

CHAIRPERSON'S MESSAGE



ESTEEMED STAKEHOLDERS

future

WE SHALL CONTINUE TO ADD VALUE TO PEOPLE'S LIVES BY PROVIDING ONLY THE MOST TRUSTWORTHY PRODUCTS AND SERVICES.

The global aftershocks of the economic crisis that began in 2007 and quickly spread around the world continued to manifest themselves, albeit to a lesser degree, in different ways last year. Although 2014 was a year in which there was a gradual recovery in global economic activity, the consistent stability of growth indicators reported in the US economy is what distinguished them principally from those of other developed economies. The fragility of the eurozone's debt-burdened economic growth despite measures to the contrary continued to pose risks.

Although our own country's economy suffered relatively less from recent global uncertainties, its year-on-year growth rate has lost some of its momentum: in the first nine months of 2014 Turkey's economy grew by 2.8%. Net exports continued to make the biggest contribution to growth while the contribution of consumption expenditures continues to shrink. The government's Medium-Term Program posits annual growth rates of 3.3% and 4.0% for 2014 and 2015 respectively. The decline in oil prices, which has become increasingly more evident in recent months, is likely to have a beneficial impact on both the current account deficit and inflation performance in the period ahead.

The demand for packaged milk products is increasing in our country.

Household penetration rates of our industry's packaged products in both the milk and cheese categories were up significantly in 2014. Inasmuch as it is evidence that the consumption of wholesome milk and dairy products is increasing in our country while that of informal production is decreasing, this is good news.

In the plain milk category, which accounts for 62.7% of the total value of Turkey's packaged milk market, total turnover was up by 9.6% last year. In the packaged dairy products market there was quantitative growth in the cheese category.

Raw milk prices followed an upward course during 2014. The raw milk base price as announced by the National Dairy Council, which was around TL 1.00 in January, was up to TL 1.15 or so by year-end.

Several factors push raw milk prices higher than they ought to be but the chief ones are a lack of economies of scale among small producers, costly and volatily-priced inputs, and problems with obtaining higher-yield dairy cattle breeds. Turkey's livestock industry has been the target of substantial investment and support over the last ten years and the result of this is that milk production has reached 18.5 million tons a year. Indeed our country now ranks among the world's top ten producers of raw cow's milk. However the costs borne by Turkey's raw milk producers are also higher than world averages and this makes it very difficult for Turkish dairy product exports to compete in international markets.

Another bustling avenue of growth in our industry is the away-from-home (AFH) market, whose total value has now reached about TL 33 billion a year. More women in the workforce, more singleton households, more time spent away from home, and more meals being ordered out are the principal changes in lifestyle and consumption habits that are nourishing the growth of the AFH channel in Turkey.

The pioneer of Turkey's packaged milk industry, Pinar Süt has also been its enduring leader for forty-one years.

Pinar Süt is one of the leading players in Turkey's at-home and AFH milk and dairy product, fruit juice, and condiment markets. Since the day it was founded, Pinar Süt's efforts to fulfill its mission of adding health, flavor, and innovation to consumers' lives have ensured its position as one of the packaged foods industry's pioneers and leaders.

Pinar Süt performed very well in 2014.

Having introduced Turkey to modern and hygienically-packaged wholesome milk and dairy products more than four decades ago, Pinar Süt has since become an important part of consumers' lives by authoring firsts that define the course of the industry.

Thanks to insightful business strategies, 2014 was a year of continued and sustainable growth for Pinar Süt. Last year the Company registered a 16.1% rise in its turnover, bringing it to TL 940.5 million.

In line with our approach to both innovation and change, we are constantly improving our technology and our knowledge and experience and transforming them into competitive advantages. We also adhere to an investment strategy that is compatible with our sector's changing conditions.

Our new dairy plant in Şanlıurfa commenced operations last year. That, together with our capacity-increase projects, brought our total investment outlays to TL 64 million in 2014. As of year-end, our company's total assets amounted to TL 780.1 million and had grown by 14.2% in the previous twelve months.

Our company's net profit was up by 29.1% and reached TL 87.1 million in 2014.

We are the Turkish market leader in both the milk and the value-added cheese categories. Pinar Süt brands such as Pinar Labne and Pinar Beyaz together command a 38% share of this category's turnover.

Pinar Süt increased its brand strength and market share and maintained its leadership in all the main categories in which it is active through effective communication, consumer-targeted campaigns, and new product launches.

In 2014 Pinar Süt further strengthened its leading position in the milk and dairy products sector with total turnover market shares of 31.1% in long-life milk, 63.9% in light milk, 66% in fortified milk for children, 61.7% in fortified milk for adults, 23% in flavored milk, and 38.1% in non-traditional cheese.

2014 was a year in which Pinar Süt developed many new products and expanded the range of its cheese and cheese products lineup.

Keeping a close watch on leading worldwide foods industry trends, Pinar Süt continued with its innovative, results-focused R&D activities and introduced many new appealing products to consumers in 2014.

The preferred choice of millions of consumers in 26 countries

Besides supplying its domestic market, Pinar Süt also continues to advance sure-footedly towards becoming a regional force in its home market's near abroad. Already one of Turkey's strongest brands, Pinar Süt's products are also sought after and enjoyed by millions of consumers in the 26 countries to which they are exported.

Pinar is one of only three brands whose products from Turkey have received approval for importation into Russia by that country's authorities. Having been duly licensed, Pinar representatives took part in WorldFood Moscow, the leading international exhibition for food products in Russia, and met with local vendors and other potential buyers of its products. Pinar is now ready to begin exporting goods to Russia with the aim of gaining a foothold in the Russian market in 2015.

Our Şanlıurfa plant is an important link in our social contribution model.

An important goal of Pinar Süt's new dairy plant investment was to bring to the city of Şanlıurfa and all of southeastern Turkey the most recent instance of the social-contribution model that the Company introduced in İzmir, continued in Eskişehir, and has been adhering to for more than forty years as a way of creating value for the national economy. The plant, whose foundations were laid in 2013 and which was designed to make the most of the labor of thousands of local dairy farmers, represents the biggest investment that Pinar Süt has undertaken in recent years. When it becomes operational, the plant will be procuring milk not just from Şanlıurfa itself but also from neighboring towns and provinces.

"The Future Of Our Milk"

In 2014 we launched "The Future Of Our Milk Is In Knowledgeable Hands", a project spearheaded by Pinar Institute. Under this project, to which we are giving the utmost importance as Pinar Süt, more than 4,000 raw milk producers supplying milk to 44 milk-harvesting centers are now being provided with practical training on such essential issues as animal health and nutrition, hygiene, and sanitation.

Our dairy farmers play a very important role in our society's wellbeing. Recognizing that we must have superior-quality raw materials if we are going to make wholesome products, we see it as our primary duty to increase the knowledge and experience of our suppliers. Through such efforts we also increase the value of what they produce. This project is likewise a fine example of an undertaking compatible with the "One Health Initiative" and the "One World - One Health - One Medicine" approach, which seek to address the issues of human, animal, and environmental health holistically.

We are the industry's most admired company.

In a survey conducted jointly by Capital, a financial magazine, and GFK, a market researcher, Pinar Süt was identified as "The most admired milk and dairy products company" in 2014 based on such criteria as product and service quality, customer satisfaction, trustworthiness, and innovativeness. As a brand whose top priority has always been keeping consumers supplied only with the most reliable products and services, it is a special source of pride for us to have been professionally recognized as the sector's "most admired company" in this way.

Both sustainability and social beneficialness are two of our most fundamental principles.

Fulfilling our mission of raising healthier new generations for forty-one years, we continue to undertake meaningful social responsibility projects and to add health, flavor, and value to consumers' lives through our innovative products.

As a company one of whose aims is to make sure that future generations have a livable world and a physically and socially healthier environment in which to pursue better lives, we contribute to and support education, sport, and the protection of cultural assets in line with our principle of sharing our own gains through socially beneficial projects.

And because of that principle, we shall continue to add value to people's lives by providing only the most trustworthy products and services. In closing I extend my thanks to our experienced human resources, whose tremendous brand and company loyalty underlies our success, and to all of our other stakeholders for their unstinted confidence in our name as well as in our products.

Very truly yours,

İdil Yiğitbaşı
Chairperson of the Board of Directors