Impairments/ Reversals		164.145	16.730
- Adjustments for Decrease in Fair Value of Inventories	3	164.145	16.730
Adjustments for Provisions		3.776.122	3.358.632
- Adjustments Provision for Employment Termination Benefits	16	3.776.122	3.358.632
Adjustments for Dividend Income	23	(5.518.989)	(5.299.938)
Adjustments for Interest Income/ (Expense)		15.200.800	9.573.117
- Adjustments for Interest Income		(475.794)	(357.449)
- Adjustments for Interest Expense		15.676.594	9.930.566
Adjustments for Unrealized Foreign Currency Translation Differences		11.640.319	8.326.931
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method		(4.911.202)	(8.390.164)
- Adjustments for Undistributed Profits of Associates	3	(4.911.202)	(8.390.164)
Adjustments for Tax Income/ Losses	25	(6.136.568)	3.656.406
Adjustments for Gain/ Losses on Sale of Tangible Assets		1.035.335	185.956
Adjustments for Other Adjustments Related to Profit/Loss Reconciliation		(511.150)	(21.006.978)
Changes in Working Capital:		(50.518.231)	(38.820.037)
Adjustments for Increases/decreases in trade receivables		(64.032.283)	(42.224.515)
- Increases/decreases in trade receivables from related parties		(62.574.075)	(42.070.889)
- Increases/decreases in trade receivables from third parties		(1.458.208)	(153.626)
Adjustments for Increases/decreases in other receivables		(3.698.913)	(1.620.111)
- Increases/decreases in other receivables from third parties		(3.698.913)	(1.620.111)
Adjustments for Increases/decreases in inventory		(41.943.736)	8.114.132
Increases/decreases in prepaid expenses		138.820	390.475
Adjustments for Increases/decreases in trade payables		67.139.710	(4.880.759)
Increase (Decrease) in Trade Accounts Payables to Related Parties		1.653.873	(6.652.451)
Increase (Decrease) in Trade Accounts Payables to Unrelated Parties		65.485.837	1.771.692
Increases/Decreases in debts from Employment Termination Benefits		145.269	1.243.382
Adjustments for Increases/decreases in other payable		378.505	228.434
- Increases/decreases in other payable from third parties		378.505	228.434
Adjustments for Increases/decreases in deferred income		(30.758)	(131.873)
Adjustments for Increases/decreases in other liabilities of working capital		(8.614.845)	60.798
Decrease (Increase) in Other Assets Related with Operations		(8.788.999)	-
Increase (Decrease) in Other Payables Related with Operations		174.154	60.798
Cash Flows From Operating Activities:		37.646.935	36.119.518
Employee termination benefits paid		(2.694.459)	(6.477.767)
Income taxes refund/ (paid)		(1.212.351)	(4.993.642)
Cash in flows due to government promotion		3.752.279	20.282.461

The accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT
31 DECEMBER 2017 AND 2016

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	31 December 2017	31 December 2016
CASH FLOWS FROM INVESTING ACTIVITIES:		(44.871.624)	(25.666.576)
Cash out flows due to changes in ownership rate of subsidiaries that do not result in control cease		-	(2.805.375)
Proceeds from sale of tangible and intangible assets		510.206	403.514
- Proceeds from sale of tangible and intangible assets		510.206	403.514
Cash outflows due to purchases of tangible and intangible assets		(55.064.224)	(38.351.634)
- Cash outflows due to purchases of tangible assets		(53.894.507)	(37.435.040)
- Cash outflows due to purchases of intangible assets		(1.169.717)	(916.594)
Cash Payments of Advances and Loans		(1.479.024)	1.728.412
- Cash Advances and Loans Made to Related Parties		(1.246.594)	26.298
- Other Cash Advances and Loans Made to Other Parties		(232.430)	1.702.114
Dividends received	5	10.685.624	13.001.053
Interest received		475.794	357.454
CASH FLOWS FROM FINANCING ACTIVITIES:		8.191.126	(19.090.812)
Cash in flow Proceeds from borrowings		307.470.898	122.428.004
- Cash in flow from borrowings		307.470.898	117.176.661
- Cash in flow from other financial borrowings		-	5.251.343
Cash outflow payments of borrowings		(233.304.449)	(84.774.799)
- Repayments of borrowings		(229.794.085)	(77.563.000)
- Cash outflow from Other financial payments of borrowings		(3.510.364)	(7.211.799)
Increase/ (Decrease) in Other Payables to Related Parties		(9.368.603)	(4.498.870)
Dividends paid	5	(40.905.457)	(44.501.541)
Interest paid		(15.701.263)	(7.743.606)
Net increase / (Decrease) in cash and cash equivalents before foreign currency translation differences		811.906	173.182
EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		15.144	30.751
Net Increase / (Decrease) In Cash And Cash Equivalents		827.050	203.933
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		502.652	298.719
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1.329.702	502.652

The accompanying notes are an integral part of these financial statements.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2017

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Pınar Süt Mamulleri Sanayii A.Ş. ("the Company") was established in 1973 and the main operations of the Company are the processing, production and sales of milk, dairy products, fruit juice, sauces and powder products. The Company's production facilities are located in İzmir - Pınarbaşı, Eskişehir and Şanlıurfa Organized Industry Zone. The Company sells its products under "Pınar" brand, which is one of the leading brands in food and beverages business in Turkey.

96% (2016: 95%) of sales and distribution of the Company's products in the domestic market are performed by its investment-in-associate, Yaşar Birleşik Pazarlama Dağıtım Turizm ve Ticaret A.Ş. ("YBP"), and substantial portion of its exports are performed by Yaşar Dış Ticaret A.Ş., ("YDT") which are both Yaşar Group companies (Note 5).

The Company is subject to the regulations of the Capital Market Board ("CMB") and 37,95% (2016: 37,95%) of its shares are quoted on the Borsa İstanbul ("BIST"). The ultimate parent of the Company is Yaşar Holding A.Ş. ("Yaşar Holding") with 61,41% shares of the Company (2016: 61,41%) (Note 19).

The average number of employees are 1.135 in the period. (31 December 2016: 1.163).

The address of the registered head office of the Company is as follows:

Akdeniz Mah. Şehit Fethi Bey Caddesi No: 120/101
Konak/ İzmir

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation of Financial Statements

The accompanying financial statements are prepared in accordance with the Communiqué Serial II, No: 14.1, "Principals of Financial Reporting in Capital Markets" published in the Official Gazette numbered 28676 on 13 June 2013. According to the article 5 of the Communiqué, financial statements are prepared in accordance with Turkish Accounting Standards/ Turkish Financial Reporting Standards ("TAS"/ "TFRS") and its addendum and interpretations ("TFRSI") issued by the Public Oversight Accounting and Auditing Standards Authority ("POAASA") Turkish Accounting Standards Board. The financial statements are presented in accordance with "Announcement regarding with TAS Taxonomy" which was published on 2 June 2016 by POA and the format and mandatory information recommended by CMB.

In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005. Therefore, the consolidated financial statements of the Group have been prepared accordingly.

The Company maintains its accounting records and prepares its statutory financial statements in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the uniform chart of accounts issued by the Ministry of Finance. Subsidiary operating in foreign country has prepared their financial statements in accordance with the laws and regulations of the country in which it operates. Financial statements have been prepared under the historical cost convention as modified by the revaluation of land, land improvements and buildings, machinery and equipment, derivative financial instruments, which are measured at fair values. These financial statements are based on the functional currency of the company, Turkish Lira ("TL").

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2017

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 Amendments in Turkish Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2017:

- Amendments to IAS 7, 'Statement of cash flows'; on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- Amendments IAS 12, 'Income Taxes'; effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.
- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2017:

IFRS 12, 'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

b) New standards, amendments and interpretations issued and effective as of 31 December 2017 have not been presented since they are not relevant to the operations of the Company or have insignificant impact on the financial statements

c) Standards, amendments and interpretations effective after 1 January 2017

- IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- IFRS 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2017

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

- Annual improvements 2014 - 2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, 'First time adoption of IFRS'; regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
 - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.
- TFRSI 22, 'Foreign currency transactions and advance consideration'; effective from annual periods beginning on or after 1 January 2018. This TFRSI addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

New and revised standards and interpretations issued by the IASB but not published by the POAASA

The new standards, interpretations and amendments to existing IFRSs listed below have published by the IASB but have not yet entered into force for the current reporting period. However, these new standards, interpretations and amendments have not yet been adapted to the TFRS by the POAASA and therefore do not form part of TFRS. The Group will make the necessary changes in the consolidated financial statements and explanatory notes after the standards and interpretations entered into force in TFRS.

- Amendment to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- Amendment to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
- IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2017

(Amount expressed in Turkish Lira ("TL") unless otherwise indicated.)

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

- TFRSI 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This TFRSI clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. TFRSI 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. TFRSI 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The Company will consider the effects of the aforementioned changes to the Group's operations and apply if necessary. The impact of IFRS 9, IFRS 15 and IFRS 16 are currently assessed by the Group. New standards, amendments and interpretations issued and effective as of 31 December 2017 have not been presented since they are not relevant to the operations of the Group or have insignificant impact on the consolidated financial statements.

2.3 Basis of consolidation

The Company does not have any subsidiary to be consolidated in the financial statements. The investments in associates are accounted for using the equity method. These are undertakings over which the Company has between 20% and 50% of the voting rights, or over which the Company has significant influence but not control. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company's share of its associates' post-acquisition profits or losses is recognized in the statement of comprehensive income, and its share of post-acquisition movements in reserves of the associated undertakings, such as fair value changes in available-for-sale financial assets, revaluation of property, plant and equipment, depreciation transfer and derecognition of such reserves, is recognized in the statement of changes in equity and the statement of comprehensive income. Dividends to be received or receivable from associates are accounted for as a reduction of the carrying amount of the investment.

The accounting policies of the investment in associate which is accounted for using equity method changed to ensure the consistency with the policies adopted by the Company.

When the Company's share of the losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. The carrying amount of the investment at the date when significant influence ceases is regarded at cost thereafter.

The carrying value of the investment in associate which is accounted for using equity method is tested for impairment according to the policy described in Note 2.6.5.

The table below sets out the associates and the proportion of ownership interest as of 31 December 2017 and 2016 (Note 3):

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

	Share/Voting Right (%)	
	2017	2016
Investments-in-associates		
YBP	31,82	31,82
Desa Enerji Elektrik Üretim A.Ş. ("Desa Enerji")	30,52	30,52
Pınar Foods GmbH ("Pınar Foods")	44,94	44,94

In addition, the Company made an agreement at 15 December 2017 with Dimes Gıda Sanayii Ticaret A.Ş. ("Dimes") regarding the milk production and distribution to schools in Turkey. According to this agreement, an ordinary partnership was established namely as "Dimes - Pınar Adi Ortaklığı" with the contribution of 55% of Pınar Süt and 45% of Dimes. The operations of Dimes-Pınar will start in 2018.

Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation of financial statements of foreign associate

Financial statements of the investment-in-associate operating in Germany (Pınar Foods) are prepared according to the legislation of the country in which it operates, and adjusted to the financial reporting standards issued by the CMB. The assets and liabilities of foreign associate are translated into TL from the foreign exchange rates at the balance sheet date. The income and expenses of foreign associate are translated into TL at the average foreign exchange rates. As of 31 December 2017, equivalent of 1 Euro is TL4,5155 (2016: TL3,7099) and for the year then ended the average equivalent of 1 Euro TL4,1180 (2016: TL3,3413). Exchange differences arising from re-translation of the opening net assets of investments-in-associate and the differences between the average and year-end rates are included in the "currency translation reserve" under the equity as a separate component.

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are measured and presented in TL which is the parent Company's functional and the Company's presentation currency.

2.4 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are the Company and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales are presented as net if the nature of the transaction or the event qualify for offsetting.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.5 Comparative Information

The Company prepared its financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Company prepared its balance sheet at 31 December 2017 on a comparative basis with balance sheet at 31 December 2016; and statements of comprehensive income, cash flows and changes in equity for the period of 1 January - 31 December 2017 on a comparative basis with financial statements for the period of 1 January - 31 December 2016.

2.6 Summary of Significant Accounting Policies

Significant accounting policies followed in the preparation of the financial statements are summarized below:

2.6.1 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination sales within the Company. At each balance sheet date any expenditure incurred but not yet invoiced is estimated and accrued.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement (Note 20).

Revenue is recognized as follows:

Sales of goods:

Sales of goods are recognized when the Company delivers or sells products to the customer, the customer accepts the products and collectability of the related receivables is reasonably assured. It is the Company's policy to sell its products to the customers with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Sales of services:

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income:

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Other revenues earned by the Company are recognized on the following bases:

Rental income- recognized evenly on an accrual basis.

Dividend income - when the Company's right to receive payment is established.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6.2 Inventories

The Company's raw material inventory mainly consist of cheddar cheese, lactic butter and packaging materials used for production of dairy products and fruit juice; work-in-progress inventory mainly consist of raw milk, milk powder, melting cheese, pasteurized lactic butter and pasteurized milk; finished goods inventory mainly consist of UHT milk, white cheese, kasseri, labne, packaged fruit juice, butter, sauces and yogurt; and other inventory mainly consist of spare part and pallet.

Inventories are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost elements included in inventories comprise all costs of purchase of material and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is determined on the monthly weighted average basis (Note 8).

2.6.3 Property, plant and equipment

Property, plant and equipment, except for land and land improvements, buildings, machinery and equipment acquired 1 January 2005 are carried at cost less accumulated depreciation, all tangible assets are stated at cost in the purchasing power of 31 December 2004. After 1 January 2005 to obtain the pen obtained which is reflected in the financial statements at cost less accumulated depreciation up to the balance sheet date. Land and land improvements and buildings and machinery and equipment are stated at fair value as of 31 December 2017, based on valuations by external independent valuers namely TSKB Gayrimenkul Değerleme A.Ş. (Note 10 ve 2.6.21.c). Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the relevant asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on the revaluation of land, land improvements, buildings and machinery and equipment are credited to the revaluation reserve in equity, net of applicable deferred income tax. For certain assets, the increase was recognized in the statement of comprehensive income to the extent that it reversed the impairment of the same asset previously recognized in the statement of comprehensive income. Decreases that offset previous increases of the revalued asset are charged against that reserve; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset's original cost is transferred from the accumulated losses to revaluation reserve.

Buildings, land improvements, machinery and equipment are capitalized and depreciated when they are in the location and condition necessary for it to be capable of operating in the manner intended by the management. Residual values of property, plant and equipment are deemed as negligible.

The advances given for the property, plant and equipment purchases are classified under the other non-current assets until the related asset is capitalised. At each balance sheet date, residual values and estimated useful lives of property, plant and equipment are reviewed and adjusted if appropriate, prospectively.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

Depreciation is provided on the cost or revalued amounts of property, plant and equipment on a straight-line basis less any impairment (Note 10). Land is not depreciated as it is deemed to have an indefinite life. The estimated useful lives of property, plant and equipment are as follows:

	<u>Years</u>
Buildings and land improvements	15-50
Machinery and equipment	15-25
Furniture and fixtures	5-10
Motor vehicles	5

The useful lives of assets are reviewed and adjusted if necessary as of the balance sheet date.

Subsequent costs are included in the asset's carrying value recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Property, plant and equipment are reviewed for impairment losses, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, property plant and equipment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less cost to sell or value in use.

If the property, plant and equipments that are impaired, are revalued, the impairment is charged to the revaluation reserves to the extent that the amount offsetting previous increases of the same asset charged in the revaluation reserves and all other decreases are recognised in the statement of comprehensive income.

Repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred. The Company derecognizes the carrying amounts of the replaced parts related to renovations regardless of whether the replaced parts were depreciated separately. Major overhauls are depreciated over shorter of their useful lives or the remaining useful life of the related assets. Gains or losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are included in the related income and expense accounts, as appropriate (Note 23). On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

2.6.4 Intangible assets

Intangible assets have finite useful lives and mainly comprise acquired rights. These assets which is acquired before 1 January 2005, TL is the intake adjusted acquisition cost expressed in the power on 31 December 2004, for items that are obtained after 1 January 2005 over the cost of acquisition is less accumulated amortization and present value the value of the net after deduction of impairment is recognized in the financial statements. They are recorded at acquisition cost and amortized on a straight-line basis over their estimated useful lives for a period of five years from the date of acquisition (Note 11).

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

Costs associated with maintaining computer software programs are recognized as an expense when incurred. Gain or losses on disposals or on impairments of intangible assets with respect to their amounts are included in the related income and expense accounts. Residual values of intangible assets are deemed as negligible. Intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, intangible assets are the Company at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less cost to sell or value in use.

2.6.5 Impairment of assets

Impairment of financial asset:

- Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or the Company of financial assets is impaired. A financial asset or a the Company of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) Adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

The Company first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

- Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a the Company of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the consolidated statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, impairment losses recognized in the consolidated comprehensive income statement, on equity instruments are not reversed through the consolidated statement of comprehensive income.

Impairment of non-financial assets:

At each reporting date, the Company assesses whether there is an impairment indication for the assets, except for the deferred income tax asset. When an indication of impairment exists, the Company estimates the recoverable amounts of such assets. The recoverable amounts of intangible assets not yet available for use to be measured annually. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets are allocated to cash generating units for the purpose of impairment testing, which is undertaken on the lowest level. An impairment loss is recognized for the amount by which the carrying amount of the asset or any cash-generating unit of that asset exceeds its recoverable amount, which is the higher of an asset's net selling price or value in use. Impairment losses are accounted for in the statement of comprehensive income. Impairment losses can be reversed to the extent that increased carrying amount of an asset shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years provided that increases in the recoverable amount of the asset can be associated with events that occur subsequent to the period in which the impairment loss was recognized.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6.6 Borrowing and borrowing cost

Borrowings are recognized initially at the proceeds received, net of any transaction costs incurred. In subsequent periods, borrowings are restated at amortized cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings. Borrowing costs are expensed as incurred (Note 24). If the borrowings mature within 12 months, then they are classified in current liabilities, otherwise they are classified in non-current liabilities (Note 13). Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

According to the TAS 23 "Borrowing and borrowing costs (revised)" qualifying assets, general and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2.6.7 Financial assets

At each reporting date, the Company assesses whether there is an impairment indication for the assets, except for the deferred income tax asset. When an indication of impairment exists, the Company estimates the recoverable amounts of such assets. The recoverable amounts of intangible assets not yet available for use to be measured annually. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The Company does not have any financial asset – held to maturity or fair value changes accounted through statements of income or expenses.

i. Classification

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period otherwise these are classified as non-current assets. The Company's loans and receivables comprise "trade receivables, due from related parties" and "cash and cash equivalents" in the balance sheet.

- Available for sale financial assets

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets, unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. The company management classifies these financial assets properly with acquisition date and reviews regularly.

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ii. Recognition and measurement

All financial investments are initially recognised at cost (transaction cost), being the fair value of the consideration given and including acquisition charges associated with the investments, and subsequently carried at fair value. The financial assets which the Company has shares less than 20% and are classified as available-for-sale investments are carried at market value when there is quoted market price, they are carried at fair value by using generally accepted valuation techniques, when there is no active market for the financial asset. When there is no quoted market price, and when a reasonable estimate of fair value could not be determined as a result of being other methods inappropriate and unworkable, available-for-sale investments acquired before 1 January 2005 are carried at cost expressed in purchasing power of TL as at 31 December 2004 and available-for-sale investments acquired after 1 January 2005 are carried at cost, less impairment losses, if any. Unrealized gains and losses arising from changes in fair value of securities classified as available-for-sale are recognized in the equity, rather than consolidated statement of comprehensive income until the related financial asset is derecognized.

Change in fair value of available-for-sale investments is calculated as the difference between the discounted acquisition cost and the current fair value. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income as part of other income when the Company's right to receive payments is established.

When securities classified as available-for-sale are derecognized, the accumulated fair value adjustments in equity are recognized in the consolidated statement of comprehensive income.

2.6.8 Business combination

However, if the parties involved for the transaction are the entities under common control, here between the Company and Yaşar Group Companies, the provisions stated in TFRS 3 are not applicable for the transaction, and accordingly goodwill or negative goodwill are not be accounted for. The difference between the purchase consideration and the fair value of the net asset acquired was accounted for under equity as "Distribution to shareholders".

2.6.9 Earning per share

Earnings per share disclosed in the statement of comprehensive income are determined by dividing net income for the year by the weighted average number of shares that have been outstanding during the year concerned (Note 26).

Companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year.

In case of dividend distribution, earnings per share is calculated by dividing net income by the number of shares, rather than dividing by weighted average number of shares outstanding.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6.10 Subsequent events

Subsequent events, announcements related to net profit or even declared after other selective financial information has been publicly announced, include all events that take place between the balance sheet date and the date when balance sheet was authorized for issue.

In the case that events require a correction to be made occur subsequent to the balance sheet date, the Company makes the necessary corrections to the financial statements. Moreover, the events that occur subsequent to the balance sheet date and that do not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected.

2.6.11 Provisions, contingent liabilities and contingent assets

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are treated as contingent assets or liabilities (Note 14). The Company does not recognize contingent assets and liabilities. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed, where an inflow of economic benefits is probable.

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are not recognized for future operating losses.

i. Employee benefits defined benefit obligation (Provision for employment termination benefits)

Employment termination benefits, as required by the Turkish Labor Law and the laws applicable in the countries where the subsidiaries operate, represent the estimated present value of the total reserve of the future probable obligation of the Company arising in case of the retirement of the employees. According to Turkish Labor Law and other laws applicable in Turkey, the Company is obliged to pay employment termination benefits to all personnel in cases of termination of employment without due cause, call for military service, be retired or death upon the completion of a minimum one year service. All actuarial gains and losses are recognized in the statements of comprehensive income.

ii. Provision for profit sharing and bonus plans

The Company recognizes a liability and an expense for bonus and profit-sharing for the management and board of directors, based on a formula that takes into consideration the profit attributable to the shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6.12 Accounting policies, errors and change in accounting estimates

Material changes in accounting policies and accounting errors are applied on a retrospective basis as if a prior period error had never occurred or the policy had always been applied. The effect of changes in accounting estimate shall be recognized prospectively by including it in the statement of comprehensive income within the period of the change, if the change affects that period only; or period of the change and future periods, if the change affects both.

2.6.13 Related parties

For the purpose of these financial statements, shareholders having control, joint control or significant influence over the Company, Yaşar Group Companies, key management personnel and board members, and their close family members, in each case together with and companies controlled, jointly controlled or significantly influenced by them are considered and referred to as related parties (Note 5).

2.6.14 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that takes strategic decisions.

The chief operating decision makers regularly monitor and review the operational results based on the main products' performances in domestic and foreign markets. However, as the nature of the products, production processes, type of customers, distribution methods and regulatory environment for the operations of the Company are identical, and the operations performed in foreign markets is not material, segment reporting is not applicable.

2.6.15 Leases

(1) *The Company as the lessee*

Finance Leases

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property net off any tax incentives received, if any, or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the lower of useful life or the lease period of the asset (Note 10).

Operating Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(2) *The Company as the lesser*

Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the consolidated balance sheet. Rental income is recognized in the statement of comprehensive income on a straight-line basis over the lease term.

2.6.16 Taxation on income

The tax expense for the period comprises current and deferred income tax. The current income tax liability includes the taxes payable calculated on the taxable portion of the period income with tax rates enacted on the balance sheet date (Note 25). The adjustments related to prior period tax liabilities are recognized in other operating expenses.

Deferred income tax income or expense is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in equity. In case, when the tax is related to items recognized directly in equity and other comprehensive income, the tax is also recognized in equity and other comprehensive income.

Deferred income tax assets or liabilities are reflected to the financial statements to the extent that they will provide an increase or decrease in the taxes payable for the future periods where the temporary differences will be reversed, using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax liabilities are recognized for all taxable temporary differences, where deferred income tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized. To the extent that deferred income tax assets will not be utilized, the related amounts have been deducted accordingly.

2.6.17 Statement of cash flow

In the statement of cash flows, cash flows are classified into three categories as operating, investing and financing activities. Cash flows from operating activities are those resulting from the Company's production and sales activities. Cash flows from investing activities indicate cash inflows and outflows resulting from property, plant and equipments and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. For the purposes of the statement of cash flows, cash and cash equivalents comprise of cash in hand accounts, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months.

2.6.18 Share capital and dividends

Ordinary shares are classified as equity. Dividends payable on shares are recognized as an appropriation of the profit in the period in which they are declared. Dividend income is recognized when the Company's right to receive the payment is established.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.6.19 Government grants and incentive

Grants from the government are recognized at their fair value when there is a reasonable assurance that grant will be received and the Company will comply with all relevant conditions after fulfilling minimum requirements.

The government incentives, which were utilized by the company in the beginning of 2017 on milk powder and direct milk powder exports that it has used in exported products, were abolished in 2017. The Company recognizes the subsidy received for brand development and marketing by way of crediting respective selling and marketing costs whereas the subsidy received for usage of milk powder in products sold abroad is net off against the cost of sales (Note 12).

2.6.20 Research and development expenses

Research expenditures are recognized as an expense in the period in which they are incurred. Intangible assets arising from the development (or from the development stage of a project carried out within the enterprise) in the presence of all of the following conditions are recognized;

- It is technically possible for the intangible asset to be completed to be ready for use or sale;
- The entity has intention to complete an intangible asset and to use or sell it;
- Possibility to use or sell intangible assets;
- How the intangible asset will determine the possible future economic benefits;
- There are sufficient technical, financial and other resources available to complete the development phase and to use or sell the intangible asset; and
- The expenditure on intangible assets in the development process can be reliably measured.

In the remaining cases, development expenditures are expensed as they occur. Development expenditures expensed in the previous period are not recognized as assets in the following period. Projects in which the stages of research and development are difficult to distinguish will be expensed to the extent that they are accepted and formed during the research phase.

2.6.21 Critical accounting estimates and judgments

Preparation of financial statements requires the use of estimates and assumptions that may affect the amount of assets and liabilities recognized as of the balance sheet date, disclosures of contingent assets and liabilities and the amount of revenue and expenses reported. Although these estimates and assumptions rely on the Company management's best knowledge about current events and transactions, actual outcomes may differ from those estimates and assumptions. Significant estimates of the Company management are as follows:

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

a) *Income taxes*

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Company recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. In this respect, the Company recognised deferred income tax assets arising from tax losses carried forward and other deductible differences as their future utilisation is virtually certain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made (Note 25).

b) *Fair value determination of available for sale investments*

The generally accepted valuation techniques used in fair value determination of available-for-sale investments for which there is no quoted market price exists, consist of several assumptions, which are based on the management's best estimates (Note 27).

c) *Revaluation of land, buildings and land improvements, machinery and equipment:*

Land, land improvements and buildings and machinery and equipment are stated at fair value less accumulated depreciation, based on valuations by external independent valuers namely TSKB Gayrimenkul Değerleme A.Ş. as of 31 December 2017. Revaluations are performed with the sufficient regularity to ensure that the carrying amounts of the revalued property, plant and equipment do not differ materially from that which would be determined using fair value at the end of the reporting periods. The frequency of the revaluation depends upon the changes in the fair values of the items of property, plant and equipment. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required and revaluation is performed for entire class of revalued item simultaneously. Besides, for items of property, plant and equipment with only insignificant changes in fair value frequent revaluations and fair value measurements are considered unnecessary.

The revaluation techniques used in fair value determinations of land and land improvements, buildings, machinery and equipment consist of several assumptions, which are based on the management's best estimates.

- As there were no recent similar buying/ selling transactions nearby, revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements were based on the method of cost approach.
- In the market reference comparison method, current market information was utilized, taking into consideration the comparable property in the market in recent past in the region, price adjustment was made within the framework of criteria that could affect market conditions, and accordingly an average m2 sale value was determined for the lands subject to the valuation. The similar pieces of land found were compared in terms of location, size, settlement status, physical conditions, real estate marketing firms were consulted for up-to-date valuation of the estate market, also, current information and experience of the professional valuation company was utilized.

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NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

- In the cost approach method, fair value of the buildings and land improvements was calculated by considering recent re-construction costs and related depreciation. In the cost approach method, above explained market reference comparison method was used in calculation of the land value, one of the components.
- Whenever a fully integrated industrial plant was in discussion, the revaluation work was performed based on all the active and functioning assets in the integrated plant rather than taking as basis the data for the second-hand market within the scope of the valuation of the machinery and equipment. Such machinery and equipment were reviewed and assessed by their line.

The carrying values of land, land improvements and buildings do not necessarily reflect the amounts that would result from the outcome of a sales transaction between independent parties.

As of initial recognition and as of balance sheet date, the Company performs impairment assessment for buildings, land improvements and machinery and equipment of which valuations are based on cost approach, in accordance with the "TAS 36 Impairment of Assets", and no impairment indicator is identified.

2.7 Compliance declaration to resolutions published by POAASA and TAS/ TFRS

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority. As Company management, we declare that the current and previous period financial statements together with the summary of the important accounting policies and notes to the financial statements are prepared and presented in accordance with Turkish Accounting Standards published by the Public Oversight Accounting and Auditing Standards Authority.

NOTE 3 - INTERESTS IN OTHER ENTITIES

Investments in associates:

	31 December 2017		31 December 2016	
	TL	%	TL	%
YBP	48.491.423	31,82	47.258.500	31,82
Desa Enerji	14.012.677	30,52	13.261.935	30,52
Pinar Foods	9.972.647	44,94	7.953.829	44,94
	72.476.747		68.474.264	

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NOTE 3 - INTERESTS IN OTHER ENTITIES (Continued)

Movement in investments-in-associates during the years 2017 and 2016 are as follows:

	2017	2016
1 January	68.474.264	67.506.066
Share of profit before taxation of investments-in-associates - net	4.911.202	8.390.164
Increase in fair value reserves of investments-in-associates - net	446.436	(617.547)
Dividend income from investments-in-associates (Note 5.ii.d)	(5.166.635)	(7.701.115)
Currency translation reserve	1.765.215	1.101.186
Increase in revaluation reserve of investments-in-associates	2.516.131	-
Actuarial loss arising from defined benefit plans of investments-in associates - net	(305.721)	(187.760)
Elimination of net effect of unrealized profits on inventory	(164.145)	(16.730)
31 December	72.476.747	68.474.264

Condensed financial statements of investments-in-associates are as follows;

31 December 2017					
	Assets	Liabilities	Net Sales	Net Profit	Other Comprehensive Income/(Expense)
- YBP	519.969.805	365.990.246	1.805.583.299	11.861.282	4.231.228
- Desa Enerji	54.259.637	8.346.540	53.102.539	2.894.294	4.272.192
- Pinar Foods	22.536.552	345.526	63.683.911	564.317	3.927.631
31 December 2016					
- YBP	454.542.466	304.953.442	1.633.551.020	17.817.119	(2.595.831)
- Desa Enerji	50.694.926	7.241.666	50.217.035	6.240.801	-
- Pinar Foods	18.540.603	841.827	55.556.297	1.815.896	2.450.156

Details of significant investment in associates of the Company as at 31 December 2017 and 2016 are as follows:

Associates	Nature of business	Based on
- YBP	Marketing and distribution	Turkey
- Desa Enerji	Energy generation	Turkey
- Pinar Foods	Marketing and distribution	Germany

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NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in hands	46.095	69.423
Banks	1.283.607	433.229
- Demand deposits	998.607	333.229
- TL	998.607	39.151
- Foreign currency	-	294.078
- Time deposits	285.000	100.000
- TL	285.000	100.000
	1.329.702	502.652

As of 31 December 2017 the Company has time deposits amounting to TL285.000 with an effective interest rate of 14,40% per annum ('p.a.') (2016: TL100.000 and 6,75%).

Based on the independent data with respect to the credit risk assessment of the banks, at which the Company has deposits, the credit quality of the banks is sufficient. The market values of cash and cash equivalents approximate carrying values, including accrued income at the respective balance sheet date.

NOTE 5 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Due from and due to related parties and the transactions with related parties as of and for the years ended 31 December 2017 and 2016 are as follows:

i) Balances with related parties:

	31 December 2017	31 December 2016
a) Short - term trade receivables from related parties:		
YBP	208.508.584	148.408.031
YDT	31.322.706	25.819.038
	239.831.290	174.227.069
Less: Unearned finance income	(2.101.983)	(1.182.984)
	237.729.307	173.044.085

The effective weighted average interest rates applied to trade receivables from related parties are 13,76% p.a. as of 31 December 2017 and mature within 2 months (31 December 2016: 9,04% p.a. and mature within 2 months).

As of 31 December 2017, trade receivables from related parties amounting to TL9.977.585 (2016: TL10.836.538) over which no provision for impairment is provided of overdue receivables and aging is shown Note 28.a.

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NOTE 5 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

b) Other short - term receivables from related parties:

	31 December 2017	31 December 2016
HDF FZCO	1.014.572	-
DYO Boya Fab. San. ve Tic. A.Ş. ("DYO Boya")	137.380	18.032
Other	112.671	997
	1.264.623	18.029

c) Short - term trade payables to related parties:

Çamlı Yem Besicilik Sanayi ve Tic. A.Ş. ("Çamlı Yem")	9.010.448	7.152.251
Yaşar Holding	3.392.023	3.271.633
Yadex International GmbH ("Yadex")	2.586.353	571.537
Desa Enerji	1.581.137	1.475.387
HDF FZCO	262.240	2.003.912
Other	350.708	636.864
	17.182.909	15.111.584
Less: Unincurred finance cost	(112.612)	(68.624)
	17.070.297	15.042.960

Trade payables to Çamlı Yem and Desa Enerji mainly consist of raw material, steam and electricity purchases.

As of 31 December 2017 the effective weighted average interest rate applied to those payables is 13,73% (2016: 9,06%) and maturity is 2 months (2016: 2 months).

d) Other short-term payables to related parties:

Yaşar Holding	14.032.015	23.373.508
Other	5.835.506	3.566.615
	19.867.521	26.940.123

As of 31 December 2017, the Company has non-trade payables to Yaşar Holding amounting to TL 14.032.015 (31 December 2016: TL23.373.508) and the effective weighted average interest rate applied to those receivables is 15% (31 December 2016: 11%). Company management expects to collect other receivables from Yaşar Holding between three to twelve months.

Majority of other short term payables to related parties which are amounting to TL5.835.506 consist of bonus payments to board of directors according to the decision taken at the General Assembly Meetings held at 30 March 2017, 30 March 2016 and 26 March 2015 (31 December 2016: Bonus payments according to the decision taken at General Assembly Meetings held at 30 March 2016 and 26 March 2015).

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NOTE 5 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

ii) Transaction with related parties:

	1 January - 31 December 2017	1 January - 31 December 2016
a) Product sales:		
YBP	1.031.512.225	893.010.139
YDT	166.928.677	126.800.976
Pınar Et	704.320	669.497
Other	4.770	484.883
	1.199.149.992	1.020.965.495

Majority of the Company's sales in the domestic market are made to its associate, YBP, and its exports are made to YDT, which are both Yaşar Group Companies.

b) Service sales:

YDT	5.465.078	2.588.381
YBP	766.249	662.339
Çamlı Yem	445.220	384.599
Pınar Et	289.922	372.347
Other	570.027	396.880
	7.536.496	4.404.546

c) Other income from operating activities:

YDT	5.478.045	8.458.065
Çamlı Yem	1.077.858	987.345
YBP	926.612	969.669
Other	30.168	3.317
	7.512.683	10.418.396

Other income from operating activities mostly consist of foreign exchange income from export receivables and rent income from YBP and Çamlı Yem.

d) Dividends received:

Pınar Et	5.506.270	5.288.200
YBP (*)	3.730.165	7.701.115
Desa Enerji (*)	1.436.470	-
Bintur Turizm ve Catering Hizmetleri A.Ş. ("Bintur")	12.719	11.738
	10.685.624	13.001.053

(*) Investment in associate (Note 3).

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NOTE 5 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 31 December 2017	1 January - 31 December 2016
e) Other expenses from operating activities:		
YDT	4.331.734	743.489
Çamlı Yem	502.094	543.051
Yaşar Holding	131.340	186.895
Other	77.227	285.826
	5.042.395	1.759.261

Other expenses from operating activities are mostly consist of unearned financial expenses, interest expenses and foreign exchange expenses related with trade payables from related parties of the Company.

f) Product purchases:		
Desa Enerji	15.361.342	14.212.525
Yadex	12.522.989	18.708.547
Çamlı Yem	11.970.161	10.406.116
Hedef Ziraat Ticaret A.Ş.	3.825.528	3.713.381
Other	200.964	195.754
	43.880.984	47.236.323

The Company imports raw materials through Yadex, purchases steam and electricity from Desa Enerji, and purchases raw material from Çamlı Yem.

g) Service purchase:		
YDT	13.853.266	5.059.784
Yaşar Holding	13.812.477	12.671.518
YBP	8.499.782	5.891.031
Yaşar Bilgi İşlem ve Ticaret A.Ş. ("YABİM")	1.569.191	1.330.325
Bintur	731.628	672.653
Other	891.546	3.056.184
	39.357.890	28.681.495

Service purchases made from YDT mainly consist of the reflection of various export costs of foreign sales and service commissions. Service purchases from Yaşar Holding are related to various services and consultancy charges. The service purchases from the Company's group company and its subsidiary YBP consist of promotional and advertising services and promotion expenses reflected to the company.

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NOTE 5 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 31 December 2017	1 January - 31 December 2016
h) Purchases of property, plant and equipment and intangible assets:		
Yaşar Üniversitesi	76.020	-
Yaşar Holding	-	538.255
Other	45.000	166.742
	121.020	704.997

i) Financial income from related parties:

Yaşar Holding	1.808.712	1.530.263
Other	15.697	66.227
	1.824.409	1.596.490

The majority of finance income consists of bail commission charges amounting to TL1.824.409 (2016: TL1.596.490), for the borrowings obtained by the Yaşar Group Companies from international capital markets and various financial institutions with the guarantee of the Company (Note 24.a). The commission rates of bail and financing used in the associated intercompany charges is 0,50% p.a. (2016: 0,50% p.a.).

j) Dividends to related parties:

Yaşar Holding	25.119.550	27.327.863
Other	2.408.378	2.417.753
	27.527.928	29.745.616

On the Ordinary Meeting of the General Assembly for the year 2016 as of 30 March 2017, it has been decided to distribute dividend amounting to TL43.295.457 (2016: TL46.901.541). TL15.767.529 portion of this dividend (2016: TL17.155.925) was paid to other shareholders.

k) Donations:

Yaşar Eğitim Vakfı	276.350	596.730
Yaşar Üniversitesi	-	300.000
	276.350	896.730

l) Financial expenses from related parties:

Yaşar Holding	2.217.662	2.139.943
YBP	165.277	1.357.640
Other	-	804.581
	2.382.939	4.302.164

A significant portion of the financial expenses consist of interest expense on other trade payables to the Company's related parties.

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NOTE 5 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 31 December 2017	1 January - 31 December 2016
m) Key management compensation:		
Key management includes members of Board of Directors and directors. The compensation paid or payable to key management is shown below:		
Total short-term employee benefits	7.156.661	6.128.441
Severance benefit	-	178.495
Other long-term benefits	126.617	138.490
	7.283.278	6.445.426

The portion of total short-term benefits amounting to TL2.390.000 (31 December 2016: TL2.400.000) consists of Board of Directors appropriation according to the decision taken at the Ordinary Meeting of the General Assembly.

n) Bails given to related parties:

As of 31 December 2017 Pınar Et, YBP, Çamlı Yem and DYO Boya have provided joint and several guarantee to Yaşar Holding; for its Eurobond issued in international markets at 6 November 2014, amounting to USD250.000.000 equivalent of TL942.975.000 (31 December 2016: USD250.000.000 equivalent of TL879.800.000) due 6 May 2020. An Indemnity Agreement was signed between Yaşar Holding and the above mentioned guarantors on 3 November 2014, which states that in an occurrence of an event where a guarantor makes a payment related with the guarantee provided; Yaşar Holding will indemnify the paying guarantor. If Yaşar Holding fails to indemnify the paying guarantor, each of the guarantors will indemnify the paying guarantor by 1/5 of the payment amount.

As of 31 December 2016 the Company jointly guarantees the repayment of loans obtained by Yaşar Group companies from a financial institution amounting to EUR11.111.111, equivalent of TL41.221.111.

o) Bails received from related parties:

Received bails are related with guarantee letter amounting to TL61.111.111 guarantees provided by YBP and Yaşar Holding (31 December 2016: guarantees provided by YBP and Yaşar Holding related with guarantee letters amounting to TL35.000.000).

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
a) Short - term trade receivables from third parties:		
Customer current accounts	3.326.190	3.648.761
Cheques and notes receivable	9.874.728	8.079.417
	13.200.918	11.728.178
Less: Provision for impairment of receivables	(566.461)	(594.894)
Unearned finance income	(145.571)	(102.606)
	12.488.886	11.030.678

The effective weighted average interest rate on TL denominated trade receivables is 13,78% p.a. as of 31 December 2017 (2016: 9,22% p.a.).

The agings of trade receivables as of 31 December 2017 and 2016 are as follows;

Overdue	699.827	1.141.852
0 - 30 days	4.723.541	3.976.259
31 - 60 days	6.691.913	4.388.017
61 - 90 days	39.396	524.550
91 days and over	334.209	1.000.000
	12.488.886	11.030.678

The Company management does not expect any collection risk regarding its trade receivables overdue but not impaired amounting to TL699.827 as of 31 December 2017 (31 December 2016: TL1.141.852) considering its past experience and subsequent collections (Note 28.a).

The agings of trade receivables as of 31 December 2017 and 2016 are as follows;

	31 December 2017	31 December 2016
0 - 3 months overdue	699.827	1.141.852

Movements in the provision for impairment of receivables can be analyzed as follows:

	2017	2016
1 January	594.894	489.856
Collection	(28.433)	(21.600)
Charged to consolidated statement of comprehensive income (Note 22.b)	-	126.638
31 December	566.461	594.894

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES (Continued)

b) Short - term trade payables to third parties:

	31 December 2017	31 December 2016
Supplier current accounts	225.618.326	169.047.626
Cheques	-	1.708.258
	225.618.326	170.755.884
Less: Unincurred finance cost	(1.911.069)	(1.033.860)
	223.707.257	169.722.024

As of 31 December 2017 and 2016, the effective weighted average interest rates used in unincurred finance cost calculation for short-term trade payables including TL and USD denominated liabilities are as follows:

TL trade payable	%13,83	%9,26
USD trade payable	%1,58	%2,32

Trade payables mature within two months (2016: two months).

c) Long - term trade payables to third parties:

Supplier current accounts	45.819.864	23.197.010
	45.819.864	23.197.010

Long-term trade payables to third parties are comprised of payables regarding property, plant and equipment purchases that are amounting to EUR10.147.240 as of 31 December 2017 (31 December 2016: EUR 6.252.732)

The redemption schedules of long-term trade payables at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
2018	-	10.437.624
2019	17.275.720	9.560.203
2020	16.249.011	1.495.025
2021	6.128.877	1.136.105
2022	4.615.349	568.053
2023	1.550.907	-
	45.819.864	23.197.010

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

	31 December 2017	31 December 2016
a) Other short-term receivables from third parties:		
Value Added Tax ("VAT") receivable	7.284.218	2.925.948
Deposits and guarantees given	20.090	20.723
Other	371.678	1.030.402
	7.675.986	3.977.073
b) Other short-term payables to third parties:		
Taxes and funds payable	2.007.575	1.798.888
Other	335.429	165.611
	2.343.004	1.964.499
c) Other long-term receivables from third parties:		
Deposits and guarantees given	13.359	13.359
	13.359	13.359

NOTE 8 - INVENTORIES

	31 December 2017	31 December 2016
Raw materials	47.745.833	34.095.294
- Raw materials	38.983.195	33.206.727
- Raw materials in transit	8.762.638	888.567
Work-in-progress	42.086.930	27.888.422
Finished goods	48.122.231	33.851.499
Spare parts and palettes	7.882.865	8.058.908
	145.837.859	103.894.123

The costs of inventories recognized as expense and included in cost of sales amounted to TL887.854.434 (2016: TL742.261.706) (Note 17). Inventories are carried at cost, and there are no inventories valued at fair value less costs to sell as of 31 December 2017.

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NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2017	31 December 2016
a) Short - term prepaid expenses to third parties:		
Prepaid expenses	4.244.544	4.491.868
Advances given	293.549	185.045
	4.538.093	4.676.913
b) Long - term prepaid expenses to third parties:		
Advances given	1.492.836	1.260.407
	1.492.836	1.260.407
c) Short - term deferred income from third parties:		
Advances received	23.189	53.947
	23.189	53.947

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and accumulated depreciation between 1 January and 31 December 2017 were as follows:

	1 January 2017	Additions	Disposals	Transfers	Accumulated Depreciation Netting Before Valuation	Revaluation Increasing/ (Decreasing)	31 December 2017
Cost or valuation:							
Land	136.679.902	-	-	-	-	26.033.598	162.713.500
Land improvements and buildings	92.470.989	1.141.316	(283.021)	8.590	(8.226.474)	8.488.100	93.599.500
Machinery, plant and equipment	238.763.486	19.873.572	(2.214.608)	11.092.858	(33.594.723)	85.805.514	319.726.099
Motor vehicles	6.984.631	-	(210.228)	-	-	-	6.774.403
Furniture and fixtures	54.920.626	2.224.954	(434.301)	-	-	-	56.711.279
Construction in progress	7.000.679	30.654.665	-	(11.101.448)	-	-	26.553.896
	536.820.313	53.894.507	(3.142.158)	-	(41.821.197)	120.327.212	666.078.677
Accumulated depreciation:							
Land improvements and buildings	(4.152.249)	(4.182.221)	107.996	-	8.226.474	-	-
Machinery, plant and equipment	(16.069.602)	(18.369.214)	844.093	-	33.594.723	-	-
Motor vehicles	(6.493.884)	(91.304)	210.227	-	-	-	(6.374.961)
Furniture and fixtures	(42.194.334)	(3.171.837)	434.302	-	-	-	(44.931.869)
	(68.910.069)	(25.814.576)	1.596.618	-	41.821.197	-	(51.306.830)
Net book value	467.910.244						614.771.847

As of 31 December 2017, main additions to property, plant and equipment are comprised of investments related to productions lines of the Company.

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and accumulated depreciation between 1 January and 31 December 2016 were as follows:

	1 January 2016	Additions	Disposals	Transfers	31 December 2016
Cost or valuation:					
Land	136.679.902	-	-	-	136.679.902
Land improvements and buildings	90.988.108	718.500	-	764.381	92.470.989
Machinery, plant and equipment	210.082.619	11.268.449	(1.049.014)	18.461.432	238.763.486
Motor vehicles	6.639.387	345.244	-	-	6.984.631
Furniture and fixtures	52.630.934	2.582.370	(327.780)	35.102	54.920.626
Construction in progress	3.741.117	22.520.477	-	(19.260.915)	7.000.679
	500.762.067	37.435.040	(1.376.794)	-	536.820.313
Accumulated depreciation:					
Land improvements and buildings	-	(4.152.249)	-	-	(4.152.249)
Machinery, plant and equipment	-	(16.529.146)	459.544	-	(16.069.602)
Motor vehicles	(6.314.674)	(179.210)	-	-	(6.493.884)
Furniture and fixtures	(39.419.245)	(3.102.869)	327.780	-	(42.194.334)
	(45.733.919)	(23.963.474)	787.324	-	(68.910.069)
Net book value	455.028.148				467.910.244

As of 31 December 2016, main additions to property, plant and equipment are comprised of investments related to productions lines of the Company.

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

There are no mortgages or other collaterals placed on property, plant and equipment as of 31 December 2017 (2016: None).

Current year's depreciation and amortization charges were allocated to cost of goods sold by TL20.863.298 (2016: TL18.760.035) to the cost of inventories by TL797.276 (2016: TL831.249), to selling and marketing expenses by TL1.979.415 TL (2016: TL1.995.902) (Note 21.a), to general administrative expenses by TL2.244.058 (2016: TL2.371.298) (Note 21.b), to research and development expenses by TL459.763 (2016: TL540.835) (Note 21.c).

Movements in revaluation reserve related to land, buildings, land improvements, machinery and equipment as of 31 December 2017 and 2016 were as follows:

	2017	2016
1 January	172.665.882	176.218.583
Disposal of revaluation funds due to sale of property, plant and equipment -net	(490.706)	(130.241)
Increase in revaluation reserve arising from revaluation of land, buildings and land improvements	98.865.129	-
Change in tax rate	(6.304.836)	-
Depreciation transfer upon revaluation reserve - net	(3.019.047)	(3.422.460)
31 December	261.716.422	172.665.882

The carrying amounts of each class of property, plant and equipment that would have been recognized if the assets have been carried under the cost model at 31 December 2017 and 2016 are as follows:

	Land	Land improvements and buildings	Machinery and equipment
31 December 2017:			
Cost	9.059.482	73.348.079	333.262.465
Less: Accumulated depreciation	-	(20.212.549)	(100.458.544)
Net book value	9.059.482	53.135.530	232.803.921
31 December 2016:			
Cost	9.059.482	72.481.194	303.854.743
Less: Accumulated depreciation	-	(18.166.418)	(84.394.224)
Net book value	9.059.482	54.314.776	219.460.519

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NOTE 11 - INTANGIBLE ASSETS

The movements of intangible assets and related accumulated amortization for the years ended 31 December 2017 and 2016 were as follows:

	1 January 2017	Additions	31 December 2017
Costs:			
Rights	12.231.779	576.422	12.808.201
Construction in progress	-	593.295	593.295
Less: Accumulated amortization	(10.946.054)	(529.234)	(11.475.288)
Net book value	1.285.725		1.926.208

(*) See Note 10.

	1 January 2016	Additions	31 December 2016
Costs:			
Rights	11.315.185	916.594	12.231.779
Less: Accumulated amortization	(10.410.209)	(535.845)	(10.946.054)
Net book value	904.976		1.285.725

NOTE 12 - GOVERNMENT GRANTS AND INCENTIVES

During 2017, in scope of Turquality Project implemented by Undersecretariat of Foreign Trade to support brandization of products made in Turkey in foreign markets and to settle the image of Turkish goods, the Company was provided TL 395.032 (2016: TL1.700.078) government incentive. As of 31 December 2017, the company has incentive accrual amounting to TL2.355.398 (31 December 2016: TL3.891.860).

There are investment incentive certificates to which the Company has been entitled by the official authorities (Note 25).

During 2016, in accordance with bulletin of Ministry of Food, Agriculture and Livestock, numbered 2011/40, regarding the utilization of milk powder within export goods, the Company was provided TL 5.097.400 government incentive. The relevant incentive amount was reflected to the statement of comprehensive income by netting off against the cost of sales. Also the Company had benefit from the incentives of Food, Agriculture and Livestock Ministry related to increasing the export of milk powder in 2016 and TL11.440.813 was recorded as government grant. As of 2017, the Company which used in export products as milk powder and milk powder exported directly related as government incentives have been abolished.

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NOTE 13 - BORROWINGS AND BORROWING COSTS

	31 December 2017	31 December 2016
From third parties:		
Short-term borrowings	83.904.341	28.067.744
Short-term portion of long-term borrowings	9.961.784	8.097.564
Short-term borrowings	93.866.125	36.165.308
Long-term borrowings	53.333.333	31.111.111
Long-term borrowings	53.333.333	31.111.111
	147.199.458	67.276.419

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NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

a) Borrowings:

	Effective weighted average interest rate p.a. (%)		Original currency		TL equivalent	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Short - term borrowings:						
TL borrowings (*)	13,85	11,35	53.163.356	6.019.864	53.163.356	6.019.864
USD borrowings (*)	1,92	1,71	8.150.000	5.000.000	30.740.985	17.596.000
EUR borrowings (*)	-	-	-	1.200.000	-	4.451.880
Short - term portion of long - term bank borrowings:						
Short-term portion of long term TL borrowings (**)	13,12	13,94	9.961.784	8.097.564	9.961.784	8.097.564
Total short - term borrowings					93.866.125	36.165.308
Long - term bank borrowings:						
TL borrowings (**)	14,48	13,69	53.333.333	31.111.111	53.333.333	31.111.111
Total long - term bank borrowings:					53.333.333	31.111.111

(*) As of 31 December 2017 short-term financial liabilities consist of spot loans. Interest rate for spot loans is 13,85%. (31 December 2016: TL denominated short-term financial liabilities consist of spot and rotative loans. There are not any interest payments for spot loans while interest rate for rotative loan is 11,35% p.a). As of 31 December 2017 USD short-term financial liabilities consist of export credits with interest rate 1,92%. (31 December 2016: 1,71%). As of 31 December 2016 EUR denominated loans consist of credits with fixed interest rate of 0%.

(**) As of 31 December 2017 TL denominated long-term borrowings consist of loans with a fixed interest rate of 12,95% and 15,60% (As of 31 December 2016, TL denominated long-term borrowings consist of loans with a fixed interest rate of 13,60% and 13,81%).

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NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

Guarantees given for The Company's financial liabilities and other financial liabilities are explained in Note 14.

The redemption schedule of long-term borrowings at 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
2018	-	7.777.777
2019	37.777.776	7.777.777
2020	7.777.777	7.777.777
2021	7.777.780	7.777.780
	53.333.333	31.111.111

31 December 2017 and 2016 are prepared in accordance with the Company's variable interest rate and the fixed rate renewal date net financial debt maturity breakdown is as follows:

	Total
31 December 2017:	
Borrowings with fixed rates	146.892.659
Borrowings without interest	306.799
Total	147.199.458
31 December 2016:	
Borrowings with fixed rates	62.824.539
Borrowings without interest	4.451.880
Total	67.276.419

There is no floating interest rate borrowing as of 31 December 2017 (31 December 2016: None).

The carrying amounts and fair values of borrowings are as follows:

	Carrying Amounts		Fair Values	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bank borrowings	147.199.458	67.276.419	147.484.712	67.624.511

The fair values are based on cash flows discounted using the rates based on the borrowing rates of 14,16% p.a. and 4% p.a. for TL and USD denominated bank borrowings, respectively (31 December 2016: 10,77% p.a., 2,24% p.a. and 1,98% p.a. for TL,USD and EUR denominated bank borrowings, respectively).

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NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

As of 31 December 2017 the movement of net borrowings are as follows:

	2017	2016
1 January	67.276.419	21.295.699
Cash in flow from borrowings	307.470.898	117.176.661
Repayment of borrowings	(229.794.085)	(77.563.000)
Currency translation difference	2.270.895	4.180.041
Accrual of interest effect	(24.669)	2.187.018
31 December	147.199.458	67.276.419

b) Other financial liabilities:

Within the year 2017, the Company does not have any other financial liability in return for purchases of merchandise intended for commercial purposes, which are made with letter of credit letters of credit. (31 December 2016: TL3.510.364 within 1 year maturity. Weighted average commission rate applied to such liabilities is 1% p.a).

NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
a) Guarantees given:		
Bails	942.975.000	921.021.111
Letter of guarantee	62.623.308	45.641.896
	1.005.598.308	966.663.007

As of 31 December 2017 Pınar Et, YBP, Çamlı Yem and DYO Boya have provided joint and several guarantee to Yaşar Holding; for its Eurobond issued in international markets at 6 November 2014, amounting to USD250.000.000 equivalent of TL942.975.000 (31 December 2016: USD250.000.000 equivalent of TL879.800.000) due 6 May 2020. An Indemnity Agreement was signed between Yaşar Holding and the above mentioned guarantors on 3 November 2014, which states that in an occurrence of an event where a guarantor makes a payment related with the guarantee provided; Yaşar Holding will indemnify the paying guarantor. If Yaşar Holding fails to indemnify the paying guarantor, each of the guarantors will indemnify the paying guarantor by 1/5 of the payment amount.

As of 31 December 2016, the Company jointly guarantees the repayment of loans obtained by Yaşar Group companies from a financial institution amounting to EUR11.111.111, equivalent of TL41.221.111.

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NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The collaterals, pledges and mortgages ("CPM") position of the Company for the years ended 31 December 2017 and 2016 were as follows:

	31 December 2017			31 December 2016		
	Currency	Amount	TL Equivalent	Currency	Amount	TL Equivalent
The CPMs given by the Company:						
A. Total amount of CPM given for the Company's own legal personality			62.623.308			45.641.896
	TL	31.856.598	31.856.598	TL	28.021.896	28.021.896
	USD	8.156.820	30.766.710	USD	5.006.820	17.620.001
B. Total amount of CPM given on behalf of fully consolidated companies		-	-		-	-
C. Total amount of CPM given for continuation of its economic activities on behalf of third parties		-	-		-	-
D. Total amount of other CPM			942.975.000			921.021.111
i. Total amount of CPM given on behalf of the majority shareholder			942.975.000			879.800.000
	USD	250.000.000	942.975.000	USD	250.000.000	879.800.000
ii. Total amount of CPM given to behalf of other the Company companies which are not in scope of B and C		-	-			41.221.111
		-	-	EUR	11.111.111	41.221.111
iii. Total amount of CPM given on behalf of third parties which are not in scope of C		-	-		-	-
TOTAL			1.005.598.308			966.663.007

The ratio of total amount of other CPM to Equity 137% 155%

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NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

	31 December 2017	31 December 2016
b) Guarantees received:		
Bails	61.111.111	35.000.000
Guarantee notes	7.345.343	6.040.289
Letters of guarantee	11.873.888	4.949.245
Guarantee cheques	4.743	4.743
	80.335.085	45.994.277

Received bails are related with guarantee letter amounting to TL61.111.111 guarantees provided by YBP and Yaşar Holding. (31 December 2016: Received bails are related with guarantee letter amounting to TL35.000.000 guarantees provided by YBP and Yaşar Holding).

Foreign currency denominated guarantees given as of 31 December 2017 is as follows:

Guarantees received	EUR	1.412.150
	USD	444.097

Foreign currency denominated guarantees given as of 31 December 2016 is as follows:

Guarantees received	EUR	725.404
	USD	433.717

c) Major litigations

Ministry of Finance has carried out a tax inspection against the Company and charged tax penalties amounting to total of TL3.835.663 comprising of TL1.723.468 VAT penalties and TL2.112.195 tax loss penalties for the transactions in fiscal years between 2006 and 2011. The Company applied to İzmir 2nd Tax Court for cancellation of those tax penalties and except for the lawsuit regarding inconsistency, however they were lost. The Company appealed to a higher court to suspend the execution within the legal time and Supreme Court granted a motion for stay of execution in favor of the Company. It was subsequently decided by the Supreme Court that the decision of the court be dismissed in favor of the Company as well. The defendant administration requested to Supreme Court for correction of the decision on dismissal. In this context, the legal counselor of the Company believe that the likelihood of the rejection of the correction request by the Supreme Court is highly probable and the local court is expected to re-examine the file and decide accordingly. On the other hand, the previous suspension decree delivered by the court was removed and the penalty was annulled in the lawsuit filed in the İzmir 3rd Tax Court by the Company against the penalty subsequently given as a result of the tax assessment made in 2011. The Company management and legal counselor of the Company believe that the likelihood of losing the cases is considered to be remote. As a result, no provision was accounted for in the financial statements as of 31 December 2017.

NOTE 15 - COMMITMENTS

As of 31 December 2017 the Company has not any purchase commitments. (2016: purchase commitments of 476 tons of concentrated fruit juice equivalent of TL2.239.564, packaging materials amounting to USD356.358 equivalent of TL1.254.095).

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NOTE 16 - EMPLOYEE BENEFITS

a) Payables related to employee benefits:

	31 December 2017	31 December 2016
Social security premiums payable	2.557.933	2.421.318
Payables to personnel	86.017	87.039
	2.643.950	2.508.357

b) Short-term provisions for employee benefits:

Provision for seniority incentive bonus	773.005	540.885
Bonus provisions to top management	512.040	622.040
	1.285.045	1.162.925

c) Long-term provisions for employee benefits:

Provision for employment termination benefits	18.646.901	16.309.234
Provision for seniority incentive bonus	497.881	720.325
	19.144.782	17.029.559

Under the Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL4.732,48 for each year of service as of 31 December 2017 (31 December 2016: TL4.297,21). The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees with certain actuarial assumptions.

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The maximum amount of TL 5.001,76 which is effective from 1 January 2018 (1 January 2017: TL4.426,16) has been taken into consideration in calculating the provision for employment termination benefits of the Company which is calculated once in every six months.

The following actuarial assumptions were used in the calculation of the total liability:

	31 December 2017	31 December 2016
Discount rate (%)	4,50	3,95
Probability of retirement (%)	97,52	97,51

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

Movements of the provision for employment termination benefits during the years are as follows:

	2017	2016
1 January	16.309.234	14.322.537
Interest costs	2.144.366	1.831.499
Actuarial losses	1.052.004	2.733.831
Paid during the year	(2.490.459)	(4.105.766)
Annual charge	1.631.756	1.527.133
31 December	18.646.901	16.309.234

The total of interest cost, actuarial losses and increase during the year amounting to TL4.828.126 (2016: TL6.092.463) was included in general administrative costs (Note 21.b) amounting to TL3.776.122 (2016: TL3.358.632) and other comprehensive income amounting to TL1.052.004(2016: TL2.733.831)

NOTE 17 - EXPENSES BY NATURE

	1 January - 31 December 2017	1 January - 31 December 2016
Direct material costs	887.854.434	742.261.706
Staff costs	72.735.361	70.319.528
Advertisement	40.165.610	34.638.678
Repair and maintenance	39.615.028	32.654.880
Energy	36.933.139	33.691.944
Depreciation and amortization	26.377.782	24.485.138
Consultancy charges	14.028.057	12.975.678
Other	66.333.861	51.690.953
	1.184.043.272	1.002.718.505

NOTE 18 - OTHER ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
a) Other current assets from third parties:		
Deferred Value Added Tax	23.781.874	14.685.482
Income accrual	2.355.398	5.903.920
Other	4.112	4.112
	26.141.384	20.593.514

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NOTE 18 - OTHER ASSETS AND LIABILITIES (Continued)

	31 December 2017	31 December 2016
b) Other current liabilities to third parties:		
Expense accruals	310.185	136.031
	310.185	136.031

NOTE 19 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company adopted the registered share capital system available to companies registered to the CMB and set a limit on its registered share capital representing registered type shares with a nominal value of Kr1. The Company's historical authorized registered capital at 31 December 2017 and 2016 is as follows:

	31 December 2017	31 December 2016
Registered share capital (historical values)	80.000.000	80.000.000
Authorized registered share capital with a nominal	44.951.051	44.951.051

The compositions of the Company's share capital at 31 December 2017 and 2016 were as follows:

Shareholder	31 December 2017		31 December 2016	
	Share (%)	(TL)	Share (%)	(TL)
Yaşar Holding (A,B,C)	61,41	27.603.901	61,41	27.603.901
Public quotation (C)	37,95	17.060.367	37,95	17.060.367
Other	0,64	286.783	0,64	286.783
Share capital	100,00	44.951.051	100,00	44.951.051
Adjustment to share capital		16.513.550		16.513.550
Total paid-in capital		61.464.601		61.464.601

Adjustment to share capital amounting to TL16.513.550 (2016: TL16.513.550) represents the remaining amount after net-off the accumulated losses of 2003 from the difference between restated (inflation adjusted) share capital and historical cost of share capital (before inflation adjustment).

Regarding to Capital Market Regulation, in Turkey companies have right to exceed registered capital thereby addition of all reserves to capital to increase registered capital amount one-time. On the other hand, registered capital amount is not exceed through cash increase.

As of 31 December 2017, there are 4.495.105.125 (2016: 4.495.105.125) units of shares each with a face value of Kr1 (2016: Kr1) each.

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NOTE 19 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

The Company's capital is composed of 172.800 units of A type shares and 126.000 units of B type shares and 4.494.806.325 units of C type shares, and the C type shares are traded on the ISE. Based on the Company's Articles of Association, the Board of Directors comprises five to nine members elected by the General Assembly from the Company's shareholders or from outside the Company personnel, in accordance with the provisions of the Turkish Commercial Code and the CMB Regulation. In the event the Board of Directors comprises of five members, three are elected from among candidates nominated by shareholders bearing A type shares, one from those nominated by shareholders bearing B type shares and one from those nominated by shareholders bearing C type shares. In the event the Board of Directors comprises of seven members, four are elected from among candidates nominated by shareholders bearing A type shares, two from those nominated by shareholders bearing B type shares, and one from those nominated by shareholders bearing C type shares. In the event the Board of Directors comprises of nine members, five are elected from among the candidates nominated by shareholders bearing A type shares, three from those nominated by shareholders bearing B type shares, and one from those nominated by shareholders bearing C type shares. Executive director can be appointed by Board of Directors in case of their decision. Moreover, the chairman of the board and the executive director are selected among shareholders of A type shares.

Board of Directors has authority to classify new shares as registered or bearer separately in accordance with the CMB regulations. Companies can increase their share capital by way of bonus issue to existing shareholders in proportion of their shareholding rates.

Retained earnings, as per the statutory financial statements, are available for distribution, subject to the legal reserve requirement referred to below:

The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the Company's share capital. The second legal reserve is appropriated at the rate of 10% all distributions in excess of 5% of the Company's share capital. Under TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid in share capital.

The aforementioned amounts accounted for under "Restricted Reserves" in accordance with Turkish Commercial Code. At 31 December 2017, the restricted reserves of the Company amount to T L59.129.038 (2016: TL55.024.248) The unrestricted reserves of the Company, amounting to TL 75.887.731 (2016: TL68.227.511), is classified in the retained earnings.

In accordance with the related announcements of CMB "Share capital", "Restricted Reserves" and "Share Premium" shall be carried at their statutory amounts. The valuation differences (like inflation adjustments) shall be classified as follows:

- the difference arising from the "Paid-in Capital" and not been transferred to capital yet, shall be classified under the "Adjustment to Share Capital";
- the difference due to the inflation adjustment of "Restricted Reserves" and "Share Premium" and the amount has not been utilised in dividend distribution or capital increase yet, shall be classified under "Retained earnings". Other equity items shall be carried at the amounts in accordance with the CMB Financial Reporting Standards.

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NOTE 19 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

Capital adjustment differences have no other use other than being transferred to share capital.

Companies distribute dividends in accordance with their dividend payment policies numbered II-19.1 settled by CMB on 1 February 2014 and dividend payment decision taken in general assembly and also in conformity with relevant legislations.

The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of associations. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on financial statements of the company.

Within the framework of Article 28 of the Articles of Association, after the loss from the previous year (if any) is deducted from the net profit for the period, the legal reserve and first dividend are set aside from the balance within the framework of the Capital Markets Regulation. Later, an amount up to 3% of the remaining amount can be allocated for facilities established in the company as per Article 522 of the Turkish Commercial Code, within the framework of the General Assembly decision. An amount up to 5% can be allocated to members of a board of directors as an allocation provision, based on the parameters the board of directors sets and thinks necessary. An amount up to 5% can be allocated for social aid, premiums (profits), bonuses, etc. as per board of directors decisions.

Unless the general reserves that has to be appropriated in accordance with TCC or the dividend to shareholders as determined in the articles of association or dividend policy are set aside; no decision can be taken to set aside other reserves, to transfer reserves to the subsequent year or to distribute dividends to holders of usufruct right certificates, to board of directors members or to employees; and no dividend can be distributed to those unless the determined dividend to shareholders is paid in cash.

For the listed companies, dividend distribution is made evenly to all existing shares as of the date of dividend distribution without considering the date of issuance and acquisition of the shares.

Based on the decision of General Assembly meeting on 30 March 2017, the Company has decided to distribute TL43.295.457 of the distributable net profit for the year 2016 as dividend and payments to boards. In context of this dividend distribution decision, the Company separated TL4.104.790 as "Restricted Reserve". There is not any profit distribution decision for 2017 since General Assembly Meeting has not been conducted yet.

NOTE 20 - REVENUE AND COST OF SALES

	1 January - 31 December 2017	1 January - 31 December 2016
Domestic sales	1.472.253.139	1.286.531.319
Export sales	166.928.677	126.800.976
Merchandise goods sales	182.555	4.127.103
Gross Sales	1.639.364.371	1.417.459.398
Less: Discounts	(367.421.678)	(322.048.686)
Returns	(31.891.989)	(27.634.020)
Net sales	1.240.050.704	1.067.776.692
Cost of merchandise goods sold	(161.970)	(4.002.138)
Cost of goods sold	(1.043.132.880)	(872.660.753)
Cost of sales	(1.043.294.850)	(876.662.891)
Gross Profit	196.755.854	191.113.801

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NOTE 21 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
a) Marketing expenses:		
Advertisement	40.165.610	34.638.678
Staff costs	8.476.895	7.488.872
Consultancy	6.583.047	5.743.914
Outsourced services	6.396.570	5.530.289
Repair and maintenance	6.032.971	5.705.981
Transportation	5.468.101	4.814.280
Rent	2.000.861	1.909.625
Depreciation and amortization	1.979.415	1.995.902
Other	12.323.291	9.493.330
	89.426.761	77.320.871
b) General administrative expenses:		
Staff costs	11.473.747	11.056.983
Consultancy charges	7.445.010	7.231.764
Outsourced services	5.462.085	4.505.304
Employment termination benefits	3.776.122	3.358.632
Taxes (Corporate Tax excluded)	2.710.190	3.135.873
Depreciation and amortization	2.244.058	2.371.298
Repair and maintenance	1.832.134	1.523.899
Energy	1.024.090	981.195
Other	3.370.662	3.604.026
	39.338.098	37.768.974
c) Research and development expenses:		
Staff costs	4.943.489	4.671.567
Repair and maintenance	3.469.456	2.937.378
Outsourced services	1.894.550	1.710.178
Depreciation and amortization	459.763	540.835
Other	1.216.305	1.105.811
	11.983.563	10.965.769

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NOTE 22 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

	1 January - 31 December 2017	1 January - 31 December 2016
a) Other income from operating activities:		
Foreign exchange gain	5.136.217	8.458.065
Rent income	1.981.849	1.864.856
Unearned financial income on term purchases	921.198	71.722
Income from sales of scrap	923.669	834.651
Other	1.000.473	415.070
	9.963.406	11.644.364
b) Other expense from operating activities:		
Foreign exchange loss	(4.153.135)	(9.795.657)
Unearned financial expense on term sales	(961.962)	(178.570)
Interest expense	(711.711)	(1.828.258)
Donations	(276.850)	(919.980)
Provision for doubtful receivables	-	(126.638)
Other	(1.420.658)	(1.198.011)
	(7.524.316)	(14.047.114)

NOTE 23 - INCOME/ EXPENSES FROM INVESTING ACTIVITIES

	1 January - 31 December 2017	1 January - 31 December 2016
a) Income from investing activities:		
Dividend income (*)	5.518.989	5.299.938
Income from sales of property, plant and equipment	296.148	83.550
	5.815.137	5.383.488
b) Expense from investing activities:		
Loss from sales of property, plant and equipment	(1.331.483)	(269.506)
	(1.331.483)	(269.506)

(*) Note 5.ii.d.

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NOTE 24 - FINANCIAL INCOME/ EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
a) Financial income:		
Foreign exchange gain	2.849.556	318.817
Bail income from related parties	1.824.409	1.596.490
Interest income	270.464	96.112
	4.944.429	2.011.419
b) Financial expense:		
Foreign exchange loss	(16.073.409)	(5.961.252)
Interest expense	(12.959.625)	(3.931.379)
Late interest expense	(2.005.258)	(4.170.929)
Bail expense	(405.556)	(183.746)
Other	(395.983)	(247.746)
	(31.839.831)	(14.495.052)

NOTE 25 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

As of 31 December 2017 and 2016, corporation taxes currently payable are as follows:

	31 December 2017	31 December 2016
Corporation taxes currently payable	768.232	4.161.275
Less: Prepaid corporate tax	(939.813)	(3.888.737)
Current income tax liabilities	(171.581)	272.538

Within the scope of the "Law on Amendments to Certain Tax Laws and Some Other Laws" numbered 7061, which was published in the Official Gazette dated 5 December 2017, the corporate tax rate for the years 2018, 2019 and 2020 was increased from 20% to 22%.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% (2016: 20%) on their corporate income. Advance tax is declared by 14th and payable by the 17th (2016: 17th) of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains an amount for advance tax amount paid, it may be refunded or offset against other liabilities to the government.

Dividends paid to on-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15% (2016: 15%). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

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NOTE 25 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within 25th of fourth month following the close of the financial year to which they relate.

Tax returns are open for 5 years from the beginning of the year that follows the date of filing, during when the tax authorities have the right to examine tax returns and the related accounting records on which they are based, and may issue re-assessments based on their findings. Under the Turkish taxation system, tax losses can be carried forward to offset future taxable income for 5 years.

In Corporate Tax Law, there are many exemptions for corporations, those related to the Company are explained below:

Dividend income from shares in the capital of another corporation subject to resident taxpaying (except dividends from investment funds participation certificates and investment trusts shares) is exempt from corporate tax.

The exemption to be applied over the capital gains derived by corporate taxpayers from the sale of immovable property held for at least two years is reduced from 75% to 50% by the regulation published in the Official Gazette on 5 December 2017. Therefore, the corporate and deferred tax calculations for the capital gains derived from the sale of immovable property in 2018, 2019 and 2020 shall be 22% of the remaining 50%, and for 2021 and after 20% of the remaining 50%.

75% of the profits from sale of preferential right certificates and share premiums generated from sale of shares at a price exceeding face values of those shares during incorporations or capital increases of joint stock companies are exempt from corporate tax.

Accordingly, the aforementioned gains/ (losses) which have been included in trade profit/ (loss) have been taken into consideration in calculation of Company's corporate tax.

Apart from the exemptions mentioned in the preceding paragraphs, the deductions granted in 8th article of Corporate Tax Law, and 40th article of the Income Tax Law, together with other deductions mentioned in 10 th article of Corporate Tax Law, have been taken into consideration in calculation of the Company's corporate tax.

Transfer Pricing

Corporations should set the prices in accordance with the arm's length principle while entering into transactions regarding the sale or purchase of goods and services with related parties. Under the arm's length principle within the new legislation related parties must set the transfer prices for purchase and sale of goods and services as if they would have been agreed between third parties. Depending on the circumstances, a choice of accepted methods in aforementioned law of arm's length transaction has to be made by corporations for transactions with related parties. Corporations should keep the documentary evidence within the company representing how arm's length price has been determined and the methodology that has been chosen by use of any fiscal records and calculations in case of any request by tax authorities. Besides, corporations must report transactions with related parties in a fiscal period.

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NOTE 25 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. The profit distributed in a disguised manner through transfer pricing completely or partially in the last day of the fiscal period when the circumstances defined in the 13th article occurred, will be assessed as distributed profit share or transferred amount to headquarter for limited taxpayers. After the distributed profit share is considered as net profit share and complemented to gross amount, deemed profit will be subject to corporate tax. Previous taxation processes will be revised accordingly by taxpayer who distributes disguised profit. In order to make adjustments in this respect, the taxes assessed in the name of the company distributing dividends in a disguised manner must be finalized and paid.

Taxation on income in the statement of comprehensive income for the years ended 31 December 2017 and 2016 are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
Current corporation tax expense	(768.232)	(4.161.275)
Deferred tax income	6.904.800	504.869
Taxation on income	6.136.568	(3.656.406)

The reconciliation of tax expense is as follows:

Profit before tax	40.945.976	63.675.950
Tax calculated at tax rates applicable to the profit	(8.189.195)	(12.735.190)
Expenses not deductible for tax purposes	(127.729)	(44.008)
Tax effect upon the results of investments-in-associates	982.240	1.678.033
Income tax due to dividends received from available-for-sale investments	1.103.798	1.057.640
Utilized investment incentive during period	6.321.180	4.935.489
Recognition of deferred income tax asset / (liability) on investment incentive	5.341.558	1.225.452
Other	704.716	226.178
Total taxation on income	6.136.568	(3.656.406)

Deferred income taxes

The company recognizes deferred income tax assets and liabilities based upon temporary differences arising between its financial statements are reported in accordance with the CMB Financial Reporting Standards and its tax purpose financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in future periods under the liability method using a principal tax rate of 20% (2016: 20%).

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on Amendments to Certain Tax Laws and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

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NOTE 25 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

The breakdown of cumulative temporary differences and the resulting deferred income tax assets/ (liabilities) provided at 31 December 2017 and 2016 using the enacted tax rates at the balance sheet dates are as follows:

	31 December 2017		31 December 2016	
	Cumulative temporary differences	Deferred income tax assets/ (liabilities)	Cumulative temporary differences	Deferred income tax assets/ (liabilities)
Revaluation of property, plant and equipment	307.906.447	(46.190.025)	191.891.201	(19.225.319)
Difference between carrying values (excluding revaluation reserve) and tax bases of property, plant and equipment and intangible assets	74.308.404	(15.062.406)	67.362.098	(13.659.928)
Difference between carrying value and tax bases of available-for-sale investments	48.723.511	(2.218.771)	51.953.496	(2.336.066)
Unused tax credits (*)	(105.989.670)	26.451.548	(69.553.957)	21.109.990
Provision for employment termination benefits	(18.646.901)	3.729.380	(16.309.234)	3.261.847
Other	(6.650.808)	1.330.162	2.942.755	(588.551)
Deferred tax liabilities - net		(31.960.112)		(11.438.027)

(*) The Company has investment incentive certificate relating with modernization investment at Şanlıurfa, Eskişehir and İzmir facilities. As of 31 December 2017, based on the best estimate of the Company management, it is highly probable to utilize the deferred income tax asset upon investment incentive, amounted to TL26.451.548 (2016: TL21.109.990)

Movements in deferred income tax liabilities can be analyzed as follows:

	2017	2016
1 January	(11.438.027)	(12.530.714)
Credited to statement of comprehensive income	6.904.800	504.869
Charged to actuarial gain/loss arising from defined benefit plans	210.402	546.766
Charged to fair value reserve of available-for-sale investments	129.632	278.325
Change in tax rate	(6.304.836)	-
Calculated on revaluation fund	(21.462.083)	-
Cash refunds of taxes paid in past years (*)	-	(237.273)
31 December	(31.960.112)	(11.438.027)

(*) The Company has not benefited from the investment incentive related with the investment in Şanlıurfa for 2015 and paid the related corporate tax. During 2016, objection by the Company was concluded and TL237.273 was received by cash.

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NOTE 26 - EARNINGS PER SHARE

		1 January - 31 December 2017	1 January - 31 December 2016
Profit for the year	A	47.082.544	60.019.544
Weighted average number of shares with a Kr1 face value (Note 19)	B	4.495.105.125	4.495.105.125
Earnings per share with a Kr 1 face value	A/ B	1,0474	1,3352

There are no differences between basic and diluted earnings per share. Since the General Assembly Meeting of the year 2017 has not been performed yet, dividend distribution decision has not been taken.

NOTE 27 - FINANCIAL INSTRUMENTS

Available-for-sale investments:

	31 December 2017		31 December 2016	
	TL	(%)	TL	(%)
Pınar Et	52.761.567	12,58	56.686.829	12,58
Çamlı Yem	13.105.043	5,47	12.577.226	5,47
Pınar Su	7.069.545	8,77	6.951.719	8,77
YDT	590.110	1,76	580.036	1,76
Bintur	136.470	1,33	96.910	1,33
Other	19.361	-	19.361	-
	73.682.096		76.912.081	

Pınar Et and Pınar Su are stated at quoted market prices as they are listed on ISE; YDT, Bintur and Çamlı Yem are stated at their fair values which are determined based on the discounted cash flows as of 31 December 2017 and 2016 by using the market interest rates and the risk premium specific to unlisted companies within the related sectors. The discount and growth rates used in discounted cash flow models as at 31 December 2017 and 2016 are as follows:

	Discount rate(%)		Growth Rate(%)	
	2017	2016	2017	2016
Bintur	19,50	19,00	1	1
YDT	18,30	17,80	1	1
Çamlı Yem	16,25	15,64	2	2

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NOTE 27 - FINANCIAL INSTRUMENTS (Continued)

The movements of available-for-sale investments in 2017 and 2016 were as follows:

	2017	2016
1 January	76.912.081	79.423.446
Contribution to capital increase of available-for-sale investment:		
Pınar Su	-	2.805.375
Fair value gain/ (loss)		
Pınar Et	(3.925.262)	(4.797.542)
Pınar Su	117.826	274.926
YDT	10.074	(1.002)
Bintur	39.560	(4.847)
Çamlı Yem	527.817	(788.275)
31 December	73.682.096	76.912.081

The movements of available-for-sale investments in 2017 and 2016 were as follows:

1 January	48.091.944	53.130.359
Fair value (loss)/ gain	(3.229.985)	(5.316.740)
Deferred income tax on fair value reserve of available-for-sale investments (Note 25)	129.632	278.325
31 December	44.991.591	48.091.944

NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow, and fair value interest rate risk), capital risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets.

Risk management is carried out by the senior management and finance department of the Company under policies approved by Board of Directors. The Board of Directors provides principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and capital risk and closely monitors financial and operational risks (especially arising from meat price fluctuations).

The financial risk management objectives of the Company are defined as follows;

- Safeguarding the Company's core earnings stream from its major assets through the effective control and management of foreign exchange risk and interest rate risk;
- Effective and efficient usage of credit facilities in both the short and long term through the adoption of reliable liquidity management planning and procedures;
- Effective monitoring and minimizing risks sourced from counterparts.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)**a) Credit risk:**

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements and in turn credit risks arises from cash and cash equivalents, deposits in banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Majority of the Company's sales in domestic market are made to its investments in associate, YBP, and its exports are made to YDT which are both Yaşar Group Companies. In line with past experiences and current condition trade receivables are monitored by the Company Management and necessary provisions for impairment is recognized. The Company management believes that credit risk arises from receivables is well managed. The Company management believes that there is no risk for non-trade receivables from related parties since they are mainly comprised of receivables from shareholders. The credit risk analysis of the Company as of 31 December 2017 and 2016 are as follows:

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017

	Receivables					Bank Deposits
	Trade Receivables (1)		Other Receivables			
	Related Parties	Third Parties	Related Parties	Third Parties		
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2)	237.729.307	12.488.886	1.264.623	7.675.986	1.283.607	
- The part of maximum credit risk covered with guarantees	-	19.929	-	-	-	
A. Net book value of financial assets not due or not impaired	227.751.722	11.789.059	1.264.623	7.675.986	1.283.607	
B. Net book value of financial assets whose conditions are renegotiated, otherwise will be classified as past due or impaired (3)	-	-	-	-	-	
C. Net book value of assets past due but not impaired (4)	9.977.585	699.827	-	-	-	
- The part covered by guarantees	-	19.929	-	-	-	
D. Net book value of assets impaired						
- Past due amount (gross book value)	-	566.461	-	-	-	
- Impairment amount (-)	-	(566.461)	-	-	-	
- Collateral held as security and guarantees received	-	-	-	-	-	
- Due amount (gross book value)	-	-	-	-	-	
- Impairment amount (-)	-	-	-	-	-	
- Collateral held as security and guarantees received	-	-	-	-	-	
E. Off-balance items exposed to credit risk	-	-	-	-	-	

(1) Notes 5 and 6.

(2) Unearned credit finance income and secured portions of due and overdue receivables are taken into consideration while determining aforementioned amounts.

(3) Considering the past experiences the Company management believes that no additional credit risk for the collection of these receivables.

(4) Considering the past experiences and collections subsequent to the balance sheet date, the Company management does not foresee any collection problem for the overdue receivables (Notes 5 and 6).

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2016

	Receivables				
	Trade Receivables (1)		Other Receivables		Bank Deposits
	Related Parties	Third Parties	Related Parties	Third Parties	
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2)	173.044.085	11.030.678	18.029	3.977.073	433.229
- The part of maximum credit risk covered with guarantees	-	948.387	-	-	-
A. Net book value of financial assets not due or not impaired	162.207.547	9.888.826	18.029	3.977.073	433.229
B. Net book value of financial assets whose conditions are renegotiated, otherwise will be classified as past due or impaired (3)	-	-	-	-	-
C. Net book value of assets past due but not impaired (4)	10.836.538	1.141.852	-	-	-
- The part covered by guarantees	-	152.229	-	-	-
D. Net book value of assets impaired	-	-	-	-	-
- Past due amount (gross book value)	-	594.894	-	-	-
- Impairment amount (-)	-	(594.894)	-	-	-
- Collateral held as security and guarantees received	-	-	-	-	-
- Due amount (gross book value)	-	-	-	-	-
- Impairment amount (-)	-	-	-	-	-
- Collateral held as security and guarantees received	-	-	-	-	-
E. Off-balance items exposed to credit risk	-	-	-	-	-

(1) Notes 5 and 6.

(2) Unearned credit finance income and secured portions of due and overdue receivables are taken into consideration while determining aforementioned amounts.

(3) Considering the past experiences the Company management believes that no additional credit risk for the collection of these receivables.

(4) Considering the past experiences and collections subsequent to the balance sheet date, the Company management does not foresee any collection problem for the overdue receivables (Notes 5 and 6).

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017

	Related Parties	Receivables	
		Third Parties	Total
Past due 1 - 30 days	7.923.136	680.625	8.603.761
Past due 1 - 3 months	1.700.273	19.202	1.719.475
Past due 1 - 12 months	354.176	-	354.176
<i>The part of credit risk covered with guarantees</i>	-	19.929	19.929
	9.977.585	699.827	10.677.412

31 December 2016

	Related Parties	Receivables	
		Third Parties	Total
Past due 1 - 30 days	7.213.983	1.096.509	8.310.492
Past due 1 - 3 months	3.613.956	45.343	3.659.299
Past due 1 - 12 months	8.599	-	8.599
<i>The part of credit risk covered with guarantees</i>	-	152.229	152.229
	10.836.538	1.141.852	11.978.390

b) Liquidity risk:

Prudent liquidity risk management comprises maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of fund providers lines from high quality lenders. In order to maintain liquidity, the Company management closely monitors the timely collection of trade receivables, takes actions to minimize the effect of delay in collections and arranges cash and non-cash credit lines from financial institutions in case of requirement.

	31 December 2017				
	Carrying Value	Total Cash outflows per agreement (=I+II+III)	Less than 3 months (I)	3 - 12 months (II)	1 - 5 years (III)
Contractual maturity dates:					
Financial Liabilities					
Financial liabilities	147.199.458	162.788.879	76.259.864	16.152.866	70.376.149
Trade payables	286.597.418	288.621.100	217.339.790	25.461.444	45.819.866
Other payables	22.210.525	24.315.327	2.104.802	22.210.525	-
	456.007.401	475.725.306	295.704.456	63.824.835	116.196.015

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2016					
	Carrying Value	Total Cash outflows per agreement (=I+II+III)	Less than 3 months (I)	3 - 12 months (II)	1 - 5 years (III)
Contractual maturity dates:					
Financial Liabilities					
Financial liabilities	70.786.783	82.824.897	32.562.155	8.573.455	41.689.287
Trade payables	207.961.994	208.995.855	181.294.877	11.698.736	16.002.242
Other payables	28.904.622	31.166.884	3.009.304	28.157.580	-
	307.653.399	322.987.636	216.866.336	48.429.771	57.691.529

c) Market risk:

i) Foreign exchange risk

The Company is exposed to foreign exchange risks through the impact of rate changes on translation into TL of foreign currency denominated assets and liabilities. The Company minimizes the risk through balancing foreign currency denominated assets and liabilities. These risks are monitored by analyses of the foreign currency position. Current risks are discussed by the Audit Committee and the Board of Directors regularly and the foreign exchange rates relevant to the foreign currency position of the Company are mentioned.

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

	Foreign Currency Position							
	31 December 2017				31 December 2016			
	TL Equivalent	USD	EUR	Other (TL Equivalent)	TL Equivalent	USD	EUR	Other (TL Equivalent)
1. Trade Receivables	34.669.831	9.166.348	21.101	-	26.228.105	7.441.870	10.425	-
2a. Monetary Financial Assets (Cash, Bank accounts included)	17.729	1.923	2.320	-	336.354	88.186	7.011	-
2b. Non-monetary Financial Assets	-	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-	-
4. Current Asset (1+2+3)	34.687.560	9.168.271	23.421	-	26.564.459	7.530.056	17.436	-
5. Trade Receivables	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-	-
8. Non-Current Assets (5+6+7)	-	-	-	-	-	-	-	-
9. Total Assets (4+8)	34.687.560	9.168.271	23.421	-	26.564.459	7.530.056	17.436	-
10. Trade Payables	33.231.812	1.202.624	6.354.919	-	22.145.095	930.094	5.086.905	-
11. Financial Liabilities	30.740.985	8.150.000	-	-	25.558.244	5.997.489	1.200.000	-
12a. Monetary Other Liabilities	-	-	-	-	-	-	-	-
12b. Non-monetary Other Liabilities	-	-	-	-	-	-	-	-
13. Short-Term Liabilities 10+11+12	63.972.797	9.352.624	6.354.919	-	47.703.339	6.927.583	6.286.905	-
14. Trade Payables	45.819.864	-	10.147.240	-	23.197.012	-	6.252.732	-
15. Financial Liabilities	-	-	-	-	-	-	-	-
16a. Monetary Other Liabilities	-	-	-	-	-	-	-	-
16b. Non-monetary Other Liabilities	-	-	-	-	-	-	-	-
17. Long-Term Liabilities 14+15+16	45.819.864	-	10.147.240	-	23.197.012	-	6.252.732	-
18. Total Liabilities 13+17	109.792.664	9.352.624	16.502.159	-	70.900.351	6.927.583	12.539.637	-
19. Net Asset/ (Liability) Position of Off-Balance Sheet								
Derivative Instruments (19a-19b)	-	-	-	-	-	-	-	-
19a. Amount of Hedged Asset	-	-	-	-	-	-	-	-
19b. Amount of Hedged Liability	-	-	-	-	-	-	-	-
20. Net Foreign Currency Asset/(Liability) Position (9-18+19)	(75.105.104)	(184.353)	(16.478.738)	-	(44.335.892)	602.473	(12.522.201)	-
21. Net Foreign Currency Asset/(Liability) Position of Monetary Items (IFRS 7.B23)								
(=1+2a+3+5+6a-10-11-12a-14-15-16a)	(75.105.104)	(184.353)	(16.478.738)	-	(44.335.892)	602.473	(12.522.201)	-
22. Total Fair Value of Financial Instruments Used for Foreign Currency Hedging	-	-	-	-	-	-	-	-
23. Hedged amount for Foreign Currency Assets	-	-	-	-	-	-	-	-
24. Hedged amount for Foreign Currency Liability	-	-	-	-	-	-	-	-
25. Export	166.928.677	42.699.556	418.561	9.001.472	126.800.976	39.264.196	860.041	5.388.024
26. Import	61.827.854	-	14.688.221	-	51.864.880	-	15.523.323	-

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017

	Sensitivity Analysis for Foreign Currency Risk			
	Profit/ Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD by 10% against TL:				
1- Asset/ Liability denominated in USD – net	(69.536)	69.536	(69.536)	69.536
2- The part hedged for USD risk (-)	-	-	-	-
3- USD Effect - net (1+2)	(69.536)	69.536	(69.536)	69.536
Change of EUR by 10% against TL:				
4- Asset/ Liability denominated in EUR – net	(7.440.975)	7.440.975	(7.440.975)	7.440.975
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR Effect - net (4+5)	(7.440.975)	7.440.975	(7.440.975)	7.440.975
Change of Other Currencies by average 10% against TL:				
7- Assets/ Liabilities denominated in other foreign currencies – net	-	-	-	-
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other Foreign Currency Effect - net (7+8)	-	-	-	-
TOTAL (3+6+9)	(7.510.511)	7.510.511	(7.510.511)	7.510.511

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2016

	Sensitivity Analysis for Foreign Currency Risk			
	Profit/ Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD by 10% against TL:				
1- Asset/ Liability denominated in USD – net	212.022	(212.022)	212.022	(212.022)
2- The part hedged for USD risk (-)	-	-	-	-
3- USD Effect - net (1+2)	212.022	(212.022)	212.022	(212.022)
Change of EUR by 10% against TL:				
4- Asset/ Liability denominated in EUR - net	(4.645.611)	4.645.611	(4.645.611)	4.645.611
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR Effect - net (4+5)	(4.645.611)	4.645.611	(4.645.611)	4.645.611
Change of Other Currencies by average 10% against TL:				
7- Assets/ Liabilities denominated in other foreign currencies - net	-	-	-	-
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other Foreign Currency Effect - net (7+8)	-	-	-	-
TOTAL (3+6+9)	(4.433.589)	4.433.589	(4.433.589)	4.433.589

CONVENIENCE TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

ii) *Interest rate risk*

As of 31 December 2017 and 2016, the Company has not financial assets and liabilities with floating rate.

iii) *Price risk*

The profitability of the Company's operations and the cash flows generated by those operations are affected by changes in the raw material prices and market competition that are closely monitored by the Company management and precautions for cost efficiency are taken. The Company does not anticipate that prices of raw milk and other raw materials will change significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline or increase in the prices of raw milk and other stocks and raw materials.

The current risks are properly monitored by Board of Directors and Audit Committee regularly in considering the need for active financial risk management.

d) *Capital risk management:*

The Company's objectives when managing capital to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as the total liability (including borrowings, trade payables, due to related parties and other payables, as shown in the balance sheet) less cash and cash equivalents.

	31 December 2017	31 December 2016
Financial liabilities	147.199.458	70.786.783
Other payables to related parties	19.867.521	26.940.123
Less: Cash and cash equivalents (Note 4)	(1.329.702)	(502.652)
Net debt	165.737.277	97.224.254
Total equity	690.165.850	593.338.364
Net debt/ equity ratio	24,01%	16,39%

The Company management regularly monitors the debt/ equity ratio.

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NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES)

Classification of financial assets

The Company classified financial assets and liabilities as available-for-sale investments, borrowings and receivables. Cash and cash equivalents (Note 4), trade receivables (Notes 5 and 6) and other receivables (Note 5) of the Company are categorized as loans and receivables; and measured at amortized cost using effective interest method. Available-for-sale investments of the Company are disclosed in Note 27. Financial liabilities, other financial liabilities (Note 13), trade payables (Note 6) and other payables (Notes 5) are categorized as financial liabilities measured at amortized costs using effective interest method.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

Financial assets

The fair value of the foreign currency denominated amounts, which are translated by using the exchange rates prevailing at period-end, is considered to approximate their fair value. The fair values of certain financial assets carried at costs, including cash and due from banks, receivables and other financial assets are considered to approximate their respective carrying values due to their short-term nature. Available-for-sale investments are carried at their fair values. The fair values of available-for-sale investments which do not have quoted market prices in active markets, are determined by using general accepted valuation techniques or stated at cost, less a provision for impairment, if any, by assuming the carrying values do not differ materially from their fair values.

Financial liabilities

Fair values of bank borrowings are disclosed in Note 13.

Trade payables, payables to related parties and other monetary liabilities are estimated to be presented with their discounted carrying amounts and they are considered to approximate to their fair values and the fair values of balances denominated in foreign currencies, which are translated at year-end Exchange rates, are considered to approximate carrying values.

The table below analyses financial instruments except for the certain available for sale investments which are measured at cost less impairment, if any, as their fair values cannot be reliably estimated using generally accepted valuation techniques, carried at fair value by valuation method. The different levels have been defined as follows:

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NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (Continued)

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2017 and 2016.

31 December 2017

	Level 1	Level 2	Level 3 (*)	Total
Assets:				
Available-for-sale investments	59.831.112	-	13.850.984	73.682.096
Total assets	59.831.112	-	13.850.984	73.682.096

31 December 2016

	Level 1	Level 2	Level 3 (*)	Total
Assets:				
Available-for-sale investments	63.638.548	-	13.273.533	76.912.081
Total assets	63.638.548	-	13.273.533	76.912.081

(*) As of 31 December 2017 and 2016, there is no transfer between the levels 1 and 2. Please see Note 27 for the movement of Level 3 financial instruments.

The following table presents the Company's non-financial assets that are measured fair value at 31 December 2017 and 2016;

31 December 2017

	Level 1	Level 2	Level 3	Total
Tangible Assets:				
Land	-	162.713.500	-	162.713.500
Buildings and land improvements	-	93.599.500	-	93.599.500
Machinery and equipment	-	319.726.099	-	319.726.099
Total assets	-	576.039.099	-	576.039.099

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NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (Continued)

31 December 2016

	Level 1	Level 2	Level 3	Total
<i>Tangible Assets:</i>				
Land	-	136.679.902	-	136.679.902
Buildings and land improvements	-	88.318.740	-	88.318.740
Machinery and equipment	-	222.693.884	-	222.693.884
Total assets	-	447.692.526	-	447.692.526

INFORMATION FOR INVESTORS

Stock Exchange

Pınar Süt Mamulleri Sanayii A.Ş. shares are traded at Borsa İstanbul Star Market under the ticker symbol PNSUT.

Initial Public Offering Date: 03.02.1986

Ordinary General Assembly Meeting

As per the resolution by the Board of Directors of Pınar Süt Mamulleri Sanayii A.Ş., the Company's Ordinary General Assembly Meeting will be held on March 30, 2018, Friday at 11:30 at Kemalpaşa Caddesi No: 317 Pınarbaşı/İzmir.

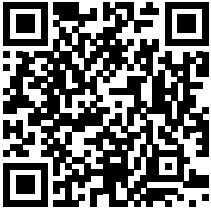
Profit Distribution Policy

The general profit distribution policy of Pınar Süt Mamulleri Sanayii A.Ş. is publicly disclosed available at the investor relations page of the Company's corporate web site (www.pinar.com.tr) in Turkish and English.

Investor Relations

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Pınar Süt Share Performance (Compared to BIST ALL Index)

