



2018

PINAR SÜT ANNUAL REPORT



Yaşar

daha iyi bir yaşam için

Reporting Period

01.01.2018 - 31.12.2018

Trade Name

Pınar Süt Mamulleri Sanayii A.Ş.

Trade Registry and Number

İzmir Ticaret Sicili 34821 K-572

Authorized Capital

TL 80,000,000

Paid-in Capital

TL 44,951,051.25

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facebook.com/pinarlayasam
facebook.com/pinarsutum
facebook.com/pinarprotein
facebook.com/pinarlabne
facebook.com/pinarkido
instagram.com/pinarlayasam
instagram.com/pinarprotein
instagram.com/pinarsutum
instagram.com/pinarlabne
instagram.com/pinar_kido



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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 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"> • Pınar Süt • Pınar Et • Yaşar Birleşik Pazarlama • Pınar Foods GmbH • HDF FZCO • Hadaf Foods Industries LLC Beverage <ul style="list-style-type: none"> • Pınar Su Agriculture, Husbandry and Fishery <ul style="list-style-type: none"> • Çamlı Yem Besicilik 	<ul style="list-style-type: none"> • Dyo Boya Fabrikaları • AO Kemipeks • 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

The most common brands in different sectors

Pınar and DYO, the locomotive brands in the food, beverage and coatings sectors, which are the main business branches of Yaşar Group, are ranked first in the “ranking of the most well-known brands by the consumer” in Turkey. The shares of Pınar Süt, Pınar Et, Pınar Su, Dyo Boya, Viking Kağıt and Altın Yunus Çeşme which are subsidiaries of Yaşar Holding A.Ş. operating in the fields of food, beverage and coating as well as cleaning papers, tourism, foreign trade and energy are traded in Istanbul Stock Exchange.

The rooted corporation which has broken many grounds in Turkey,

Yaşar Group has accomplished many “firsts” in Turkey with its innovative approach:

- First coating factory and brand, DYO
- First private sector milk factory in international standards, PINAR SÜT
- First 1.100 beds first class holiday village, ALTIN YUNUS ÇEŞME
- First private sector paper factory, VIKING KAĞIT
- Natural spring water in first one way package, PINAR SU
- First private sector integrated meat plant, PINAR ET
- First integrated turkey plant,
- First culture fishing plant and first culture fish production, PINAR DENİZ
- First organic fertilizer factory, ÇAMLI YEM

An approach that values the environment and society

Adopting as one of the basic principles of following and minimizing the possible effects of all its activities on Environment and human from production to trade, Yaşar Group continues its activities in accordance with all 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 Unites Nations (UN) Global Compact network on 12 November 2007 and released Development Statement for 2009 and 2010 and Sustainability Report for 2011-2017. Progress reports and sustainability reports published by the Group under the Global Compact can be found at corporate website on 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 gained 231.6 million TL gross profit with a turnover of 1.487 billion TL in 2018; and closed the year with a growth of 20%.

Dear Shareholders,

Pınar Süt, which was established in 1973 as a company processing milk and dairy products with the most advanced technology in Turkey, maintains the entrepreneurship spirit and sensation as of the date of its establishment and continues its operations without compromising on his responsible producer identity. In 2018, beside the tendencies in Turkish and foreign markets, our company followed the sector and trends and continued its leading position in the sector with its proactive approaches and new products.

Institutions such as the IMF, the World Bank and the OECD predicted growth in the world economy in the range of 3%-3.7% for 2018, while growth forecasts for 2019 were also announced in the same range. The year 2018 we left behind had a positive atmosphere for the global community in terms of growth. Although there is a slow down after the shock in foreign currency exchange rates encountered in Turkey in the third quarter of the previous year, the same organizations estimate that the growth of Turkey was close to the global growth averages in 2018. IMF and World Bank have decreased 2019 growth estimations for Turkey. On the other hand, growth estimations obtained from questionnaires of Turkish Republic Ministry of Finance and Treasury and Turkish Republic Central Bank were 2.3% and 1.6%, respectively. During such a period, in which slowdown tendencies occurred globally, we believe that Turkish Economics shall enter into the process of recovery and stabilization again in 2019.

Continuing Increase in Milk Production

Developing countries have increased their share within the total milk production in the world for the last decade. The significant point here is that the increase does not stem from the productivity per animal but the number of animals included in production.

When we assess 2018 for Turkey, while the number of the animals milked increased 7.2%, the increase on total milk production was realized as 22.1 million tons. The increase in production in comparison to the previous year was 6.9% (TSI).

While the Dairy Products Market (milk, cheese, yoghurt, butter, kefir and ayran) grew 1.0% in tonnages in 2018, revenues increased 20% and reached to TL 8.9 billion. In the packaged milk segment, which is a significant category in the market, the total revenue was TL 2.4 billion and this corresponds a growth rate of 23.3% and the increase in production volume was recorded as 1.6%. (Except BIM, Source: Nielsen).

Another significant development in 2018 was seen in kefir market. Without doubt, the effect of increase in healthy life trend is important; kefir market continued its double digit growth in 2018. According to IPSOS data, almost in one in every fourth family consumes kefir in Turkey (2018 percentages: 22.73%).

We Maintained Our Powerful Position in the Market

We continued our leadership in many categories in the dairy products market in 2018. Our average revenue share in Turkish Dairy Products Market (milk, cheese, yoghurt, butter, kefir and ayran) was realized as 12.9% in 2018 (except BIM; Source Nielsen). We have shown our difference with our innovative products manufactured with modern technology at international standards in our facilities in İzmir, Eskişehir and Şanlıurfa.

While rendering high quality products and services to meet the needs of the society, we have made no concessions from our principle to support domestic products and local values. We procured milk from more than 18,000 producers.

In 2018, our Company obtained revenue of 1.487 billion TL and a gross profit of 231.6 million TL and we completed the year with a growth of 20.0%. Against all the fluctuations both in general economics and within the sector, Pinar Süt realized a net term profit of 49.2 million TL in 2018.

New Territories, New Markets

Our company, which manufactures milk, yoghurt, ayran, cheese, fruit juices, butter, cream, pudding, ketchup, mayonnaise, honey, sauce, jam, sweet and powder products, has increased its existence in the main markets and continued to work on the development of new collaborations in new markets in parallel with its strategic targets.

In 2018, milk and dairy product exports of Turkey were realized as 294 million USD. According to the data obtained from Turkish Exporters Assembly, packaged cheese category has the biggest share (57%) on the basis of revenues. I am proud of declaring that 16% of total Turkish dairy product exports were realized by Pinar Süt in 2018.

Our Company has enlarged its target markets and opened to new export countries. While England became one of the new export markets, our exports to China, which we started last year, continued at the same pace. As much as the new products we offered to the market, we give importance on channels where we meet up with our loyal and potential customers and the communication methods we established in these channels. With this perspective, we have performed special works for our brand and products with tasting and promotion activities in Russia, Azerbaijan, Cyprus, Iraq and other significant markets.

Our R&D Power

New members of Pinar Kefir, Pinar Protein family, which matches up with our mission to raise healthy generations, and sauce family, which was renewed in parallel with changing consumer needs and tastes, have become the products attracting the customers.

Our strong R&D department is the factor behind our products making difference in the sector. With the addition of Techno Center Building, where Industry 4.0 project application is to be realized, our R&D Center was doubled in size in 2018. By following global and local trends in food sector, we continue our works on new product and new package development, product and package improvements for existing products, cost optimization, product reformulation, supplier development and process improvements constantly.

High Technology Investments

We made our investment plans on the basis of changing sector conditions with our target to produce better all the time and our sense of management open for innovation and change. We continued our high industry investments in order adopt Industry 4.0. in total, we invest 63.4 million TL in 2018. With these investments, in addition to renovation and maintenance works at our facilities, we increased our capacity.

In 2018, we completed the installation of and commissioned the Milk Powder Facility containing 12 different projects.

Contribution to the Society, Contribution to the Future

In 2018, we followed Yaşar Group's sense of "We Consider Each Ring of Value Chain Well" and worked hard for a sustainable environment and society. With our target to create a better world, we employ methods which do not harm environment and human health and decreasing the source consumption. We continue our works to increase the awareness of our employees, customers and suppliers without any interruption.

In 2018, we completed TS ISO 50001:2011 Energy Management System control inspections successfully. Our company has an Industrial Waste Management Plan and continues to enter all the records related to internal audits and inspections to online system of Ministry of Environment and Urbanization. We support "Green Logistics" concept and perform works aiming to improve productivity in logistic processes. According to Dealer (Customer) Logistic Satisfaction Questionnaires applied about 100 dealers in 2018, dealer satisfaction for the logistic operations and services rendered was about 95%.

Our social responsibility projects, which become traditional, reached to the large masses within the year. We touch to different target masses in education, sports and art areas with enthusiasm as always. Since its establishment in 1987, we have reached more than three million children in all over Turkey with Pinar Children's Theatre, which gives its performances free of charge. The theme of International Pinar Children's Painting Competition for 2018 was "My Dear Friend". About 27,679 pictures and 2,900 schools from seven regions of Turkey and from NCTR, Germany and via social media took part in the contest. Furthermore, Pinar Children's Painting Workshop, which aims to make children familiar with art, was realized for the third time in 2018 and reached 227 thousand people. We continue our supports for sports in our way opened by Selçuk Yaşar, our honorary president.

Pinar Institute, which is a member of Business Call to Action (BCTA) program under United Nations Development Program (UNDP) with the project entitled "Future of Our Milk in Conscious Hands", performed a Social Effect Research in order to assess the efficiency of the project in 2018. Within the scope of the project, 339 producers were reached with 13 different trainings. Moreover, under the guidance of Pinar Institute, "Let's Move with Fun and Eat Healthy" project, which aims to get children at their early childhood adopt the habits of eating healthy and physical activity, reached to 6000 kindergarten students.

We will continue to work to perform better with our contribution to the Turkish economics, innovations and novelties we brought to the sector and our projects carried out by taking the environment and society into consideration. I would like to thank to all our employees, stakeholders, supporters and our valued shareholders who contributed to our success in 2018.

Best Regards,

İdil Yiğitbaşı
Chairperson

Board of Directors

İDİL YİĞİTBAŞI
CHAIRPERSON



EMİNE FEYHAN YAŞAR
VICE CHAIRPERSON



MUSTAFA SELİM YAŞAR
BOARD MEMBER



YILMAZ ATTİLA
INDEPENDENT MEMBER



KEMAL SEMERCİLER
INDEPENDENT MEMBER



ALİ YİĞİT TAVAS
BOARD MEMBER



CENGİZ EROL
BOARD MEMBER



YILMAZ GÖKOĞLU
BOARD MEMBER



MEHMET AKTAŞ
BOARD MEMBER



Background information of Board of Directors is given on pages 41 – 42.

Senior Management and Committees

BOARD OF DIRECTORS AND TERMS OF OFFICE

NAME SURNAME	TITLE	TERMS OF OFFICE
İDİL YİĞİTBAŞI	CHAIRPERSON	30.03.2018 - 1 YEAR
EMİNE FEYHAN YAŞAR	VICE CHAIRPERSON	30.03.2018 - 1 YEAR
MUSTAFA SELİM YAŞAR	BOARD MEMBER	30.03.2018 - 1 YEAR
YILMAZ ATTİLA	INDEPENDENT MEMBER	30.03.2018 - 1 YEAR
KEMAL SEMERCİLER	INDEPENDENT MEMBER	30.03.2018 - 1 YEAR
ALİ YİĞİT TAVAS	BOARD MEMBER	30.03.2018 - 1 YEAR
CENGİZ EROL	BOARD MEMBER	30.03.2018 - 1 YEAR
YILMAZ GÖKOĞLU	BOARD MEMBER	30.03.2018 - 1 YEAR
MEHMET AKTAŞ	BOARD MEMBER	30.03.2018 - 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 2018, Pinar Süt's corporate governance rating was revised upwards to 9.27 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 FINANCE DIRECTOR

AUDIT COMMITTEE

NAME SURNAME	POSITION
YILMAZ ATTİLA	HEAD OF COMMITTEE
KEMAL SEMERCİLER	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

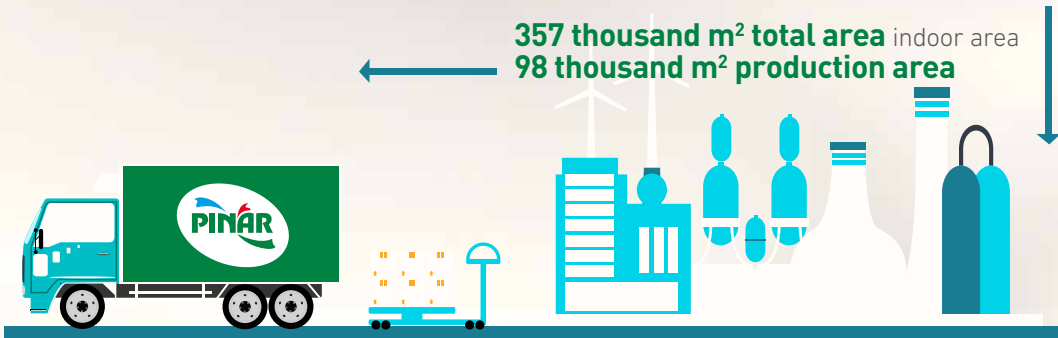
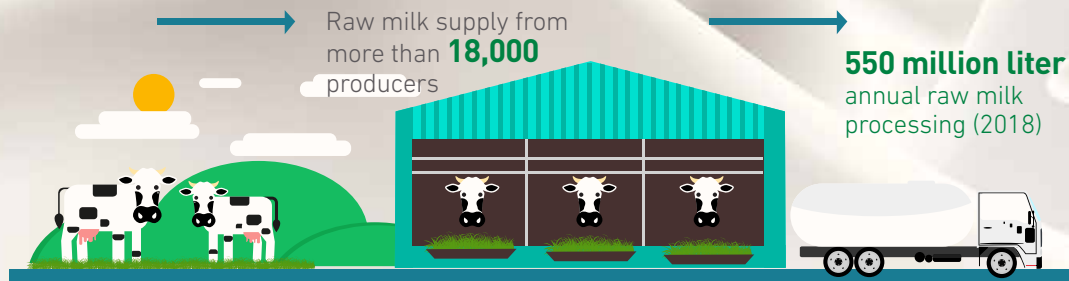
NAME SURNAME	POSITION
KEMAL SEMERCİLER	HEAD OF COMMITTEE
CENGİZ EROL	MEMBER
YILMAZ GÖKOĞLU	MEMBER

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

Pinar Süt and 2018 at a Glance

Pinar Süt continued to grow and produce in 2018.

Production facility in 3 different locations of Turkey



22.1
million tons
of milk production in
Turkey (TSI)

8.9
billion TL
Turkish dairy products
market turnover
(market except for Nielsen, BIM)

1,100
AVERAGE NUMBER OF
EMPLOYEES IN 2018

17.3
PER EMPLOYEE
AVERAGE HOUR OF TRAININGS

"The Most Admired Company" Award by Capital and Zenna Research and Consultancy
"Superior Taste" Award was received by the International Institute for Taste and Quality (ITQI)
"The Most Successful Global Company" Award in the beverage industry according to the results of the research conducted in cooperation with Platinum and Ipsos

Exports to **25** Countries

16% our share of total dairy products exports in Turkey in 2018

63.4
million TL
Investment

39
New Product
Introduced to The
Market

1.49
billion TL
TURNOVER

20.0%
TURNOVER
GROWTH

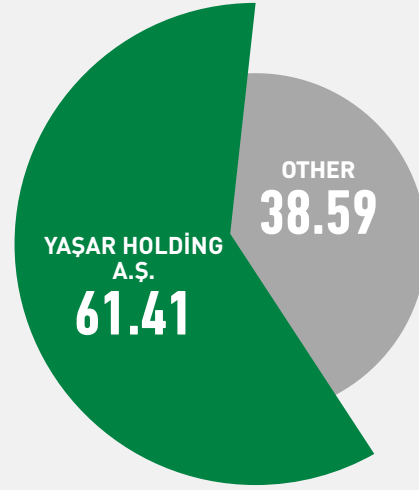
231.6
million TL
GROSS PROFIT

2018 FINANCIAL PERFORMANCE

(Million TL)	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Net Sales	1,487.8	1,240.1
Gross Profit	231.6	196.8
Gross Profit Margin	15.6%	15.9%
Net Profit	49.2	47.1
Net Profit Margin	3.3%	3.8%

(Million TL)	31.12.2018	31.12.2017
Shareholder's Equity	781.4	690.2
Assets	1,392.4	1,201.5
Total Liabilities/Equity Ratio	0.78	0.74

SHAREHOLDING STRUCTURE OF PINAR SÜT (%)



Company Profile

Pinar Süt, producing without compromising quality in international standards with the aim of “raising healthy generations”, continues its activities while protecting its strong position in the sector.

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

Pinar Süt’s shares are traded at Borsa Istanbul 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 continues to support its more than 18,000 producers it cooperates with while developing its products and production with innovative applications.

Founded in 1973, Pinar Süt has played a pioneering role in the development of dairy cattle in the Aegean region since its establishment. 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.

The Company produces milk, yoghurt, ayran, cheese, fruit juice, butter, cream, pudding, ketchup, mayonnaise, honey, sauce, jam, sweet and powder products in its facilities equipped with state of the art technology.

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.

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 adopts Turkey with the understanding of "healthy milk and dairy products" and also contributes to animal husbandry and food sectors of the country.

Providing Turkey with the opportunity to increase milk production, Pinar Süt supplies milk from 371 different locations as 140 of which are farms. The Company constantly supports its more than 18,000 producers it cooperates with. Besides its pioneering position in the Turkish market, the Company makes a difference with its activities abroad and exports its products to different countries in 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 introducing Turkey with firsts

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

The Company, launching the first healthy long-life milk in Turkey, introduced its customers with cream cheese, labne, 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 million of people in Turkey, Pinar Süt maintains its activities non-stop to become worthy of the trust of its consumers.



Competitive Superiorities

Pınar Süt makes a difference in competition with its innovative perspective, its value added products designed to create benefit and the biggest cold chain distribution network of Turkey.

HIGH BRAND VALUE

- The brand winning the Most Successful Global Companies Award
- Award Winner of Turkey's Most Admired Companies
- One of the most innovative brands in Turkey

QUALITY PRODUCTION, RICH PRODUCT PORTFOLIO

- * Hygienic production registered with certificates in EU norms
- More than 300 SKUs
- Innovative and pioneering identity in the sector
- * Powerful R&D experience
- Technological and sectoral knowledge
- Energy-efficient industrial plants

WIDE DISTRIBUTION AND SUPPLIER NETWORK


- Turkey's largest cold and dull distribution chain Yaşar Birleşik Pazarlama's power
- 150,000 sales point
- Synergy created by the distribution of milk and meat products together
- Supply from more than 18,000 raw milk producers
- Deep-rooted relationships with producers, strong cooperation

Pioneering Brand

One of the most liked and trusted brands of Turkey, Pınar Süt maintains its superiority in competition with its management understanding oriented to the future and applications based on technological advancements. The company continued to offer new products to the market in 2018 to consolidate brand awareness and reliability. Pınar Süt, meeting its consumers on different platforms with effective marketing campaigns during the year, built communication with target audience. 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.

Pınar Süt was at the top of the "Most Admired Companies in the Business World" survey in 2018. In the research carried out by Capital ve Zenna Araştırma ve Danışmanlık, Pınar Süt was chosen as the Most Admired Company in the milk and dairy products category.



A close-up photograph of a woman with a warm smile, holding a clear glass filled with white milk. She is wearing a white top. The background is softly blurred, showing what appears to be a kitchen or a bright indoor setting. The overall mood is clean, fresh, and positive.

The strong R&D team, which analyses consumer expectations accurately and presents innovative products, manages to maintain Pinar Süt's strong brand image with a producing approach not compromising quality with responsible producer identity and transparent, traceable production processes.



Pınar Süt Products

Pioneering innovation in the sector, Pınar Süt meets both consumer expectations and reinforces its brand power with its wide product range that it offers to the market for different target audiences.



MILK

Boxed Milk

Semi-Skimmed Milk
Organic Milk
0.1% Light Milk
60% Fat lessened D
Vitamin Light Milk
Kids Follow On Milk
Denge Lactose-free Milk
Protein Milk
Barista Milk
Kido Flavored Milk
Pipetto Milky Drink



FRUIT JUICE

Fruit Nectars

Sour Cherry Nectar
Peach Nectar
Mediterranean Mixed Fruit
Nectar

Apricot Nectar

Orange Nectar

Apple-Cherry Nectar

100% Fruit Juices

100% Apple Juice

100% Peach-Apple Juice

100% Apricot-Apple Juice

100 %Mixed Fruit Juice

Fruit Drinks

Crazy 2 Peach-Orange

Crazy 2 Peach-Pineapple

Crazy 2's Apple-Strawberry

Crazy 2 Apple-Pear



FLAVORS

Cocoa Sauce
Kremilla
Mayonnaise
Light Mayonnaise
Ketchup (hot and sweet)
Classic Mustard
Honey Mustard
Sharp Bitter Mustard
Granular Mustard
Hot Sauce



Barbecue Sauce
Cream
Pınar Milk Cream

YOGHURT

Natural Yoghurt
Organic Yoghurt
Lactose-Free Yoghurt
Light Yoghurt
Protein Yoghurt

AYRAN

KEFİR

Plain Kefir
Strawberry Kefir
Apricot Kefir
Forest Fruit Kefir

DESSERTS-POWDER PRODUCTS

CHEESE

Modern Cheeses

Pınar White
Labneh
Toasting Cheese Slices
Açbitir Kasha and Cheddar
Cheese
Cream Cheese and Cheese
Triangles
Go Snack Cheeses
Choco Labneh
Pancake Cheese



Traditional Cheeses

Fresh Kashar
White Cheese Soft and Creamy
Salt Strained White Cheese
Organic White Cheese

Special Cheeses

Cheddar Cheese
Halloumi Cheese

Butter

AWAY FROM HOME CONSUMPTION (AFH) Milk

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

Cheese

Labneh
Pinar White
Fresh Cheese
Pizzarella
Toasting Cheese Slices
Kashar Cheese
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 Shourcherry 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
Mustard



300+
PRODUCT
VARIETY



Innovations for Changing Trends

Pinar Süt followed industry and consumer surveys in domestic and foreign markets, and developed products that will be the pioneer of innovation and change in 2018.

While Pinar Süt encourages consumers of all ages to drink milk with its new products, it also continues to expand its product range to ensure that consumers live a healthy life.

Pinar Denge Cacao Lactose Free Milk

The new member of Turkey's first lactose-free milk and dairy products family, Pinar Denge Cacao Lactose Free Milk has been developed as a new alternative for consumers who have digestive problems when they drink milk. The product, which can be consumed with pleasure by those who like to drink cocoa milk, also provides transportation and storage convenience with a 500 ml prism package.



Pinar Kefir

Pinar süt introduced its new product Pinar Kefir in April 2018 for those who care for healthy nutrition. Healthy drink kefir, who is a friend of probiotics as well immune and digestive system, met the consumer with Pinar's quality and experience. Pinar Kefir with Strawberry, Forest Fruit and Apricot were developed at such sugar rate in accordance with the canteen criteria of the Ministry of Education as appropriate for children's consumption.



Renewed Pinar Sauce Family

Pinar Sauce Family, an indispensable food partner of consumers since 1983, has developed its portfolio in 2018 in line with changing consumer habits and tastes.

New products were introduced to consumers' taste in August 2018, with the new packaging design of changed basis weight, stylish, premium to provide ease of use for consumers. "Classic Mustard" as well as "Granular" and "Sharp Hot" mustard were added in the glass mustard portfolio. In addition, Honey Mustard, Barbecue Sauce and Hot Sauce were also offered for the likes of the sauce fans.

"Pinar Cacao Sauce" was also put on shelves with its new appetizing design as "Pinar Chocolate Sauce" with its new taste as indispensable variety of ice cream and desserts.



Special to Away From Home Consumption

In 2018 Pinar Süt added a new product to Latte Art Barista Milk, which was developed exclusively for the coffee channel in 2017. Developed as semi-skimmed, Barista Milk has expanded its primarily preferred milk portfolio in the sector.





**10 million 28
thousand tons**

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



Sector Overview

In 2018, Turkish dairy products market revenue increased 20% and reached to TL 8,9 billion.

Milk Production In The World

The researches performed have revealed that developing countries have increased their share within the total milk production in the world for the last decade. This increase does not stem from the productivity per animal but the number of animals included in production. While India, which realized 18% of all the milk production in all over the world in 2018, is the largest milk producer in the world, it was followed by USA, China, Pakistan and Brazil.

The countries having the most milk production surplus are New Zealand, USA, Germany, France, Australia and Ireland, respectively. On the other hand the countries having the greatest demand deficit are China, Italy, Russia, Mexico, Algeria and Indonesia, respectively (FAO).

In 2018 the countries with the highest milk consumption per



person are Argentina, Armenia, Australia, Costa Rica, Europe, Israel, Kirgizstan, North America and Pakistan (more than 150 kg/person per annum). On the other hand, the countries with the lowest milk consumption are Vietnam, Senegal, Middle African countries, major part of East and Northeast Asia (less than 30 kg/person per annum) (FAO).

Sector In Turkey

In 2018, while the number of milked animals increased 7.2%, raw milk production increased 6.9%. In this way the milk production increased from 20.7 million tons to 22.1 million tons in 2018. On the other hand, cow milk collected by commercial milk producers was recorded as 10 million 28 thousand tons (TSI).

There was an increase in raw milk base prices in 2018. While the raw milk base price was increased by 2.9% and determined as 1.44 TL per liter for 1 February-30 June period by National Milk Council, it was increased by 6% between 30 June and 15 August and reached to 1.53 TL. Raw milk base price increased by 11% and reached to 1.70 TL per liter before the end of 2018.

In 2018, while there was a 1.0% growth in volume in Turkish dairy products market*, the increase in revenues was 20.0% and reached to 8,9 billion TL. While the share of total boxed milk production in market revenue was 27%, the share of cheese products in the market was 38.8% (*milk, cheese, yoghurt, butter, ayran and kefir- market excluding BIM, Source: Nielsen).

The packed cheese products shrunk by 1.2% in volume in 2018. According to Nielsen data, packed cheese market reached revenue of 3.4 billion in 2018. Packed milk segment ended the year with a growth of TL 2.4 billion and the increase in volume

was realized as 1.6%. (Market excluding BIM, Source: Nielsen).

Functional milk market continued its growth in 2018. In parallel with the increase on healthy life trends in Turkey, the interests of consumers in Protein Milk category has increased. The highest growth in the market after Protein Milk category was realized in Lactose-free Milk category.

In dairy products market, as a result of healthy life tendency, kefir market continued its double digit growth in 2018. According to IPSOS data, nowadays, almost one every fourth households in Turkey consumes milk* (2018 penetration: 22.73%). In the yoghurt market, consumption of lactose-free and high protein products increased during the year like in the milk market.

20.0%
MILK AND DAIRY PRODUCTS
MARKET TURNOVER
GROWTH



Activities in 2018

In 2018, Pınar Süt offered its new products created on the basis of changing demands and needs of the consumers to market at 150 thousand different retail sale points.

In 2018, Pınar Süt launched the first lactose free milk in Turkey and Pınar Balance Lactose Free Cacao Milk, the new member of milk and dairy products family to the market. The Company also launched Pınar Kefir, which is a digestive and immune system friendly new product thanks to probiotics it contained, for the consumers caring a healthy diet in April 2018.

Renewals were also made in sauce category during the year.

With their new ergonomic package designs, Granular and Sharp Hot Mustard, Honeyed Mustard, Barbecue Sauce and Hot Sauce were added within the Pınar Sauce Family Portfolio. "Pınar Cacao Sauce" was placed on the shelves as "Pınar Chocolate Sauce" with its new taste and appetizing new design.

The Company continued its powerful





EXPORT TO
25
COUNTRIES

16%
SHARE RATIO
IN DAIRY PRODUCT
EXPORTS

position in the market and obtained a revenue share at 12.9% levels in Dairy Products Market (milk, cheese, yoghurt, butter, ayran and kefir market excluding BIM, Source: Nielsen) in 2018.

Pınar Süt, which has revenue of 1.487 billion TL and a growth rate of 20.0%, obtained a gross profit of 231.6 million TL. The Company obtained 112.9 million TL EBITDA, which is over the previous year, and the net term profit was realized as TL 49.2 million. Pınar Süt continued its investments in 2018 and total fixed asset expenditures reached to TL 67.6 million.

In 2018, milk and dairy product exports of Turkey were realized as 294 million USD. According to the data of Turkish Exporters Assembly, the biggest share in this export on the basis of revenue belongs to packed cheese category (57%).

Pınar Süt continued its operations with its target of being a regional power in exports in the surrounding region and realized 16% of total dairy product exports of Turkey.

The Company, which is a global player in the sector, exports its products to 25 countries and 65% of this amount is realized to Gulf Countries. The main importers are the Gulf Countries like Saudi Arabia, Qatar, United Arab Emirates (UAE) and Kuwait; and Iraq, NCTR, Azerbaijan and Russia.

In order to follow the sector dynamics closely and meet up with customers, the Company took part in 23rd Gulfood Fair, which is the biggest food and drinks fair held annually. It is aimed to increase new market operations in 2019.

NEW MARKETS

- Pınar Süt is one of the first Turkish companies, who obtained export permit to Russia (2014) and it is the only Turkish brand continuing active exports and branding works in this country.
- Pınar Süt has also performed operations under the frame of TURQUALITY, which is the first and unique government supported branding program restarted in 2017.
- In 2018, the Company expanded its target markets and entered into new countries for export. Exports made to England for the first time and exports to China continued.
- Brand awareness in Iraq and Azerbaijan was increased with digital media applications.
- The brand and products were introduced to consumers with tasting and promotion activities in Russia, Azerbaijan, Cyprus, Iraq and other significant markets. Availability in more households was obtained with consumer promotions.





Pinar Süt Customers and Consumers

Pinar Süt takes the consumer researches into the center of product ideas and communication plans and forms its plans in parallel with the ideas of the consumers.

Pinar Süt continues its operations in order to add value to the lives of consumers by offering healthy products. The Company continuously follows the trends in Turkey and the world and has brought lots of innovations to the sector and continuously renews itself in order to maintain and improve the confidence on the brand. As well as the new products offered, Pinar Süt chooses the channels to meet up with the consumers and the communication methods to explain the added value offered with great care.

Accelerating tendency towards healthier products and motivation on this issue in Turkey is a trend which overlaps with and inspires "growing healthier generations" mission of Pinar Süt. In 2017, Pinar Protein Family and in 2018 Pinar Kefir were the new products launched to the market in parallel with health life trend and drew considerable interest of the consumers.

MILK GROUP

PRODUCT	TURNOVER	MARKET SHARE	POSITION
Plain Milk	25.2%	Leader	
Flavored Milk	21.2%	Leader	
Light Milk	59.3%	Leader	
Kids Milk	80.9%	Leader	
Lactose-Free Milk	49.2%	Leader	
Organic Milk	94.7%	Leader	
Protein Milk	65.7%	Leader	

CHEESE GROUP

PRODUCT	TURNOVER	MARKET SHARE	POSITION
Total Spreadable Cheese	33.4%	Leader	
Labneh	45.8%	Leader	
White Cheese Soft and Creamy	15.5%	Second	
Sliced Cheese	26.5%	Leader	
Fresh Cheese	51.7%	Leader	
Cheese Triangles	14.6%	Second	
Cream Cheese	11.6%	Third	

Source: Nielsen, 2018 Market except for BIM

Pinar Süt saved its powerful position in Turkish dairy products market in 2018 and exists in the market with several products which have been the leaders in their own categories.

**Projects Following Trends**

Sustainable life is another trend increasing in parallel with healthy life trend. Pinar Süt continued its works on sustainability with different projects during the year. Pinar süt continued its efforts for sustainability through various projects throughout the year. Within the scope of these works, milk packages are obtained from sustainable forests and Pinar Süt supports the protection of forests. Yoghurt packages are offered for sale with different designs in order to enable the consumers to use them after consuming the product.

"Experience" is another trend which becomes foreground as a factor determining the expectations of youth from brands. In compliance with this trend, Pinar Süt focuses on young target mass which is close to exciting and creative forms and concepts, extraordinary aromas and open for innovations and new experiences.

The company pays attention to keep the pace and access to young target mass in order to carry the brand into the future. With the limited number of Pinar Protein Street Art Packages launched into the market in 2018 and Pinar Protein Milks with

Strawberry and Banana-Peanut aromas included in Pinar Protein Family, it was aimed to accompany the dynamism of youth.

Communication on Different Channels

Pinar Süt, which is one of the most liked and accredited brands of Turkey, carries out his activities in different communication projects in different channels by taking the needs and expectations of the consumers into consideration all the time. With this special communication method, the Company achieved to carry the Pinar brand perception in the lives of the consumers to their stories. Pinar Süt continues its operations in order to strengthen this emotional contact and went on with the same sensibility in product launches and communication campaigns realized in 2018.

Pinar Süt shaped its plans for 2018 on the basis of the consumer researches and trend monitoring assessments carried out continuously and being aware of the importance of healthy life trend and digitalization in the lives of the consumers.

Pinar Süt has followed a strategy that differentiates from competition for the products developed for different target masses using different communication channels specific for each target mass. Like in Pinar Protein Street Art project, the Company has brought a product produced for a dynamic life style with the street art and offers this to its target mass with an extraordinary communication method and continued its leadership in this category. With the activities performed, Pinar Süt is getting ahead in being a competitive brand not only in milk and dairy products category but also in snacks category.

On the other hand, with Pinar Kefir launch realized in parallel with our mission of "growing up healthy generations", power of Pinar Süt on functional products category has continued to increase.

Besides launch communications, the Company performed communication activities with Pinar White Milk, Pinar Kids Milk, Pinar Kido, Pinar Balance Lactose-free Milk, Pinar White and Pinar Labne.

PROMINENT COMMUNICATION CAMPAIGNS

Communication campaigns realized by Pinar Süt on the basis of product categories in 2018:

Milk Group

Pinar Süt was on TV broadcastings with "I grew up" and "Have you drunk your milk today?" campaigns in July-September period. Campaigns were supported with dense outdoor activities and digital publications. The campaign was carried out through social media. Pinar Süt has been in contact with the consumers with the proposals adding value to their lives and shared via **instagram/pinarsutum;** **facebook/pinarsutum** social media accounts during the year.

In May, press and radio are used for Mother's Day celebrations.



Protein Product Group

Communication works for Pinar Protein category, which was the most significant product launch in 2017, continued in 2018. Broadcastings and publications were made on TV and digital channels in January and February. The consumers were encouraged for a healthier and active life with the posts at social media accounts during the year. In 2018, the Company offered another renovation with Street Art packs to the consumers. Package designs prepared by Fatih Sinan Şimşek, a Street Art Artist, were launched in



July. Handel's Sarabande was recorded live by Pinar Protein Orchestra in the commercial film of the project.

Due to the great interest on Street Art packages, communication restarted in December.

Pinar Protein Family (Pinar Protein Milk and Pinar Protein Yoghurt), which brought renovation to the market, was chosen the best new product of the year in the Value Added Dairy Products Category in the innovative products research performed on 4,053 consumers by Nielsen Research Company in March-April 2018.

Flavored Milk Group

Communication activities were performed all over the year and Pinar Kido YouTube page was opened. Campaigns made were supported with different, funny and educative videos in this media. In 2018, Pinar Pipetto banana and strawberry versions were launched to the market and Pinar Pipetto milky drink line was completed. The packages of Kido and Pipetto branded products included in flavored milk group were marked with "suitable for sale at school canteens".

Pinar Kids Milk

Communication works were performed on TV, digital and outdoor media in February-March.

Lactose-free Product Group

Pinar Balance Lactose-free Milk has developed its product portfolio in 2018 and started broadcasting with the announcement of Pinar Balance Cacao Lactose-free Milk in December.

Cheese Group

In 2018, advertisement campaigns were made for Pinar Labne and then for Pinar White in the spreadable cheese category, in which Pinar is in a leading position. Chief Danilo Zanna, who is the new face of Pinar Labne advertisements, presented recipes containing Pinar Labne in ingredients in his program on NTV. Furthermore recipes with Pinar Labne were advised to consumers in social media and in other channels.

While the song "Yeniden Başla" (Restart) sang by Levent Yüksel is used in Pinar White advertisements, positive feelings at the beginning of the day were emphasized. Furthermore, packages containing Pinar White and bagels were left on the tables of the people working at plazas.

In 2018, another product which is in line with health trend is included in cheese portfolio "Low fat and low salty cheese" was offered to the consumers and promoted in the markets.

Fresh Dairy Product Group (Yoghurt-Ayran-Kefir)

Pinar Süt was on the screen with its commercial prepared for Pinar Kefir, its new product, in December 2018. Besides TV, the campaign was supported in digital media, outdoor channels, social media and sale points.

In order to increase the interest of children on art of painting, Pinar Süt used the award winner paintings in International Pinar Children's Painting Contest, which has been realized for 37 years, on 2,000 g and 2,250 g yoghurt buckles. Packages colored with the paintings of children are continued to be used by the consumers after the product is consumed.

Pinar Balance Lactose-free Yoghurt portfolio was developed in compliance with the consumer needs. While the size of Pinar Balance Lactose-free Yoghurt increased from 500 g to 750 g, portfolio was extended with 4x125 g snack packs.

Sauce Group

In 2018, all the packages in sauce group were renewed and the portfolio was enriched with new products. For the glass mayonnaise product, brand communication operations like the activities during the New Year period in a retailer chain, reach content messages, advertisements in mobile applications and notifications to the mobile users were performed.





AWAY FROM HOME CONSUMPTION CHANNEL

Pinar Süt performed special marketing activities for the Away from home Consumption products, whose demand increased in 2018. Pinar Süt, which renders services to a large customer portfolio from hotels to restaurants, from catering companies to schools, preferred to get in communication with chief cooks who are determined as "Opinion Leaders". With its aim to offer healthy food making the life easier by understanding the needs of the consumers well, the Company continues to develop innovative and practical products and product centered communication activities.

Promotion Activities in Away from home Consumption Channels

* Pinar was again among the sponsors of 4th "National Cooking Camp", realized in Bolu Mengen with the participation of the gastronomy students of about 50 universities in April. Correct applications and advantages of the products included in Pinar Meat and Milk product portfolio are presented to the student chiefs by professional chiefs.

* In the coffee festivals held in İzmir, İstanbul and Ankara with the participation of leading representatives of coffee sector, Pinar offered Latte Art Barista Milk and all other milk types within its portfolio to the users and consumers. It was seen that this type of activities, which meets up users with products directly and where the users introduced with the products by tasting them, have a positive effect on product sales.

* Gastromasa, which gather the significant representatives of gastronomy in all



over the world together and counted among the best 10 gastronomy conferences in the world was held in İstanbul in November 17. In the conferences hosting the professionals from the sector, Pinar products were presented to the participants and the visitors at a stand established in lounge and with the offerings.

* Turkish leg of French centered Sirha Fiar, which is the largest and most prestigious meeting of away from home consumption sector, was realized at İstanbul Congress Center between 29 November and 1 December. Famous chiefs at the stands established for Pinar brand offered the presentations they made with Pinar brand products to the visitors.

STRONG DISTRIBUTION NETWORK

83% of Pinar Süt sales are realized via YBP, which is a Yaşar Group Company. Thanks to widespread and efficient



distribution power of Yaşar Birleşik Pazarlama (YBP), the Company saves its competition power.

With its 9 regional offices and more than 100 dealers, YBP reaches 150 thousand sale points and distributes Pinar Dairy and Meat Products. Besides these, Nar'ca brand products, which are included in away from home products categories, and products of Mars, a global chocolate producer, are offered to the consumers in the healthiest, fresh and fast manner.

With its experienced team and more than 1,200 distribution vehicles, Yaşar Birleşik Pazarlama renders its services for more than 500 different products in 3 different air conditioning levels in 17 categories. The company establishes all its commercial systems on the basis of efficiency, operational perfectionism and reporting. YBP monitors all its operations with the most efficient software systems using up-to-date technology and renders training programs in order to improve the sale skills of both his and his business partners' personnel.

YBP reports the operation sufficiency with the Dealer Logistics Satisfaction Questionnaires. According to the questionnaire given in 2018, the satisfaction score of about 100 dealers for the logistics operations and services rendered was measured as 93%.

Principal Fairs Participated and Organizations Performed in 2018

- Agroexpo 13th International Agriculture and Stockbreeding Fair /1-4 February
- Dubai GULFOOD Fair/18-22 February
- 8th Gourmet İzmir (Olivetech) Fair/ 9-12 May
- Turkish Sailing Federation Optimist Team Championship / 9-12 August
- İzmir International Fair/ 7-16 August
- Gastrofest/ 21 October
- Sirha Fair/ 29 November-1 December
- 4th International Gastronomy Tourism Congress / 6-8 December

Pinar Communication Center

Customer demands and complaints received by Pinar Communication Center (PIM) via telephone numbered 444 76 27, which can be dialed from anywhere in Turkey without dialing an area code are replied live by the operators. Requests and complaints received by Pinar Communication Center are examined with care and taken into consideration within the Company. According to 2018 data, while the successful call reply rate was 90%, customer satisfaction rate was 93% for Pinar Communication Center and the customers might also access to Pinar Communication Center via twitter.com/InfoPinar. PIM examines the demands and proposals received from its official Twitter account in social media, solves them and returns to the customers.

39
NUMBER OF NEW
PRODUCTS LAUNCHED TO
THE MARKET IN 2018

74
NUMBER OF NEW
PACKAGES LAUNCHED TO
THE MARKET IN 2018

R&D Activities

Pınar Süt R&D Center
The audit for the 1st
operational year was
completed successfully. With
the addition of Techno Center
Building, where Industry
4.0 project applications are
realized, the area of R&D center
was doubled.

Pınar Süt R&D Center completed the assessment and audit processes performed by legal authorities in 2018 successfully. New additional campus areas related to R&D Center were also approved. With the construction of new laboratory and pilot facility and the addition of Techno Center Building, where Industry 4.0 project applications are to be realized, area of R&D center doubled.

In 2018, science and technology based projects have been performed by a qualified team at R&D Department. Global and local trends in the food sector are monitored and the works on new product and package development to meet the needs and expectations of consumers, improvements on existing products and their packages, cost optimization, product reformulations, supplier development and process improvement and other such areas are going on.

New Products

In parallel with the increasing interest towards functional goods and "health" mission of Pınar brand, Kefir, which is a natural probiotics, was offered with its simple and fruity assortments under Pınar brand as a result of dense R&D works.

Mustard category targeting "gourmet" trend, rising as a result of the interest to gastronomy, was enriched with special assortments and placed on the shelves with four different assortments.

While new products in sauce, protein milk, and organic dairy products were being launched into the market, works on products with longer shelf life for export channels were continued. For this purpose, Crepe cheese special for Russia, Chocolate Labne and Long Lasting Strained Yoghurt for the Middle East were developed.

Award-Winning Projects

Within the scope of many new packaging projects developed, "on-the-go" trend of 50 g Grissili White package was awarded with "Golden Prize", which is the highest level, in "Package Moon Stars" contest organized by Package Industrialists Association.

"Pınar Lactose-free cacao milk", "Pınar Protein Cacao Milk" and "Pınar Protein Vanilla Milk" were awarded with "Superior Taste Prize" by the jury consisting of Michelin starred chefs and sommelier at the ceremony held in Belgium by International Taste and Quality Institute (ITQI).

In the "Innovative Products of the Year" Research performed by Wizsight Research in cooperation with Poltio.com for Marketing Turkey, Pınar Latte Art Barista Milk was chosen as the most innovative milk of 2018.

Pınar Süt R&D Center continued to carry out TÜBİTAK-TEYDEB projects with industry and university collaboration model. Furthermore, several projects have been realized in cooperation with Yaşar University.

Science-Tech Academy formed within R&D Center continued to organize several training programs in 2018.

Innovation E-Bulletin

Innovation, Package Innovation, Science and Technical Bulletins issued within R&D Center structure were shared within the company during the year. Besides the overviews of the new products launched to the Turkish and global markets; foreign and Turkish food trends were also included in the bulletins.



High Quality

Adopting the principle of adding value to human life and health with the highest quality products, Pınar Süt continues its operations with a sense of quality at international standards in all work processes.

Pınar Süt continued to make company visits to and examinations at existing and potential suppliers in 2018. The company gave trainings on HACCP, food safety and hygiene issues to the employees on the basis of the annual plans.

With the project entitled "Future of our Milk is in Conscious Hands", consciousness trainings on animal breeding, quality and hygiene issues were given to 339 raw milk producers in 13 sessions. The sector based works of Expertise Sub Commission of T.R. Ministry of Agriculture and Forestry are being supported.

As an indicator for the significance given on sustainability, the Company gave zero waste and energy efficiency trainings to all his employees in 2018.

High Quality Getting into Global Markets

With its technological developments preceding the sector, works on getting into new markets in export channels are being continued. Adopting the principle of working with the latest technology in all fields such as production method, machinery, equipment, marketing, product and quality improvement, packaging, information systems, logistics and product use, the Company applied for export to South Africa in 2018.

Pınar Süt leads the milk sector in Turkey and it became one of the first companies which was given dairy product export license for European Union. In this context, the Company continued to expand its EU approval inspections and EU approved product list in 2018.

Pınar Süt continues its exports to Russia with different products types with the export license issued by Russian Veterinary and Plant Health Observation Institution.

Pınar Süt has completed Halal Certification process under the control of TSE SMIC recently and increased Halal Product assortments.

Productivity Works

Pınar Süt continues its operations related to productivity works focusing on improvement of technological and operational processes.

Significant improvements are obtained in costs by realizing the projects performed with Operational Cost Improvement (OMI) models. In OMI application, individuals propose the ideas which eliminate any faults determined by them within their own functions as a project and after the approval of the managers improvements are obtained in costs with the solutions applied. The projects realized by the Company are awarded with an encouraging approach.

As an indicator for the importance given on sustainability by Yaşar Group, "Yaşar Group Sustainability Contest" is held every year. In parallel with the projects carried out in 2018, Pınar Süt took part in the contest in environment, social and economic sustainability branches. Projects contributing corporate sustainability and keeping corporate values alive, enabling efficient and productive use of sources and beneficial for the society and the works performed to meet the needs of future generations are very important for Yaşar Group. Furthermore, the employees are supported all the time to adopt economic, social and environmental sustainability.

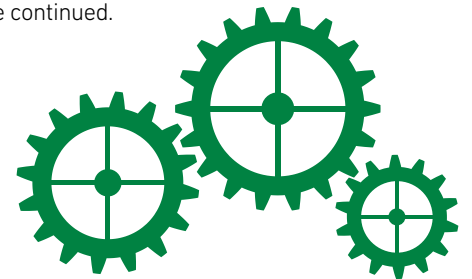
LINE PRODUCTIVITIES

In order to use the natural sources in an efficient manner, Pınar Süt operates on the basis of highest productivity principle in all production processes in all production facilities. Daily productivity measurements are made in production lines of the plants and the outputs are analyzed regularly.

Production line efficiency is consolidated and recorded on a weekly, monthly and yearly basis. Line efficiencies are handled in periodic meetings with a continuous improvement perspective. As a result of these, required steps are taken in order to achieve the determined targets in all production processes. Line capacity utilizations are used in the most efficient manner.

Cost improvement opportunities continued to be created in production lines in 2018 and recorded with operational cost improvement system database. Productivity was increased with technological improvements. The Company closely monitors all the technological and operational processes in the sector within Turkey and abroad. Automation and advanced robot technology investments are made. Pınar Süt gives regular trainings to all its employees in order to improve productivity, to ensure food safety, to increase consciousness on work and worker health and safety.

While applying zero waste project at the production facilities, works required for certification were continued. In addition, energy efficiency and energy management works are going on and refreshment trainings and consciousness improvement activities on this issue are continued.





Investments

In 2018, Pinar Süt made a total investment of 67,606,418 TL and realized capacity increasing investments in addition to the renewal and maintenance works in its facilities.

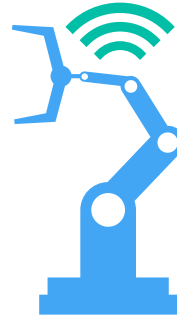
Pinar Süt continued to follow an investment program compatible with changing conditions in the sector, carrying technology usage and fund of knowledge forward in parallel with the "innovation" and "change" concepts which are integral parts of the corporate culture.

In 2018, Eskişehir Plant treatment system, auxiliary facilities capacity expansion and renewal investments were completed.

While the investment process related to the cottage cheese line to contribute capacity expansion is continued, installation and commissioning of Milk Power Facility consists of 12 different projects were completed in 2018.

In Şanlıurfa Plant, capacity increasing investments like

taking new silo tank into operation and its integration with the system, revisions on fruit juice pasteurization unit to process milk were completed within the year.



Modernization and renewal investments on production units and auxiliary facilities were continued in 2018 as in the previous years.

HIGH TECHNOLOGY INVESTMENTS

In order to adopt Industry 4.0, Pinar Süt continued to give priority to high technology investments during the year.

With this Company approach, Milk Powder Facility was automated. Automation works for the palletization system of 1,000 ml milk line are being continued with the contributions of Techno Center within R&D Center and it is aimed to be completed within 2019.

INFORMATION TECHNOLOGY ACTIVITIES

Pinar Süt realized significant changes in its information technology infrastructure in 2018. Significant improvements have been obtained in work continuity, data security and cost development issues.



Strong Cooperation with Suppliers

Under the frame of Supplier Evaluation Procedure, suppliers are regularly inspected and evaluated every year on the basis of the criteria formed.

Pinar Süt continues to work together with more than 18,000 raw milk producers in Turkey. In order to offer high quality and healthy products to its customers all the time, the Company selects all the establishments collaborated with care in compliance with "Pinar Quality Criteria". Pinar Süt aims to develop long term business collaborations by determining its suppliers by taking their purchase, R&D and quality insurance functions into consideration.

In order to reach high quality milk raw material, Pinar Süt procures milk from 371 different points which realize their production at European Union standards and adopt Pinar Süt sense of quality. 18 of them are "Infection-free Establishments", 8 of them are "EU Certified Establishments" and 140 of them are farms.

Raw materials other than milk, food auxiliary materials, packaging materials are purchased from approved suppliers by Purchase Department. The suppliers are included within the system if positive results are obtained from the comprehensive trial works performed with the companies which can supply materials matching Pinar Quality Criteria.

Under the frame of Supplier Evaluation Procedure, suppliers are regularly inspected and evaluated every year on the basis of the criteria formed. As a result of these evaluations, it is aimed to improve supply works continuously with corrective or preventive actions.

Pinar Süt procures 100% of its raw organic milk from Çamlı Yem Besicilik, which is a Yaşar Group Company.

The company also organizes trainings on significant issues like milk quality, herd health, animal breeding and preventive medicine for the suppliers and inform producers about healthy milk production and raise consciousness.





Pınar Süt Family

Being aware of the critical role of employees in being the most reliable and white shoe company in Turkey, Pınar Süt uses modern human resources applications recognized in international platforms actively.

With its fair human resources policy shaped and applied in compliance with Yaşar Group corporate culture, Pınar Süt acts with a sense of "Human First". The Company selects its employees among educated, experienced individuals with high sense of belongingness and concern, open for all developments based on science, appreciating knowledge sharing and team spirit and adopted participative management and success-oriented work.

In order to increase employee loyalty and satisfaction, many activities were organized in 2018.

* Pınar Süt, which employs e-learning application with "Yaşar Academy" brand, enriched its trainings in 2018. With the trainings accessible by the employees without any time or place restrictions, trainings were offered for 18,341 hours in total, and 17.3 hours/person in average.

* In 2018, while the average number of employees was 1,100, 144 university students and 42 high school pupils, who are the future employees of the Company, did internship in the Company.

* Support for the employment of women continued. The rate of female workers was 19.2% in 2018.

* Pınar Süt believes that peace in work place is a significant issue on the way going to social peace and the collective labor agreement executed with Single-Food Labor Union covers the period between 1st of January 2018 and December 31, 2019.

18,341 hours
TOTAL HOUR OF TRAININGS

INTERNSHIP OPPORTUNITY
FOR **186** STUDENTS



**IN 2018
CORPORATE CARBON
FOOTPRINT CALCULATION
AND REPORTING WORKS
PERFORMED.**

Sustainable Environment Understanding

Pınar Süt continued its investments for environmental and social sustainability in 2018. Besides improvements focusing on environment in production processes, works were performed in order to improve consciousness of the employees and the suppliers on this issue.

By taking 2011 as a base, Yaşar Holding started carbon footprint calculations with a team formed under the leadership of Carbon Leader. Within this context, "Corporate Carbon Footprint" calculation and reporting works were performed in Pınar Süt in 2018. Pınar Süt continues its works to realize Yaşar Holding's target of decreasing carbon emissions 15% by 2020.

Yaşar Holding proposes making water footprint calculation and reporting works in definite pilot regions in order to monitor the consumption of natural sources and improve environmental consciousness. Pınar Süt continues its works at its Eskişehir Plant in order to keep water consumptions in production processes under control.

Pınar Süt realizes the works which are in parallel with the journey set on by Yaşar Holding after signing United Nations Global Principles Convention in 2007 step by step.



Under the frame of sustainability approach, while Yaşar Holding has determined five priority areas-- energy and climate change, water management, waste management, health and safety, social contribution-- Pinar Süt exhibits its sustainability approach and priorities on environmental issues within this scope.

ENVIRONMENTAL POLICY

The Company, which strictly complies with all the laws and regulations related to energy, work safety and health issues, applies methods decreasing source consumption and not harming the environment and human health in production. Activities to increase the consciousness of employees, customers and suppliers are continued.

Pinar Süt adopts waste decreasing, recycling and reuse principles in the works related to this issue. With this perspective, the Company continuously improves its maintenance programs and aims to decrease energy consumptions with new investments.

Pinar Süt includes the suppliers, worked in cooperation with, into a record system prepared on the basis of sustainability and evaluates their environmental management systems and the operations of these systems. The Company also supports them to make the required improvements.

IMPROVEMENTS IN ENERGY CONSUMPTION

Pinar Süt completed TS ISO 50001:2011 Energy Management System control inspections successfully in 2018. Trainings and meetings related to energy efficiency continued during the year.

The Company prepares environmental plans and programs at the beginning of each year and performed improvement works in order to decrease source and energy consumption during the year.

PACKAGING WASTE MANAGEMENT

Pinar Milk performed solution oriented works and sought for alternatives in order to determine and minimize possible situations which might negatively affect the environment due

to production and usage activities during 2018.

Pinar Süt has an Industrial Waste Management Plan and continues to enter all the internal audit and inspection records into the online system of T.R. Ministry of Environment and Urbanization.

All the wastes formed as a result of production and usage activities are disposed at the companies licensed by T.R. Ministry of Environment and Urbanization. Recyclable wastes are sent to licensed companies and recovered. Organic and domestic wastes are sent to storage areas of metropolitan municipalities.

Pursuant to the provisions of Regulation on "Major Industrial Accidents" The effects of chemicals in Pinar Süt on environment and humans are evaluated by T.R. Ministry of Environment and Urbanization with the Seveso Notification made to the Ministry and the classification of the Company is determined.



Cooperation with ÇEVKO

In cooperation with Environmental Protection and Package Wastes Recycling Foundation (ÇEVKO), Pinar Süt organizes training activities in order to inform consumers and municipalities about collecting the package wastes from their sources, their recycling and recovery.

Besides the trainings given in order improve environmental consciousness of the employees, comprehensive trainings are given under the frame of ISO 14001 Environmental Management System works. Furthermore annual Environmental Management System surveys are performed by Turkish Standards Institute (TSE).

Pinar Süt owns "Environmental Permission Certificate" issued by T.R. Ministry of Environment and Urbanization for its İzmir, Eskişehir and Şanlıurfa plants and subject to regular audits and controls performed by the authorized bodies in compliance with environmental legislations.

Under the frame of compliance with legislations, the Company prepared a "Greenhouse Gas Monitoring Plan" within the scope of the Announcement on "Monitoring and Reporting Greenhouse Gas Emissions" and completed its Greenhouse Gas Inventory Management System software by making the relevant notification to T.R. Ministry of Environment and Urbanization.



As a company investing in the environment, using natural resources in the most efficient manner and acting in compliance with the legal legislations on environment, Pınar Süt continues its operations in parallel with its management systems policy.

ACHIEVEMENTS IN LOGISTICS

With its works supporting "Green Logistics" concept, Pınar Süt performs activities aiming efficiency in logistics processes and exhibits an approach focusing on customer satisfaction. According to the Dealer (Customer) Satisfaction questionnaire given about 100 dealers in 2018 the satisfaction from the logistics operations and services rendered was measured as 93%. The usage rate of semi-trailer truck type vehicles for durable goods and refrigerated good transportations within all transportations of Yaşar Group Companies between the cities were realized as 92% and 66%, respectively. Pınar Süt continues its operations with the logistics model

based on more and faster transportation volume with less distance and formed in compliance with environmental sustainability vision.

On the other hand, service qualities and performances of the third party logistics service provider companies are measured, analyzed and reported regularly every month in compliance with Simple 6 Sigma philosophy. In 2018, average Sigma performance levels of all the logistics service provider companies were realized as 4.11.

Euro 4 and Euro 5 norms were applied in order to keep the exhaust emission levels of the fixed vehicle fleet used for the transportation within Turkey within acceptable limits in 2018.

From the inverse logistic process of Yaşar Food Group companies, occupancy rate of vehicles given a return duty was realized as 98% in 2018.





Corporate Social Responsibility

Pınar Süt continues its responsibility activities under Pınar brand and gives significant support to the society in education, sports, arts, environment and sustainability areas.

In 2018, Pınar Süt increased awareness and realized social responsibility projects in different areas in order to create a society developed from social and cultural aspects.

Pınar Children's Theater has reached more than 1987 million children free of charge since its establishment in 1987. Pınar Children's Theater aims to contribute cultural and personal developments of children in each play performed and it has played the role of a school which has brought several famous players in the art of theater.

Pınar Children's Theater performed the play entitled "Tale Train" in several schools in Istanbul. The play performed at Profilo Shopping Center and had the little theater lovers experienced a visual fest. With the Turkish tour program of the new play, Pınar Children's Theater met up with about 12 thousand children in Çankırı, Afyon, Uşak, Tire, Ödemiş, İzmir and Çanakkale and it has become the first children's theater performed in all 81 provinces of Turkey.

INTERNATIONAL PINAR CHILDREN'S PAINTING CONTEST

The theme of International Pınar Children's Painting Contest, which is organized in order to improve the interest of primary and middle school children on painting and fine arts, was "My Dear Friend" in 2018. About 27,679 pictures and 2,900 schools from seven regions of Turkey and from NCTR, Germany and via social media took part in the contest.

16 little artists who deserved the awards came together at Pınar Culture & Art Event conducted in İzmir in order to be granted their awards and certificates after the assessment of jury. During the event, children coming from Turkey and abroad had a chance to know İzmir. Award Ceremony for 37th International Pınar Children's Painting Contest was held at Ahmed Adnan Saygun Art Center and the works of little artists were exhibited at Ahmed Adnan Saygun Art Center during 11-24 June.

PINAR CHILDREN'S PAINTING WORKSHOP

Pınar Children's Painting Workshop, which aims to make children familiar with art, was realized for the third time in 2018. The workshop reached to the children in 9 different points in 8 provinces-- Istanbul, Trabzon, Şanlıurfa, Gaziantep, Antalya, İzmir, Eskişehir and Bursa. Within the scope of Pınar Children's Painting Workshop, 2,247 children were directed to take part at Pınar Children's Painting Contest. 65 thousand people were reached through workshop activities.

**MORE THAN
3 MILLION
PINAR CHILDREN'S THEATRE
NUMBER OF CHILDREN
WATCHED**

**65 thousand
PINAR PAINTING
WORKSHOP
NUMBER OF PEOPLE
ACCESSED**



SUPPORT FOR SPORTS

Pınar is a sponsor for Turkish Basketball Federation and the main sponsor for Karşıyaka Basketball Team. The Company makes great contributions to the development of Turkish basketball with drink supplies and name sponsorship activities. In addition, sponsorship activities were realized with Turkish Sailing Federation and interest of youth on sports and their developments are supported.

Pınar KSK

With the sense of "social citizenship", Pınar contributes education, sports and protection of cultural assets within the scope of sports communication activities. With this corporate culture approach, the company continues to support Karşıyaka Sports Club under the leadership of Selçuk Yaşar, the Founder and Honorary President of Yaşar Holding. As being the main sponsor, thousands of little sportsmen in Karşıyaka Basketball Team and sports infrastructure have been supported since 1998.

The recent achievements of Pınar Karşıyaka which was sponsored with the aim of making İzmir a city of basketball and integrating youth and children with sports include Turkish Cup Championship, Presidency Cup and Turkish Basketball League Championship. Pınar Karşıyaka also represented Turkey successfully in Euro Challenge and Euroleague. In addition to the full support given to Pınar Karşıyaka Basketball team, about 25 thousand children were given the opportunity to play basketball at infrastructure and sports schools together with Pınar Karşıyaka Basketball branch.



PINAR INSTITUTE

Pınar Institute has continued its operations since 2013 and continues to develop projects to increase consciousness of the society on food, health and nutrition issues and to create awareness on quality of life. Furthermore, literature reviews are performed on food and healthy nutrition issues in order to contribute the healthy development of the society.

Awareness-Raising Projects

Pınar Institute, which has become a member of Business Call to Action (BCtA) program under United Nations Development Program (UNDP) with the project entitled "Future of Our Milk is in Conscious Hands", performed a Social Effect Research in order to assess the efficiency of the project in 2018.

Under the frame of this project 339 producers were reached with 13 different trainings. Trainings were given to 141 female producers on milking applications and hygiene issues in 2018. Quality and productivity based activities were performed with the pilot area applications in the determined farms.



In 2018, "Practical Information Booklet for Dairy Farming Establishments" was designed as a guiding booklet for the producers on animal health, breeding and hygienic milking issues. In 2018, the project went on to the final in Sustainable Business Awards organized by Sustainability Academy in Social Effect Category and furthermore, it became a role model after its inclusion among the good practice examples in "Sustainable Agriculture Principles- Good Practices Guide" published by Sustainable Development Association in 2018.

Under the frame of "Let's Move with Fun and Diet Healthy" project carried out by Pınar Institute, in 2018, a protocol was signed for a period of three years with T.R. Ministry of National Education Basic Education General Management in order to give healthy nutrition consciousness at early ages. After the execution of the protocol, in the first semester of 2018-2019 Education year, Trainings for Trainers were given in Aydın, Denizli, Muğla, Uşak and Manisa Provinces and 100 teachers, 92 kindergartens and 5458 children were reached in 5 provinces Project was awarded with second place at Yaşar Group Sustainability Contest in Social Sustainability Category. Design of licensed toys and education tools realized under the project was completed in cooperation with Yaşar University.



Reception and exhibition opening of the toy design project was realized at Yaşar University on 5 June 2018.

On World Milk Day, which is celebrated on 21 May, Panel on "Milk for Health" was organized by Pınar Institute at Yaşar University.

Pınar Institute, which aims to avoid information pollution on health and nutrition issues, realized Health Life Sessions for his employees in 2018.

Scientific Paper Award

The Pınar Institute Scientific Paper Award was launched in 2018. Scientific Article Award was given to three articles chosen by a jury consisting academicians by taking such criteria as contribution to science, social benefit and applicability into consideration, among the articles about food technology, nutrition-health relations and food safety issues and published on refereed journals between 2013 and 2018. Plaquets shall be presented to the award winners in a ceremony to be held in 2019 and the conclusions shall be announced to the press.

SPECIAL PUBLICATIONS

Life with Pınar Magazine

Pınar has been establishing significant contacts with consumers, business partners, academicians and bureaucrats with Life with Pınar Journal which has been published since 2004. 10 thousand issues of the journal are published quarterly and distributed free of charge and it contains useful information for parents. Life with Pınar has been sent as an e-bulletin to more than 5 thousand people every month since 2013.

Pınar Newspaper

Pınar Newspaper is a significant reference for the farmers and consists of issues like stock farming, milk technologies and livestock health. The newspaper is published quarterly and prepared for 4 thousand producers supplying milk to Pınar.

Life with Pınar Social Media Accounts

Pınar gives useful and up-to-date information to families about mother-children relations via Twitter, Instagram and Facebook accounts and illuminates youth about the issues like sports and environmental consciousness. Pınar includes social responsibility and sustainability issues in its social media accounts and aims to reach different target masses in this way.

 pınarlayasam  pınarlayasam  pınarlayasam

SPONSORSHIPS

Pınar takes part in and supports several congresses on several areas like R&D, sustainability and marketing. Furthermore, the Company sponsors activities supporting the development of cooking, gastronomy and cuisine culture. In this direction, Pınar Süt sponsored 7 congresses/ summits/ forums, 1 symposium and 51 activities in 2018.

AWARDS AND CERTIFICATES

Superior Taste Award to Pınar from Europe

Pınar Lactose-free cacao milk, Pınar Protein Cacao Milk and

Pınar Protein Vanilla Milk were awarded with Superior Taste Prize by the jury consisting of Michelin starred chefs and someliers at the ceremony held in Belgium by International Taste and Quality Institute (ITQI).

"Featured Product of the Year": Pınar Protein Milk and Pınar Protein Yoghurt

"Pınar Protein Milk" and "Pınar Protein Yoghurt" which meet with the consumers as a result of three year long R&D works and an investment at an amount of 10 million TL obtained the title of "Elite Product of the Year" in the Value Added Milk Products category with the votes of consumers.

The Most Successful Global Company Award to Pınar Süt

Global 100 Award Ceremony, where the pioneer companies in international trade are determined according to the results of the research performed by Platin, the economics and business world magazine, in cooperation with IPSOS, market research company, was organized with "Industry 4.0" theme. Pınar Süt, who represents Turkey successfully in global arena, was given the award as being the leader of the drink sector.

The Most Innovative Dairy Product Award to Pınar Latte Art Barista Milk

In the "Innovative Products of the Year" Research performed by Wizsight Research in cooperation with Polt.io.com for Marketing Turkey, Pınar Latte Art Barista Milk was chosen as the most innovative milk of 2018.

Pınar Most Popular Companies of Turkey Award

In the research carried out by Capital ve Zenna Araştırma ve Danışmanlık, Pınar Süt was the Most Admired Company in the milk and dairy products category. In this research, Pınar was evaluated by 1,480 mid-level and superior managers in the business world on the basis of the criteria like service and product quality, customer satisfaction, reliability and innovativeness.

The Most Successful Marketing Leader of Turkey Award

In the research performed by Capital Magazine to determine the most successful marketing teams of Turkey, Pınar Süt was awarded with its pioneering works in 2018.

CERTIFICATES AND DOCUMENTS

TS EN ISO 9001-2015 Quality Management System Certificate

TS EN ISO 22000-2005 Food Safety Management System Certification

TSE FSSC 22000 Food Safety System Certificate -Eskişehir Factory

TSE FSSC 22000 Food Safety System Certificate -İzmir Factory

TSE FSSC 22000 Food Safety System Certificate -Urfa Factory

TS EN ISO 14001-2015 Environmental Management System Certificate

OHS-OHSAS TS 18001-2014 Occupational Health and Safety Management System Certificate

TS EN ISO 50001 Energy Management System Certificate

TSE Halal Conformity Certificate -Eskişehir Factory

TSE Halal Conformity Certificate -İzmir Factory

TSE Halal Conformity Certificate -Şanlıurfa Factory

Milestones

Pınar Süt, one of the leader of packaged milk and dairy products sector, has brought many firsts and successes for 45 years.

Growing with Firsts

- 1973** ● Pınar 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** ● Pınar kashkaval cheese slices and cream cheese are introduced to consumers.
- 1980** ● Pınar 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 Pınar Süt's raw milk suppliers.
 - Pınar Mayonnaise, Turkey's first domestically-manufactured mayonnaise goes on sale.
 - Pınar White, Turkey's first pasteurized cheese, and the powdered product, Chantilly Cream, go into production.
 - Cheese Triangles goes into production.
- 1984** ● Pınar Süt begins exporting Pınar Labneh cheese to Kuwait.
- 1985** ● Pınar Labneh is introduced to the Turkish market.
- 1990** ● Pınar begins producing fruit juices.
- 1991** ● Turkey's first pasteurized milk goes on sale.
- 1992** ● Pınar Yoghurt is awarded with the TSE's Golden Packaging award for the introduction of the country's first foil-sealed cap.
- 1993** ● Pınar Süt becomes the first food industry company in Turkey to be awarded TS ISO 9002 Quality Management System certification.
- 1994** ● Pınar Süt receives 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** ● Pınar Süt opens its Eskişehir Plant.
- 1998** ● 100%Pure Pınar fruit juices go on sale.
- 1999** ● Pınar Süt introduces the Denge branded milks (lactose-free, high-calcium, enriched with A, D, E vitamins) for the first time in Turkey.
- 2001** ● UHT milk in aseptic bottles goes into production.
- 2004** ● Pınar introduces its Kafela and Çikola milk product line.
 - TS 13001 HACCP Food Safety Management System Certification is awarded.
- 2005** ● Pınar Organic Milk, Turkey's first organic milk, is introduced to the market.
- 2008** ● Lean 6 Sigma starts at the Company as a first in Turkey's food industry.
 - Pınar Milk for Kids is introduced to the market.
- 2010** ● Honey Flavored Pınar Kid's Milk, and Pınar Breakfast White Cheese products go on sale.
- 2011** ● Consumers are introduced to Pınar's Gourmet series including cheddar cheese spread, thyme & olive-cheese spread, triangular cheese and Pınar organic yoghurt.
- 2012** ● TClotted Cream, Turkey's first creamy tasting clotted-cream with 50% less calories goes on sale.
 - Pınar Professional is established to cater for the away-from-home channel.
- 2013** ● Pınar Süt is awarded with TS 18001 Occupational Health and Safety Management System and TS EN ISO 50001 Energy Management System certification.
 - Pınar Süt becomes licensed to export milk and dairy products to EU Countries.
 - Pınar Institute is established to raise awareness of society about food, health and nutrition.
- 2014** ● Enjoyment cheese and organic butter are launched
- 2015** ● Pınar Süt Şanlıurfa Plant goes into operation.
 - White Cheese Soft and Creamy is launched.
- 2016** ● Pınar Go Cheese series and Pınar Aç-Bitir Sliced Cheese are presented to consumers' taste.
- 2017** ● Pınar Protein product group is released to market. R&D center starts operation.
- 2018** ● Pınar Kefir is introduced to market.

CORPORATE GOVERNANCE PRACTICES AND FINANCIAL INFORMATION

BOARD OF DIRECTORS

İdil Yiğitbaşı - Chairperson

Graduated from Boğaziçi University Business Administration Department in 1986 and completed MBA in Indiana University in 1989. Having started her professional life in Yaşar Group as President Assistant in 1986, İdil Yiğitbaşı held office as Vice Coordinator of System and Financial Analysis between 1990-1995, Yaşar Food Group Coordinator in 1995, Yaşar Food Group Marketing Vice Chairperson between 1997-2001 and Vice Chairperson of Pınar Süt between 1 February 2001 - 31 January 2006 and Board Member at Group companies. She acted as Vice Chairperson of Yaşar Holding Board of Directors between 2003-2009, Chairperson of Yaşar Holding between 2009-2015. İdil Yiğitbaşı continues her office as Vice Chairperson of the Board of Yaşar Holding since April 2015, Vice Chairperson of the Board of Hedef Ziraat, Chairperson of the Board at Pınar Süt ve Viking Kağıt companies and Board Member at Yaşar Group companies. İdil Yiğitbaşı is Vice Chairperson of Selçuk Yaşar Sports and Education Foundation, Board Member of Yaşar Education and Cultural Foundation, Pınar Institute Chairperson of the Board, Board Member of Turkish Industrialists and Businessmen Association (TÜSİAD) (until 20 February 2019), Board Member of Aegean Region Chamber of Industry (EBSO), Board Member of İzmir Culture, Art and Education foundation (İKSEV), Consultation Committee Member of Turkish Milk, Meat, Food industrialists and Producers Union Association (SETBİR), Aegean Industrialists and Businessmen Association (ESİAD), Aegean Young Businessmen Association (EGİAD), İzmir Economic Development Coordination Board (İEKK), Association of Advertisers (RVD), Turkish Corporate Management Association (TKYD) and DEİK UK Business Council Executive Committee.

Emine Feyhan Yaşar - Vice Chairperson

Feyhan Yaşar received a bachelor's degree from Boğaziçi University Administrative Sciences Faculty in 1978 and a master's degree in Department of Economics from Dokuz Eylül University. Feyhan Yaşar started her career in 1978 at DYÖ as a Human Resources Expert and served as Personnel Affairs Coordinator, Tourism Coordinator at Yaşar Holding and Executive Committee Member, and acted as Vice Chairperson and Board Member at Yaşar Holding Executive Board. 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 Pınar Su, Pınar Et, Altın Yunus, Yaşar Bilgi İşlem, HDF FZCO and also as Board Member at 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 also 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 - Board 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. He also served as the chairman of the paint-chemistry and Beverage Group in the same years. 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 April 2015.

Yılmaz Attila - Independent Member

Yılmaz Attila graduated from Ege University, Faculty of Agriculture, Department of Agricultural Tools and Machinery in 1976. Yılmaz Attila, who worked as research assistant in Çukurova and Aegean Universities between 1977-1981, held office as project engineer at Göktepe Plastik A.Ş. and Beşikçioğlu Ltd. Yılmaz Attila, who joined Pınar Entegre Et ve Bağımsız Sanayi A.Ş. as Feed Factory Manager in 1985, held the office of Vice General Manager between 1988-1990. He held office of General Manager at respectively Cevher Jant ve Motor Ticaret A.Ş. and Abaloğlu Yem Sanayi A.Ş. between 1990-1994. He took various positions as General Manager, Member of Board and Executive Committee at Kipa Kitle Pazarlama Ticaret ve Gıda Sanayi A.Ş. and Tesco Kipa Kitle Pazarlama Ticaret ve Gıda Sanayi A.Ş. between 1994-2010.

BOARD OF DIRECTORS

Kemal Semerciler - Independent Board Member

He was born in 1958. He graduated from Uludağ University, Faculty of Economics and Administrative Sciences. Kemal Semerciler started his career at Yapı Kredi Bank as an assistant inspector in 1981 and worked as Manager in departments of Financial Control and Budget, General Accounting and Financial Affairs between 1990 and 2003. He worked as Chairperson of Board of Inspectors between 2004 and 2006. Semerciler served as Assistant General Manager of the Legislation Department from 2006 to 2008 and as the Consultant to the General Manager of Yapı Kredi Bank from 2008 to 2009. Acting as Member of Board of Directors and Inspector in many affiliates of the bank during his term in Yapı Kredi Bank, Semerciler served as Board Member in Abank between March 2010 and March 2016.

Ali Yiğit Tavas - Board 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.

Cengiz Erol - Board 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 various senior management positions in the group especially in financial operations and inspection fields, Yılmaz Gökoğlu was selected as a member of Yaşar Holding Board of Directors in April 2007. Acting as General Secretary of Board of Directors in Yaşar Holding, Yılmaz Gökoğlu also serves as Member of Board of Directors in companies included in the Group, and also has licenses of Independent Auditor and Certified Public Accountant.

Mehmet Aktaş - Member

Mehmet Aktaş received his bachelor's degree from the Department of Economics of the Faculty of Political Sciences of Ankara University in 1983, master's degree on economics from Vanderbilt University in 1992 and his PhD on finance from Dokuz Eylül University in 2003, and served in the public sector between 1984 and 1995. Joining Yaşar Group in 1995, Aktaş held various positions in the senior management mainly in strategy, budget and corporate financing. Aktaş was appointed as CEO of Yaşar Holding in July 2007 and he is still serving as Member of Board of Directors and CEO of Yaşar Holding since April 2009. Aktaş continues to serve as board member for a number of Yaşar Group companies. Mehmet Aktaş continues to serve as board member for a number of Yaşar Group companies.

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. In this context, in what frame should the risk management activities be done, the duties and responsibilities related to risk management, processes, reports, confidence procedures and risk management terminology have been established.

The "Corporate Risk Management" in the Company is being applied as a systematic process where risks are defined. 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 risks suffered by the Company are

- classified under the headings of strategic, operational, financial, external and compliance risks, and analyzed 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. The said control systems also protect the Group companies' assets, reputation and profitability.

The accounting system of the Company, the public disclosure of financial information, independent auditing and survey of partnerships' internal control system and its activities are conducted through the Audit Committee set up by the 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 March 30, 2018 were applied. No Extraordinary General Assembly Meeting was held in 2018. Further information on the General Assembly meetings can be found in section 2.3. General Assembly Meetings of the Report for Corporate Governance Principles Compliance.

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 July 1, 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 2018 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 2,348,602 grant to various institutions and corporations in 2018.

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 January 1, 2018 - December 31, 2018.

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

There is no amendment in articles of association.

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 December 31, 2018, remuneration and similar payments made to the members of the Board of Directors and senior executives amounted to TL 7,060,758.

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

There are no private or public audits completed within 2018.

Disclosure About the Company's Shareholders' Equity

It is seen that existence of issued capital in amount of TL 44,951,051 was protected greatly with an equity level of 781,440,229 as of December 31, 2018.

AGENDA

AGENDA OF ORDINARY GENERAL ASSEMBLY 28TH MARCH 2019 FOR THE YEAR 2018 OF PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

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 2018 prepared by the Company's Board of Directors
4. Reading and negotiating the Independent Audit Report for 2018 fiscal year,
5. Reading, discussion and approval of 2018 Financial Statements,
6. Acquitting the Company's directors of their fiduciary responsibilities for 2018 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

March 29, 2018

As a candidate for 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 ethic 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 ATTİLA



STATEMENT OF INDEPENDENCE

March 29, 2018

As a candidate for 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 ethic 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,

Kemal SEMERCİLER



PROFIT DISTRIBUTION PROPOSAL

At the Board of Directors meeting of our Company dated March 1, 2019;

for the calculation of net distributable profit of 2018, the Turkish Commercial Code, Capital Market Legislation, Corporate Tax, Income Tax and other legal regulations, articles in our articles of incorporation regarding profit distribution as well as our Profit Distribution Policy were considered, and according to the financial statements independently audited and prepared based on Turkish Accounting Standards and in accordance with Communiqué II-14.1 of Capital Markets Board, General Legal Reserves were not kept from the net period profit of 2018 which is 49,216,305 TL as it reached the legal limits, and the net distributable period profit was calculated as 49,216,305 TL.

It was decided to present the following issues for the approval of the Ordinary General Assembly: out of the calculated distributable profit, to distribute the amount of 2,511,700 TL as First Dividend to Shareholders as equal to 20% of distributable profit, considering the donations in amount of 10,345,601 TL made within the year in line with CMB regulations, keeping the Board of Directors Allocation not exceeding 5% ratio in the articles of association over the remaining amount, and to distribute Second Dividend to Shareholders in amount of 9,882,372 TL as equal to 38.25% of total net nominal issued capital (44,951,051 TL) together with First Dividend Amount over the remaining amount (net amount of First and Second Dividend is 17,193,777 TL), to keep General Legal Reserves in amount of 1,992,042 TL, and to keep the entire remaining amount as Extraordinary Legal Reserves.

For each share that is traded on stock exchange with a nominal amount of 1 TL, a cash dividend of 0,3825 TL will be paid.

Please kindly be informed.

Best Regards,

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

PINAR SÜT MAMULLERİ SANAYİİ A.Ş. PROFIT DISTRIBUTION TABLE FOR 2018 (TL)

1.	Paid-in/Issued Capital		44,951,051
2.	General Legal Reserves (According to Legal Records)		60,324,889
Information on the privileges if there is any privilege in profit distribution under Articles of Association			
		According to CMB	According to Legal Records
3.	Period Profit	36,533,906	24,897,420
4.	Taxes (-)	12,682,399	(539,771)
5.	Net Period Profit (=)	49,216,305	24,357,649
6.	Accumulated Losses (-)	0	0
7.	General Legal Reserves (-)	0	0
8.	NET DISTRIBUTABLE PERIOD PROFIT (=)	49,216,305	24,357,649
9.	Donations made within the Year (-)	2,511,700	
10.	Net Distributable Period Profit including Donations	51,728,005	
11.	First Dividend to Shareholders		
	- Cash	10,345,601	
	- For free		
	- Total	10,345,601	
12.	Dividend Distributed to Privileged Shareholders		
13.	Other Dividend Distributed		
	- To Board Members	1,940,000	
14.	Dividend Distributed to Dividend Shareholders		
15.	Second Dividend to Shareholders	9,882,372	
16.	General Legal Reserves	1,992,042	
17.	Statutory Reserves		
18.	Special Reserves		
19.	EXTRAORDINARY RESERVES	25,056,290	197,634

STATEMENT OF PROFIT SHARE RATIOS

	GROUP	TOTAL DISTRIBUTED DIVIDEND		TOTAL DISTRIBUTED DIVIDEND/NET DISTRIBUTABLE PERIOD PROFIT	DIVIDEND FOR 1 TL NOMINAL SHARE	
		CASH (TL)	FREE (TL)	RATIO (%)	AMOUNT (TL)	RATIO (%)
NET	There is no privileged shareholders group for profits.	17,193,777		34.94%	0,3825	38.25
	TOTAL	17,193,777		34.94%	0,3825	38.25

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 2018, 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.

The explanations to be made by our company in accordance with Article 8 of the Corporate Governance Communiqué on corporate governance principles which have not yet been complied with and which are not mandatory are presented below with required explanations:

1.3.11 in the articles of association of our company, there is no article regarding the participation of stakeholders and the media in the General Assembly. Officers of independent auditing firms and officers of corporate governance grading institutions also participate in our General Assembly meetings and no request for participation from the stakeholders or the media has reached to our company.

1.5.2 In parallel with general practices, rights were granted to the minority within the framework of the provisions of general regulations. The company's capital structure and public disclosure ratio is expected to continue in this manner.

4.3.9 There has been no policy for the proportion of female members in the board of directors, but there is currently 2 female member in the board of directors.

4.4.7 The board members of our company are not limited for taking other duties outside the company and the duties of the board members are presented to the shareholders for information by including in the annual report.

4.5.5 Since there are two independent members in the company's board of directors, it is impossible for a board member to take part in only one committee.

4.6.1 There is no performance evaluation system for the board of directors.

4.6.5 In line with general practices, salaries paid to board members and managers with administrative responsibility are disclosed in the annual activity report collectively.

The Company's Corporate Governance Compliance Report (URF), Corporate Governance Information Form (KYBF), and the Corporate Governance Compliance Report (URF), for 2018, prepared as per the decision of CMB dated 10.01.2019 and no: 2/49 will also be disclosed to public on corporate website of Public Disclosure Platform (KAP) (www.kap.gov.tr). Since it is the first year of implementation, our Corporate Governance Compliance Report for 2018 is prepared in the old format and presented below.

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

In accordance with Article 11 of the Communiqué, investor relations department providing communication with investors has been established within our company. 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 Market Activities Advanced Level License)

Investor Relations Department Officer: Aslı Kahyaoğlu

Phone: 0 232 495 00 00

Fax: 0 232 484 17 89

E-mail: 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 to be submitted to the shareholders' information and examination regarding the General Assembly meeting and take measures to ensure that the General Assembly is conducted in accordance with the relevant legislation, the articles of association and other in-house regulations.,

- 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, webcast meetings have been organized twice, which were open to all analysts and addressed the Company's activities and financial results for entire 2017 and first half of 2018, and "Investor Presentations" covering the Company's periodic operating results were published on the Company's website in Turkish and English languages. 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 2018, 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 2018.

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 2018, ordinary general assembly meeting for 2017 was held on 30 March 2018 at our Company's Plant address. At the 2016 ordinary general assembly meeting, 76,46% of the Company's capital was represented. During the meeting, shareholders electronically or physically attending the meeting or through 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 the meeting. 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 2017 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.

The minutes of the General Assembly are always kept open for shareholders at the Company's headquarters. In addition, the minutes of the Company's General Assembly meetings for the past 11 years are also accessible in the Investor Relations section of the Company website at www.pinar.com.tr

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

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. An upper limit was set for the donations to be made during 2018 at the meeting. The Donations Policy was also 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 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.

The Board of Directors may elect Executive Member/s if they decide so. However, the Chairperson and the Executive Member/s are determined among members representing Group A."

The Company's articles of incorporation contain no provisions preventing non-shareholders 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." In terms of the votes used by proxy, Capital Markets Board regulations are complied with."

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 distribution of the company's profit for 2017 was completed on 20 April 2018.

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. Interests provided to managers are disclosed as cumulative amounts.

PART IV - STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders are kept informed about all matters concerning the Company other than those which are in the nature of 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 level is measured at regularly means of polls conducted for consumers communicating.

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. In line with this, 400 raw milk producers were trained on animal feeding, quality and hygiene with 20 trainings within the scope of "The Future Of Our Milk Is In Good Hands" project.

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

Technical training programs are offered to Regional Sales Directorates containing higher quality features compared to similar products, and trainings are conducted indicating how to respond technically the expectations and necessities of customers. Feedbacks are taken from these meetings and evaluated within the company.

Aware that high levels of employee motivation and loyalty create a significant advantage in achieving success more quickly, Pınar Süt has been soliciting feedback from its personnel through "Employee Opinion Surveys" that have been conducted regularly every other year since 1998. The "Employee Opinion Surveys", having been applied online since 2015, are used as a key tool whereby employees are able to provide feedback to the Company management.

Average training time per employee at Pınar Süt in 2018 was 17.3 hours, with total training time amounting to 18,341 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 2018.

The Company's basic human resources policies are set forth clearly in the Company's Personnel Regulations, which are issued to all non-contract employees against their individual signature. The Personnel Regulations also contain information about working hours, employment principles and processes, termination, and discipline in addition to basic policies. Human resources policies and practices pertaining to employees within the scope are included in Collective Bargaining Agreement. All of our company employees have job descriptions. 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

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

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 matters to which the Company gives great importance. Under the Company's occupational 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.

İzmir Pınar Süt,

Trade Union Chief Representative Cumhuriyet Aşkın -Process Machines Foreman

Union Representative Arzu Pehlivan-Cheese Packaging Worker,

Union Representative Özkan Güven - Cheese Manufacturing Worker,

Eskişehir Pınar Süt,

Chief Trade Union Representative Erdoğan Yörüksoy-Tetrapak Operator,

Trade Union Representative Tuncay Özdemir-Assistant Facility Technician,

Şanlıurfa Pınar Süt,

Union Representative Mehmet Ali Kaya-Auxiliary Facilities Boiler Operator

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 a 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.

Pinar 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 continues 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 publicly available on our 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 Independent Member	Title Term
İdil YİĞİTBAŞI	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
Yılmaz ATTİLA	Independent Board Member	Independent Member	Not Executive	1 year
Kemal SEMERCİLER	Independent Board Member	Independent Member	Not Executive	1 year
Ali Yiğit TAVAS	Member	Not Independent Member	Not Executive	1 year
Cengiz EROL	Member	Not Independent Member	Not Executive	1 year
Yılmaz GÖKÖĞLU	Member	Not Independent Member	Not Executive	1 year
Mehmet AKTAŞ	Member	Not Independent Member	Not Executive	1 year

Gürkan Hekimoğlu is the General Manager of the Company. 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. 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 resumes of Board Members are given both in the Company's annual report and 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 2018 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 29 March 2016 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 2018 operating period. There are 2 female members in 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 convenes as required by the Company Affairs and operations. However, the Board must meet at least monthly.

Board of Directors 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 2018 activities of the Board of Directors are provided below:

During the reporting period, the Board of Directors convened 46 times. Invitation for the meeting is done by a written request of any Board Member or the Chairperson. The agenda of the meeting is sent to the members minimum two weeks prior to the date of the meeting. Generally all members attend the meetings. There were no unresolved disputes over issues during the 2018 reporting period. The questions raised during the meetings are not entered into record. No board directors have preferential voting and/or veto rights. 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 Yılmaz Attila and its other member is Kemal Semerciler. Both members are non-executive and independent Board directors. 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

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

from independent auditors. The committee supervises the functioning and effectiveness of the company's accounting system, public disclosure of financial information, independent audit and internal control system. It also oversees the selection of the independent audit provider, start of independent audit process and works of the independent audit provider. It notifies the Board of Directors on integrity and accuracy of the annual and interim financial tables which will be publicly disclosed.

Corporate Governance Committee Chairperson is non-executive independent board member Yılmaz Attila, Committee Members are non-executive board members Cengiz Erol and Yılmaz Gökoğlu and Investor Relations Department Manager is Gökhan Kavur. Corporate Governance Committee meets at least on a quarterly basis and holds at least four meetings in one year. 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. Corporate Governance Committee oversees the activities of the Investor Relations Department.

Within the scope of the duties of the Nominating Committee, the Corporate Governance Committee works on establishing a transparent system in the fields of identifying, evaluating, training and rewarding candidates for the Board of Directors and determining policies and strategies in this regard. 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 Risks Committee is responsible for early detection of risks that may endanger the existence, development and continuity of the company, taking the necessary measures and managing the risk. The Committee is headed by Yılmaz Attila, a non-executive and independent board member, and its members are Cengiz Erol and Yılmaz Gökoğlu, who are non-executive board members.

According to the Corporate Governance Principles, all members of the Audit Committee and the chairman of Early Detection of Risk Committee and of the Corporate Governance Committee should 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 establishes corporate strategies and targets in line with the company's vision, 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 granted to the members of the Board of directors are decided at the General Assembly and announced to the public through the minutes of the meetings held. 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

We declare that according to "Principles Notice Relating Financial Reporting in Capital Market" notice of Capital Market Board (CMB) with no II-14.1, statement of financial position, comprehensive income statement, cash flow statement and statement of changes in equity as well as activity report of board of directors along with the footnotes prepared in accordance with the formats stated by Turkish Accounting Standards/Turkish Financial Reporting Standards (TMS/TFRS) and CMB, prepared by our company, subjected to independent supervision by independent auditing and accepted with the Decision of Board of Directors of Pinar Süt Mamulleri Sanayii A.Ş. with date February 28, 2019 and no 2019/4, belonging to financial year of January 1, 2018 - December 31, 2018;

1. Our company examined the reports,
2. Do not contain any deficiency which may result in any misleading situation as of the date when an explanation against the truth in important matters are made within the information which we have within our area of duty and liability in our company,
3. Within the framework of information we have on our duties and responsibilities in our company, the financial statements prepared in accordance with the communiqué reflect the true information on active and passive assets, financial status, profit and loss of the enterprise and our activity report honestly reflects the development and performance of work and financial status of the enterprise, including the significant risks and uncertainties.

In accordance with the CMB's decision dated January 10, 2019 No. 2/49, the Corporate Governance Compliance Report ("URF") prepared for the fiscal period January 1, 2018 - December 31, 2018 and the Corporate Governance Information Form ("KYBF") were examined by us and that these reports were prepared in accordance with the procedures and principles specified in the Corporate Governance Communiqué of CMB no: II-17.1 as well as in the decisions taken,

Best Regards,

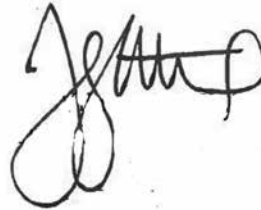
PINAR SÜT MAMULLERİ SANAYİİ A.Ş

Erdem DURGUT
Accounting Manager

Mustafa Şahin DAL
Accounting and Budget Control Director

Yılmaz ATTİLA
Chairperson of Audit Committee

Kemal SEMERCİLER
Member 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 Pınar Süt Mamülleri Sanayii A.Ş.

1. Opinion

We have audited the annual report of Pınar Süt Mamülleri Sanayii A.Ş. (the "Company") for the 1 January - 31 December 2018 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 (the "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 (the "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 28 February 2019 on the full set financial statements for the 1 January - 31 December 2018 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 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, 28 February 2019

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

FINANCIAL STATEMENTS

AT 1 JANUARY - 31 DECEMBER 2018

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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



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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Pınar Süt Mamülleri Sanayii A.Ş.

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Pınar Süt Mamülleri Sanayii A.Ş. (the "Company"), which comprise the statement of financial position as at 31 December 2018 and 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 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "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 (the "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 land and land improvements, buildings, machinery and equipment:****(Refer to the Notes 2.7.4 and 10)**

In accordance with TAS 16, "Property, Plant and Equipment", land and land improvements, buildings, machinery and equipment are measured at fair value on the financial statements

The fair values of land and land improvements and buildings as at 31 December 2018, and determined based on valuations by an independent professional valuer as of 31 December 2017. As a result of Company management assessment with another external independent professional valuer, the carrying amount of land and land improvements and buildings are assumed to approximate their fair values as of 31 December 2018 after deducting current year depreciation.

On the other hand, as the carrying values of machinery and equipment as at 31 December 2018 differs materially from their fair values, the Company management had an independent professional valuer for the valuation of the machinery and equipment as of the same date. Based on the valuations performed by independent professional valuer as at 31 December 2018, the carrying values of the machinery and equipment before tax increased by TRY110 million.

Increases in the carrying amount arising on the revaluation of machinery and equipment are credited to the revaluation reserve in equity, net of applicable deferred income tax in the financial position.

The assessment of the carrying values of property, plant and equipment was a key audit matter since the total amount of property, plant and equipment as of 31 December 2018 represents a significant share of the total assets of the Company, and these valuations include significant estimations and assumptions.

The following audit procedures were addressed in our audit work on the fair value measurement of property, plant, 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.
- The frequency of revaluation was evaluated in accordance with the relevant audit standards by taking into consideration of the conditions and periods set forth in TAS 16.
- Estimates and assumptions of the Company management are considered together with our external expert in accordance with the relevant auditing standards to ensure that the carrying values of land, land improvements and buildings as of 31 December 2018 approximate to their fair values.
- We checked and confirmed completeness, and reconciled the input data on a sample basis, used by the independent professional valuers with the Company's records.
- In accordance with the provisions of "ISA 620: Use of Work of Expert" standard, we got our auditor expert involved on a sample basis to evaluate the assumptions and methods used by the Company management and the independent professional valuers who were appointed by the Company management.
- The compliance of the disclosures of fair value determination of related assets in the financial statements in accordance with the relevant accounting financial reporting standards were evaluated.



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 TFRS, 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.

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

- 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' 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 consolidated 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 2018 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 28 February 2019.

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

ORIGINAL COPY ISSUED AND SIGNED IN TURKISH

Mehmet Karakurt,
Partner

İstanbul, 28 February 2019

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CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)

AT 31 DECEMBER 2018 AND 2017

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

	Notes	31 December 2018	31 December 2017
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	4	1,193,004	1,329,702
Trade Receivables		292,348,136	250,218,193
- Trade Receivables from Related Parties	5	283,012,940	237,729,307
- Trade Receivables from Third Parties	6	9,335,196	12,488,886
Other Receivables		6,517,360	8,940,609
- Other Receivables from Related Parties	5	83,399	1,264,623
- Other Receivables from Third Parties	7	6,433,961	7,675,986
Inventories	8	169,199,697	145,837,859
Prepaid Expenses	9	3,451,261	4,538,093
- Prepaid Expenses to Third Parties		3,451,261	4,538,093
Current Income Tax Assets	25	-	171,581
Other Current Assets	18	35,429,115	26,141,384
- Other Current Assets from Third Parties		35,429,115	26,141,384
TOTAL CURRENT ASSETS		508,138,573	437,177,421
NON-CURRENT ASSETS			
Financial Investments		46,114,555	73,682,096
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	83,320,562	72,476,747
Property, Plant and Equipment	10	751,713,962	614,771,847
- Land		162,713,500	162,713,500
- Land Improvements		13,344,008	13,860,000
- Buildings		80,397,486	79,739,500
- Machinery, Plant and Equipment		449,717,529	319,726,099
- Vehicles		501,615	399,442
- Furniture and Fixtures		10,659,698	11,779,410
- Construction in Progress		34,380,126	26,553,896
Intangible Assets	11	2,826,000	1,926,208
- Other Intangible Assets		2,826,000	1,926,208
Prepaid Expenses	9	269,783	1,492,836
- Prepaid Expenses to Third Parties		269,783	1,492,836
TOTAL NON-CURRENT ASSETS		884,258,221	764,363,093
TOTAL ASSETS		1,392,396,794	1,201,540,514

The financial statements at 31 December 2018 and for the year then ended have been approved for issue by Board of Directors of Pınar Süt Mamülleri Sanayii A.Ş. on 28 February 2019. 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 INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)
AT 31 DECEMBER 2018 AND 2017

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

	Notes	31 December 2018	31 December 2017
LIABILITIES			
CURRENT LIABILITIES			
Short-Term Borrowings	13	65,255,444	83,904,341
- Short-Term Borrowings From Third Parties		65,255,444	83,904,341
- Bank Borrowings		65,255,444	83,904,341
Short-Term Portion of Long-Term Borrowings	13	40,841,356	9,961,784
- Short-Term Portion of Long-Term Borrowings From Third Parties		40,841,356	9,961,784
- Bank Borrowings		40,841,356	9,961,784
Trade Payables		349,291,785	240,777,554
- Trade Payables to Related Parties	5	25,628,099	17,070,297
- Trade Payables to Third Parties	6	323,663,686	223,707,257
Payables Related to Employee Benefits	16	1,803,146	2,643,950
Other Payables		12,764,453	22,210,525
- Other Payables to Related Parties	5	9,914,320	19,867,521
- Other Payables to Third Parties	7	2,850,133	2,343,004
Deferred Income		2,391,616	23,189
- Deferred Income From Third Parties	9	2,391,616	23,189
Current Income Tax Liabilities	25	51,237	-
Short-Term Provisions		308,267	1,285,045
- Short-Term Provisions for Employee Benefits	16	308,267	1,285,045
Other Current Liabilities	18	20,016	310,185
- Other Current Liabilities to Third Parties		20,016	310,185
TOTAL CURRENT LIABILITIES		472,727,320	361,116,573
NON-CURRENT LIABILITIES			
Long-Term Borrowings	13	25,555,556	53,333,333
- Long-Term Borrowings From Third Parties		25,555,556	53,333,333
- Bank Borrowings		25,555,556	53,333,333
Trade Payables		49,739,044	45,819,864
- Trade Payables to Third Parties	6	49,739,044	45,819,864
Long-Term Provisions		22,965,781	19,144,782
- Long-Term Provisions for Employee Termination Benefits	16	22,965,781	19,144,782
Deferred Income Tax Liabilities	25	39,968,864	31,960,112
TOTAL NON-CURRENT LIABILITIES		138,229,245	150,258,091
TOTAL LIABILITIES		610,956,565	511,374,664

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)

AT 31 DECEMBER 2018 AND 2017

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

	Notes	31 December 2018	31 December 2017
EQUITY			
Equity Attributable to			
Owners of the Parent Company			
		781,440,229	690,165,850
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		352,043,990	253,424,549
- Gain/ (Loss) on Revaluation and Remeasurement		327,487,629	251,904,848
- Increase/ (Decrease) on Revaluation of			
Property, Plant and Equipment	10	338,600,210	261,716,422
- Actuarial Gain/ (Loss) Arising from			
Defined Benefit Plans		(11,112,581)	(9,811,574)
- Share of Other Comprehensive Income			
of Investment-in-Associates Accounted for			
Using Equity Method that will not be Reclassified to			
Profit or Loss		5,838,102	1,519,701
- Fair value gain of financial assets measured			
through other comprehensive income	27	18,718,259	-
Other Comprehensive Income/ (Expense) to be			
Reclassified to Profit or Loss		7,797,614	56,943,935
- Gain on Revaluation and Classification		-	44,991,591
- - Fair value gain of financial assets measured			
through other comprehensive income	27	-	44,991,591
- Share of Other Comprehensive Income			
of Investment-in-Associates Accounted for			
Using Equity Method that will be Reclassified to			
Profit or Loss		7,797,614	11,952,344
Reserves on Retained Earnings		60,800,423	59,129,038
- Legal Reserves	19	60,800,423	59,129,038
Distribution to shareholders		(5,537,877)	(5,537,877)
Retained Earnings		255,655,173	217,659,060
Net Profit for the Year		49,216,305	47,082,544
TOTAL EQUITY		781,440,229	690,165,850
TOTAL LIABILITIES		1,392,396,794	1,201,540,514

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED 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 2018 AND 2017

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

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
PROFIT OR LOSS			
Revenue	20	1,487,832,140	1,240,050,704
Cost of Sales	20	(1,256,251,399)	(1,043,294,850)
Gross Profit from Trading Operations		231,580,741	196,755,854
GROSS PROFIT	20	231,580,741	196,755,854
General Administrative Expenses	21	(42,416,015)	(39,338,098)
Marketing Expenses	21	(98,857,932)	(89,426,761)
Research and Development Expenses	21	(13,467,250)	(11,983,563)
Other Income from Operating Activities	22	27,662,497	9,963,406
Other Expense from Operating Activities	22	(23,320,515)	(7,524,316)
OPERATING PROFIT		81,181,526	58,446,522
Income From Investing Activities	23	6,508,616	5,815,137
Expense From Investing Activities	23	(2,001,188)	(1,331,483)
Share of Results of Investment-in-Associates	3	13,620,781	4,911,202
OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE)		99,309,735	67,841,378
Financial Income	24	10,268,163	4,944,429
Financial Expenses	24	(73,043,992)	(31,839,831)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		36,533,906	40,945,976
Tax Income/ (Expense) from Continuing Operations		12,682,399	6,136,568
- Current Tax Expense	25	(539,771)	(768,232)
- Deferred Tax Income	25	13,222,170	6,904,800
PROFIT FOR THE YEAR CONTINUING OPERATIONS		49,216,305	47,082,544
PROFIT FOR THE YEAR		49,216,305	47,082,544
Earnings Per Share		1.0949	1.0474
- Earnings per 1 Kr number of 100 shares from continuing operations	26	1.0949	1.0474

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED 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 2018 AND 2017

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

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
OTHER COMPREHENSIVE INCOME			
Items not to be Reclassified to Profit or Loss		48,554,829	93,929,101
Increase in Revaluation of Property, Plant and Equipment	10	110,110,531	120,327,212
Fair value gain of financial assets measured through other comprehensive income	27	(27,567,542)	-
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		(11,959,257)	2,210,410
- Gains (Losses) on Remeasurements of Defined Benefit Plans of Associates Accounted for Using Equity Method	3	(361,757)	(305,721)
- Revaluation Increases (Decreases) of Property, Plant and Equipments of Associates Accounted for Using Equity Method	3	(11,597,500)	2,516,131
Actuarial Gain/ Loss Arising from Defined Benefit Plans	16	(1,626,259)	(1,052,004)
Taxes Relating to Other Comprehensive Income that will not be Reclassified to Profit or Loss		(20,402,644)	(21,251,681)
- Gains on Revaluation of Property, Plant and Equipment, Tax Effect	25	(22,022,106)	(21,462,083)
- Fair value gain of financial assets measured through other comprehensive income, Tax Effect	25	1,294,210	-
- Actuarial Gain/ (Loss) Arising from Defined Benefit Plans, Tax Effect	25	325,252	210,402
Items to be Reclassified to Profit or Loss		3,347,737	(888,702)
Gains (Losses) on Remeasuring or Reclassification Adjustments on Available-for-sale Financial Assets	27	-	(3,229,985)
Share of Other Comprehensive Income of Associates Accounted for Using Equity Method that will be Reclassified to Profit or Loss		3,347,737	2,211,651
- Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets	3	-	446,436
- Gains (losses) on Foreign Currency Translation Differences of Associates Accounted for Using Equity Method	3	3,347,737	1,765,215
Taxes Relating to Other Comprehensive Income that will be Reclassified to Profit or Loss		-	129,632
- Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets, Tax Effect	25	-	129,632
OTHER COMPREHENSIVE INCOME		51,902,566	93,040,399
TOTAL COMPREHENSIVE INCOME		101,118,871	140,122,943

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
 STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED AT 31 DECEMBER 2018 AND 2017

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

Previous Period 1 January - 31 December 2017	Other Comprehensive Income/ (Expense) not to be Reclassified to Profit or Loss			Other Comprehensive Income/ (Expense) to be Reclassified to Profit or Loss			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	Fair value gain of financial assets measured through other comprehensive income	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 financial assets available for sale	Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit and loss				Distribution to shareholders			
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	-	-	92,560,293	(841,602)	-	2,210,410	(3,100,353)	2,211,651	-	-	-	47,082,544	140,122,943
- Profit for The Year	-	-	-	-	-	-	-	-	-	-	-	47,082,544	47,082,544
- Other Comprehensive Income/ (Loss)	-	-	92,560,293	(841,602)	-	2,210,410	(3,100,353)	2,211,651	-	-	-	-	93,040,399
Dividends	-	-	-	-	-	-	-	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
Current Period 1 January - 31 December 2018	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
Restatements to mandatory changes in accounting policies (Note 2)	-	-	-	-	-	-	-	-	-	-	-	-	-
IFRS 9 impact due to policy change, net	-	-	-	-	44,991,591	16,619,368	(44,991,591)	(7,502,467)	-	-	-	-	9,116,901
Restated balances	44,951,051	16,513,550	261,716,422	(9,811,574)	44,991,591	18,139,069	-	4,442,877	59,129,038	(5,537,877)	217,659,060	47,082,544	699,282,751
Transfers	-	-	(11,204,637)	-	-	(341,710)	-	-	-	-	58,628,891	(47,082,544)	-
Total Comprehensive Income	-	-	88,088,425	(1,301,007)	(26,273,332)	(11,959,257)	-	3,347,737	-	-	-	49,216,305	101,118,871
- Profit for The Year	-	-	-	-	-	-	-	-	-	-	-	49,216,305	49,216,305
- Other Comprehensive Income/ (Loss)	-	-	88,088,425	(1,301,007)	(26,273,332)	(11,959,257)	-	3,347,737	-	-	-	-	51,902,566
Dividends	-	-	-	-	-	-	-	1,671,385	-	-	(20,632,778)	-	(18,961,393)
Balance at 31 December 2018	44,951,051	16,513,550	338,600,210	(11,112,581)	18,718,259	5,838,102	-	7,797,614	60,800,423	(5,537,877)	255,655,173	49,216,305	781,440,229

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT
31 DECEMBER 2018 AND 2017

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

	Notes	31 December 2018	31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES		123,983,195	37,492,404
Net Profit (Loss) for the Year		49,216,305	47,082,544
Profit (Loss) for the Year from Continuing Activities		49,216,305	47,082,544
Adjustments Related to Reconciliation of Net Profit (Loss) for the Year:		49,168,236	41,082,622
Adjustments for Depreciation and Amortization	10	34,216,280	26,343,810
Adjustments for Impairments/ Reversals		6,126	164,145
- Adjustments for Decrease in Fair Value of Inventories		6,126	164,145
Adjustments for Provisions		5,486,324	3,776,122
- Adjustments for (Reversal of) Provisions Related with Employee Benefits	16	5,486,324	3,776,122
Adjustments for Dividend Income	23	(4,333,747)	(5,518,989)
Adjustments for Interest Income/ (Expense)		28,608,811	15,200,800
- Adjustments for Interest Income		(2,894,724)	(475,794)
- Adjustments for Interest Expense		31,503,535	15,676,594
Adjustments for Unrealized Foreign Currency Translation Differences		9,151,241	11,640,319
Adjustments for Fair Value (Gains) Losses on Derivative Financial Instruments		3,349,552	-
Adjustments for Undistributed Profits of Investments Accounted for Using Equity Method		(13,620,781)	(4,911,202)
- Adjustments for Undistributed Profits of Associates	3	(13,620,781)	(4,911,202)
Adjustments for Tax Income/ Losses	25	(12,682,399)	(6,136,568)
Adjustments for Gain/ Losses on Sale of Tangible Assets		(173,679)	1,035,335
Adjustments for Other Adjustments Related to Profit/Loss Reconciliation		(839,492)	(511,150)
Changes in Working Capital:		25,557,069	(50,518,231)
Adjustments for Increases/decreases in trade receivables		(38,779,599)	(64,032,283)
- Increases/decreases in trade receivables from related parties		(41,933,289)	(62,574,075)
- Increases/decreases in trade receivables from third parties		3,153,690	(1,458,208)
Adjustments for Increases/decreases in other receivables		1,242,025	(3,698,913)
- Increases/decreases in other receivables from third parties		1,242,025	(3,698,913)
Adjustments for Increases/decreases in inventory		(23,361,838)	(41,943,736)
Increases/decreases in prepaid expenses		1,086,832	138,820
Adjustments for Increases/decreases in trade payables		95,359,881	67,139,710
Increase (Decrease) in Trade Accounts Payables to Related Parties		7,543,947	1,653,873
Increase (Decrease) in Trade Accounts Payables to Third Parties		87,815,934	65,485,837
Increases/Decreases in debts from Employment Termination Benefits		(701,611)	145,269
Adjustments for Increases/decreases in other payable		507,129	378,505
- Increases/decreases in other payable from third parties		507,129	378,505
Adjustments for Increases/decreases in deferred income		2,368,427	(30,758)
Adjustments for Increases/decreases in other liabilities of working capital		(12,164,177)	(8,614,845)
Decrease (Increase) in Other Assets Related with Operations		(11,874,007)	(8,788,999)
Increase (Decrease) in Other Payables Related with Operations		(290,170)	174,154
Cash Flows From Operating Activities:		123,941,610	37,646,935
Employee termination benefits paid		(3,895,510)	(2,694,459)
Income taxes refund/ (paid)		511,327	(1,212,351)
Government grants received		3,425,768	3,752,279

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT
31 DECEMBER 2018 AND 2017

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

	Notes	31 December 2018	31 December 2017
CASH FLOWS FROM INVESTING ACTIVITIES:		(48,855,543)	(44,871,624)
Proceeds from sale of tangible and intangible assets		5,832,442	510,206
- Proceeds from sale of tangible assets		5,832,442	510,206
Cash outflows due to purchases of tangible and intangible assets		(67,606,418)	(55,064,224)
- Cash outflows due to purchases of tangible assets		(66,175,250)	(53,894,507)
- Cash outflows due to purchases of intangible assets		(1,431,168)	(1,169,717)
Cash Payments of Advances and Loans		2,404,277	(1,479,024)
- Cash Advances and Loans Made to Related Parties		1,181,224	(1,246,594)
- Other Cash Advances and Loans Made to Other Parties		1,223,053	(232,430)
Dividends received	5	7,619,432	10,685,624
Interest received		2,894,724	475,794
CASH FLOWS FROM FINANCING ACTIVITIES:		(75,270,860)	8,191,126
Cash in flow Proceeds from borrowings		287,374,692	307,470,898
- Cash in flow from borrowings		287,374,692	307,470,898
Cash outflow payments of borrowings		(299,245,392)	(233,304,449)
- Repayments of borrowings		(299,245,392)	(229,794,085)
- Cash outflow from Other financial payments of borrowings		-	(3,510,364)
Cash outflow from derivative instruments		(3,349,552)	-
Increase/ (Decrease) in Other Payables to Related Parties		(9,885,246)	(9,368,603)
Dividends paid	5	(19,541,399)	(40,905,457)
Interest paid		(30,623,963)	(15,701,263)
Net increase / (Decrease) in cash and cash equivalents before foreign currency translation differences		(143,208)	811,906
EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS		6,510	15,144
Net Increase / (Decrease) In Cash And Cash Equivalents		(136,698)	827,050
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1,329,702	502,652
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		1,193,004	1,329,702

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED 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 2018

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

Pınar Süt Mamülleri 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% (2017: 96%) 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% (2017: 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 (2017: 61.41%) (Note 19).

The average number of employees are 1,100 in the period. (31 December 2017: 1,135).

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

Yunus Emre Mah. Kemalpaşa Cad. No: 317
Bornova/ 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").

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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 2018:

- **TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 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. The effects of the standard change are explained in Note 2.7.2.
 - **TFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. TFRS 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. The effects of the standard change are explained in Note 2.7.1.
 - **Annual improvements 2014 - 2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
 - TAS 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.
- b) New standards, amendments and interpretations issued and effective as of 31 December 2018 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 that are issued but not effective as at 31 December 2018:**
- **Amendment to TFRS 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 TAS 39.

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

- **Amendment to TAS 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 TFRS 9.
- **TFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 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 TFRS 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.
- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of TAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that TAS 12, not TAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 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. IFRIC 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.
- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - TFRS 3, 'Business combinations'; – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - TFRS 11, 'Joint arrangements'; – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - TAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
 - TAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

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

- **Amendments to TAS 19, 'Employee benefits'** on plan amendment, curtailment or settlement'; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
- **Amendments to TAS 1 and TAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements', and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:
 - use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
 - clarify the explanation of the definition of material; and
 - incorporate some of the guidance in TAS 1 about immaterial information.

The Company will evaluate the effects of amendments mentioned above on its operations and apply them from the effective date. New standards and amendments which are not relevant to the operations of the Company issued but not effective as of 31 December 2018 have not been presented above.

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 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.

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.

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

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 2.7.6.

The table below sets out the associates and the proportion of ownership interest as of 31 December 2018 and 2017 (Note 3):

	Share/Voting Right (%)	
	2018	2017
<u>Investments-in-associates</u>		
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

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 2018, equivalent of 1 Euro is TL6.0280 (2017: TL4.5155) and for the year then ended the average equivalent of 1 EUR TL5.6581 (2017: TL4.1180). 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.

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

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 Companyed 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.

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 2018 on a comparative basis with balance sheet at 31 December 2017; 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 2017.

The Company has applied consistent accounting policies in the financial statements for presented periods and has no material changes in the accounting policies and estimates in the current period. TFRS 9 and 15 accounting policies and their effects on financial statements are presented Note 2.7.1 and Note 2.7.2.

Transition to TFRS 15 "Revenue from contracts with customers"

The Company has evaluated TFRS 15 "Revenue from contracts with customers", which has replaced TAS 18, by using cumulative effect method on the transition date, 1 January 2018 and concluded that the standard does not have material impact retrospectively.

Transition to TFRS 9, 'Financial instruments';

The Company has applied TFRS 9 "Financial instruments", which has replaced TAS 39 on the transition date, 1 January 2018. The amendments include the classification and measurement of financial assets and liabilities and the expected credit risk model which will replace incurred credit risk model. Effect of transition is evaluated based on the simplified approach and concluded that the standard does not have material impact retrospectively.

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

Changes regarding the classification of financial assets and liabilities in terms of TFRS 9 are summarised below.

Financial assets	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortization cost
Financial assets	Available for sale financial assets	Fair value through other comprehensive income
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Trade receivables	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Financial liabilities	Original classification under IAS 39	New classification under IFRS 9
Borrowings	Amortized cost	Amortized cost
Trade payables	Amortized cost	Amortized cost
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Other payables	Amortized cost	Amortized cost

The Company management assessed financial investments of the Company, which are under the scope of TFRS 9 as of 1 January 2018, and classified these financial instruments and related equity funds in accordance with TFRS 9 categories. As a result of this classification, the difference between the carrying amount and the fair value of the beginning of the current period, of the financial assets carried at cost is recorded in the related fund under shareholders' equity. The effects of the related classification on the financial statements are as follows:

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

Financial investments	Available-for-sale	Fair value	Total effect
1 January 2018	financial assets	through	
		other comprehensive	
		income	
		assets	
Closing balance -			
31 December 2017 - TAS 39	73,682,096	-	73,682,096
Available for sale assets			
fair value through			
classified under			
other comprehensive income	(73,682,096)	73,682,096	-
Opening balance: -			
1 January 2018 – TFRS 9	-	73,682,096	73,682,096

Financial investments	Revaluation and/or	Fair value	Total effect
1 January 2018	Reclassification	difference through	
	Gain/(loss) fund of	other	
	financial	comprehensive	
	investments	income assets	
		fair value	
		fund	
Closing balance -			
31 December 2017 – TAS 39	44,991,591	-	44,991,591
Fair value difference of the revaluation or			
classification gains / (losses)			
of financial assets	(44,991,591)	44,991,591	-
Opening balance:-			
1 January 2018 – TFRS 9	-	44,991,591	44,991,591

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

Financial investments 1 January 2018	Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit or loss	Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit or loss
Closing balance - 31 December 2017 – TAS 39	11,952,344	1,519,701
Fair value difference of the revaluation or classification gains / (losses) of financial assets	(7,502,467)	7,502,467
TFRS 9 impact due to accounting policy change, net -	9,116,901	-
Opening balance:- 1 January 2018 – TFRS 9	4,449,877	18,139,069

2.6 Change in the useful lives of tangible assets

The Company management reviewed useful lives of property, plant and equipment and updated useful lives of some of land improvements, buildings, machinery and equipment, motor vehicles and furniture and fixtures. As a result of this change, the depreciation expense for the period 1 January-31 December 2018 is calculated TL3,248,374 less than the amount to be calculated according to the previous useful lives.

2.7 Summary of Significant Accounting Policies

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

2.7.1 Revenue recognition

The Company recognizes revenue when the goods or services is transferred to the customer and when performance obligation is fulfilled. Goods is counted to be transferred when the control belongs to the customer.

The Company recognizes revenue based on the following main principles:

- a) Identification of customer contracts,
- b) Identification of performance obligations,
- c) Determination of transaction price in the contract,
- d) Allocation of price to performance obligations,
- e) Recognition of revenue when the performance obligations are fulfilled.

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

According to this model, the goods or services undertaken in each contract with the customers are evaluated and each commitment to transfer the goods or services is determined as a separate performance obligation. Then, it is determined whether the performance obligations will be fulfilled in time or at a certain time. If the company transfers the control of a good or service over time and thus fulfils the performance obligations related to the sales in time, it measures the progress of the fulfilment of the performance obligations in full and takes the proceeds to the financial statements. Revenue related to performance obligations, such as goods or service transfer commitments, is recognized when customers are in control of the goods or services.

In the event that all of the following conditions are met, the Company recognizes a contract with its customer as revenue:

- a) The parties to the Convention have ratified the contract (in accordance with written, oral or other commercial practices) and undertakes to carry out their own actions,
- b) The Company may define the rights related to the goods or services to be transferred by each party,
- c) The Company may define the payment terms related to the goods or services to be transferred,
- d) The contract is essentially commercial,

It is probable that the Company will be charged for the goods or services to be transferred to the customer. When evaluating whether the collectability of a price is probable, the entity shall consider only the customer's ability to pay the price at the due date and its intent.

Revenue from sale of goods

The Company recognizes revenue from the production and sale milk and dairy products (cheese, yoghurt etc.) fruit juice, sauce and powder products. Sales are recognised when control of the products have transferred to the customer.

The company considers the following indicators of the transfer of control,

- present right to payment for the good or service
- the customer has legal title to the asset
- transfer physical possession of the asset
- the customer has the significant risks and rewards of ownership of the good
- the customer has accepted the asset

For each performance obligation, the Company determines whether it has fulfilled its performance obligation at the beginning of the contract or whether the performance obligation fulfils the obligation at a certain point in time. The Company records revenue from product sales in the financial statements following the transfer of control to the customer.

In the event that the completed transaction is entitled to collect a price directly corresponding to the value of the customer from its customers (delivery of products), the Company recognise the revenue to the financial statements for the amount it has the right to invoice.

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

The Company recognizes a refund liability in the financial statements if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received for which the entity does not expect to be entitled and recognised as advances received on the financial position. The refund liability is updated at the end of each reporting period for changes in circumstances.

2.7.2 Financial assets

Classification and measurement

The Company classifies its financial assets as financial assets carried at amortized cost and financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. The Company classifies financial assets on the date of purchase.

(a) Financial assets carried at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, whose payments are fixed or predetermined, which are not actively traded and which are not derivative instruments are measured at amortized cost. They are included in current assets, except for maturities more than 12 months after the balance sheet date. Those with maturities more than 12 months are classified as non-current assets. The Company's financial assets carried at amortized cost comprise "trade receivables", "cash and cash equivalents" and "other receivables" in the financial statements.

Impairment

The Company has applied simplified approach and used impairment matrix for the calculation of impairment on its receivables carried at amortized cost, since they do not comprise of any significant finance component. In accordance with this method, if any provision provided to the trade receivables as a result of a specific events, The Company measures expected credit loss from these receivables by the life-time expected credit loss. The calculation of expected credit loss is performed based on the past experience of The Company and its expectations for the future indications. The Company management evaluated the effect of the calculation of ECL model as of 31 December 2018 and expected that the effects of the calculation will not have significant impact on the financial statements.

(b) Financial assets measured at fair value through other comprehensive income ("FVOCI")

Assets that the Company management adopts contractual cash flows and/ or sales business model are classified as assets that are recognized at fair value. Such assets are classified as non-current assets unless management intends to dispose of the related assets within 12 months after the balance sheet date. The Company makes an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss, to present subsequent changes in fair value in other comprehensive income.

FVOCI include "Financial Investments" in the statement of financial position. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. As of 31 December 2018, the Company does not have any financial assets that it has measured at cost. In this context, the Company has recognized all of its financial assets at fair value in the financial statements.

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Where there is no listed fair value of the financial assets carried at fair value through other comprehensive income, the generally accepted valuation methods used in the calculation of the fair value include certain assumptions based on the best estimates of the management and the values that may occur in the case of the purchase/sale transactions may differ from these values. (Note 27).

2.7.3 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).

2.7.4 Property, plant and equipment

Property, plant and equipment except for land, land improvements and buildings and machinery and equipment are stated at cost less accumulated depreciation and if exists provisions. Land, land improvements and buildings as of 31. December 2018 and machinery and equipment as of 31 December 2017 are stated at fair value less accumulated depreciation, based on valuations made by external independent expert TSKB Gayrimenkul Değerleme A.Ş. (Note 10). 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

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.

2.7.5 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).

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.

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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.

2.7.6 Impairment of assets

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.

2.7.7 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.

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

2.7.8 Business combination

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".

2.7.9 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.

2.7.10 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.

2.7.11 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.

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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.

2.7.12 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.

2.7.13 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).

- a) A person or a close member of that person's family is related to a reporting entity if that person
- i) has control or joint control over the reporting entity
 - ii) has significant influence over the reporting entity, or
 - iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

- b) An entity is related to a reporting entity if any of the following conditions applies:
- i) The entity and the reporting entity are members of the same group
 - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member),
 - iii) Both entities are joint ventures of the same third party,
 - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity,
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity,
 - vi) The entity is controlled or jointly controlled by a person identified in (a),
 - vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity). A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

2.7.14 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.

2.7.15 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).

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

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.

(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.

2.7.16 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.

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).

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

2.7.17 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.

2.7.18 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.

2.7.19 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.

2.7.20 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.

2.7.21 Going concern

The Company prepared consolidated financial statements in accordance with the going concern assumption.

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

2.7.22 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:

a) Revaluation of land, buildings and land improvements, machinery and equipment:

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 yearly revaluations and fair value measurements are considered unnecessary.

Due to the fact that the machinery, facilities and equipment are mainly imported there may be significant changes in market data taken into consideration in the cost approach due to the changes in the exchange rates and the carried values will not converge to their fair values as of 31 December 2018. In this context, machinery, facilities and devices have been assigned to TSKB Gayrimenkul Değerleme A.Ş. has been reflected to the financial statements based on the fair value determined by the valuation results.

In addition, fair value of land, land improvements, buildings, determined by TSKB Gayrimenkul Değerleme A.Ş. as of 31 December 2017 is assumed to approximate the fair values as of 31 December 2018 after deducting the current period depreciation.

Details of the methods and assumptions used for valuation are as follows.

- Revaluation of investment property was based on the method of reference by considering highest and best use approach.
- Regarding the valuation of the machinery and equipment, technologic conditions, actual depreciation, commercial attributes and industrial positions as well as demounting and assembling costs were taken into account. Valuation assessment was performed based on all the active and functioning assets in the integrated plant due to valuation of a fully integrated industrial plant. 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.

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

2.8 Compliance declaration to resolutions published by POAASA and 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 2018		31 December 2017	
	TL	(%)	TL	(%)
YBP	53,388,670	31.82	48,491,423	31.82
Desa Enerji	15,776,196	30.52	14,012,677	30.52
Pınar Foods	14,155,696	44.94	9,972,647	44.94
	83,320,562		72,476,747	

Movement in investments-in-associates during the years 2018 and 2017 are as follows:

	2018	2017
1 January	72,476,747	68,474,264
TFRS 9 impact on associates due to policy change, net	9,116,901	-
Amount after adjustment	81,593,648	68,474,264
Share of profit before taxation of investments-in-associates - net	13,620,781	4,911,202
Increase in fair value reserves of investments-in-associates - net	(12,599,798)	446,436
Dividend income from investments-in-associates (Note 5.ii.d)	(3,285,685)	(5,166,635)
Currency translation reserve	3,347,737	1,765,215
Increase in revaluation reserve of investments-in-associates	1,002,297	2,516,131
Actuarial loss arising from defined benefit plans of investments-in associates - net	(361,757)	(305,721)
Elimination of net effect of unrealized profits on inventory	3,339	(164,145)
31 December	83,320,562	72,476,747

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NOTE 3 - INTERESTS IN OTHER ENTITIES (Continued)

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

	31 December 2018				
	Assets	Liabilities	Net Sales	Net Profit	Other Comprehensive Income/(Expense)
- YBP	602,667,726	433,278,443	2,014,722,720	35,191,208	(39,799,770)
- Desa Enerji	59,763,155	8,071,818	66,896,365	5,201,922	3,284,067
- Pınar Foods	32,548,960	1,049,856	86,444,830	1,858,729	7,448,771
	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
- Pınar Foods	22,536,552	345,526	63,683,911	564,317	3,927,631

Details of significant investment in associates of the Company as at 31 December 2018 and 2017 are as follows:

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

NOTE 4 - CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash in hands	43,968	46,095
Banks	1,149,036	1,283,607
- Demand deposits	361,036	998,607
- TL	361,036	998,607
- Time deposits	788,000	285,000
- TL	788,000	285,000
	1,193,004	1,329,702

As of 31 December 2018 the Company has time deposits amounting to TL788,000 with an effective interest rate of 20.53% per annum ('p.a.') (2017: TL285,000 and 14.40%).

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.

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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 2018 and 2017 are as follows:

i) Balances with related parties:

	31 December 2018	31 December 2017
a) Short - term trade receivables from related parties:		
YBP	227,523,377	206,406,601
YDT	55,489,563	31,322,706
	283,012,940	237,729,307

The average maturity of short term trade receivables from related parties as of 31 December 2018 is 2 months (2017: 2 months).

As of 31 December 2018, trade receivables from related parties amounting to TL30,284,396 (2017: TL9,977,585) over which no provision for impairment is provided of overdue receivables and aging is shown Note 28.a.

b) Other short - term receivables from related parties:

	31 December 2018	31 December 2017
DYO Boya Fab. San. ve Tic. A.Ş. ("DYO Boya")	67,055	137,380
HDF FZCO	104	1,014,572
Other	16,240	112,671
	83,399	1,264,623

c) Short - term trade payables to related parties:

	31 December 2018	31 December 2017
Çamlı Yem Besicilik Sanayi ve Tic. A.Ş. ("Çamlı Yem")	15,170,707	9,010,448
Yadex International GmbH ("Yadex")	4,430,131	2,586,353
Yaşar Holding	3,736,330	3,392,023
Desa Enerji	1,726,949	1,581,137
Other	563,982	500,336
	25,628,099	17,070,297

Trade payables to Çamlı Yem mainly consist of raw material purchases.

As of 31 December 2018, the average maturity of short-term trade payables to related parties is 2 months (2017: 2 months).

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

d) Other short-term payables to related parties:

	31 December 2018	31 December 2017
Yaşar Holding	4,086,386	14,032,015
Other	5,827,934	5,835,506
	9,914,320	19,867,521

As of 31 December 2018, the Company has non-trade payables to Yaşar Holding amounting to TL4,086,386 (31 December 2017: TL14,032,015) and the effective weighted average interest rate applied to those receivables is 25.50% (31 December 2017: 15%). Company management expects to pay other payables to Yaşar Holding between three to twelve months.

Majority of other short term payables to related parties which are amounting to TL5,767,546 consist of bonus payments to board of directors according to the decision taken at the General Assembly Meetings held at 30 March 2018, 30 March 2017, 30 March 2016 (31 December 2017: Bonus payments according to the decision taken at General Assembly Meetings held at 30 March 2017, 30 March 2016 and 26 March 2015).

ii) Transaction with related parties:

	1 January - 31 December 2018	1 January - 31 December 2017
a) Product sales:		
YBP	1,215,499,584	1,031,512,225
YDT	227,845,536	166,928,677
Pınar Et	598,304	704,320
Other	2,834	4,770
	1,443,946,258	1,199,149,992

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:

YBP	1,072,758	766,249
Pınar Et	559,137	289,922
Çamlı Yem	466,175	445,220
Other	552,078	570,027
	2,650,148	2,071,418

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

c) Other income from operating activities:

	1 January - 31 December 2018	1 January - 31 December 2017
YDT	19,919,358	5,478,045
Çamlı Yem	1,210,574	1,077,858
YBP	1,056,749	926,612
Other	-	30,168
	22,186,681	7,512,683

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

d) Dividends received:

Pınar Et	2,671,359	5,506,270
YBP (*)	2,459,280	3,730,165
Çamlı Yem	1,640,467	-
Desa Enerji (*)	826,405	1,436,470
Bintur Turizm ve Catering Hizmetleri A.Ş. ("Bintur")	21,921	12,719
	7,619,432	10,685,624

(*) Investment in associate (Note 3).

e) Other expenses from operating activities:

YDT	9,277,856	4,331,734
Çamlı Yem	570,630	502,094
Yaşar Holding	157,809	131,340
Other	326,234	77,227
	10,332,529	5,042,395

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

f) Product purchases:

Desa Enerji	18,963,580	15,361,342
Yadex	18,936,293	12,522,989
Çamlı Yem	17,659,175	11,970,161
Hedef Ziraat Ticaret A.Ş.	4,649,950	3,825,528
Other	202,448	200,964
	60,411,446	43,880,984

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

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

g) Service purchase:

	1 January - 31 December 2018	1 January - 31 December 2017
Yaşar Holding	16,192,065	13,812,477
YBP	11,835,082	8,499,782
YDT	8,781,616	8,388,188
Yaşar Bilgi İşlem ve Ticaret A.Ş. ("YABİM")	1,634,625	1,569,191
Bintur	582,580	731,628
Other	977,945	891,546
	40,003,913	33,892,812

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 associate YBP consist of promotional and advertising services and promotion expenses reflected to the company.

h) Purchases of property, plant and equipment and intangible assets:

DYO Boya	90,601	-
YBP	64,603	-
Yaşar Üniversitesi	-	76,020
Other	-	45,000
	155,204	121,020

i) Financial income from related parties:

Yaşar Holding	2,470,088	1,808,712
Other	-	15,697
	2,470,088	1,824,409

The majority of finance income consists of bail commission charges amounting to TL2,470,088 (2017: TL1,824,409), 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. (2017: 0.50% p.a.).

j) Dividends to related parties:

Yaşar Holding	10,489,483	25,119,550
Other	1,887,674	2,408,378
	12,377,157	27,527,928

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

On the Ordinary Meeting of the General Assembly for the year 2017 as of 30 March 2018, it has been decided to distribute dividend amounting to TL18,961,399 (2017: TL43,295,457). TL6,584,236 portion of this dividend (2017: TL15,767,529) was paid to other shareholders.

k) Donations:

	1 January - 31 December 2018	1 January - 31 December 2017
Yaşar Eğitim Vakfı	1,326,382	276,350
	1,326,382	276,350

l) Financial expenses from related parties:

Yaşar Holding	522,811	2,217,662
Other	1,267,918	165,277
	1,790,729	2,382,939

Significant portion of financial expenses consist of the bail charges related to the guarantees provided by Yaşar Group companies as guarantor.

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	6,853,207	7,156,661
Other long-term benefits	207,551	126,617
	7,060,758	7,283,278

The portion of total short-term benefits amounting to TL1,880,000 (31 December 2017: TL2,390,000) 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 2018 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 thousands equivalent of TL1,315,225,000 (31 December 2017: USD250,000 thousands equivalent of TL942,975,000) 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.

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

o) Bails received from related parties:

Received bails are related with guarantee letter amounting to TL61,333,333 guarantees provided by YBP, YDT and Yaşar Holding (31 December 2017: guarantees provided by YBP and Yaşar Holding related with guarantee letters amounting to TL61,111,111).

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

a) Short - term trade receivables from third parties:

	31 December 2018	31 December 2017
Customer current accounts	1,980,506	3,180,619
Cheques and notes receivable	7,921,151	9,874,728
	9,901,657	13,055,347
Less: Provision for impairment of receivables	(566,461)	(566,461)
	9,335,196	12,488,886

The agings of trade receivables as of 31 December 2018 and 2017 are as follows;

	31 December 2018	31 December 2017
Overdue	1,639,080	699,827
0 - 30 days	4,595,257	4,723,541
31 - 60 days	3,100,859	6,691,913
61 - 90 days	-	39,396
91 days and over	-	334,209
	9,335,196	12,488,886

The Company management does not expect any collection risk regarding its trade receivables overdue but not impaired amounting to TL1,639,080 as of 31 December 2018 (31 December 2017: TL699,827) considering its past experience and subsequent collections (Note 28.a).

The agings of trade receivables as of 31 December 2018 and 2017 are as follows;

	31 December 2018	31 December 2017
0 - 3 months	1,639,080	699,827

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

	2018	2017
1 January	566,461	594,894
Collection	-	(28,433)
31 December	566,461	566,461

b) Short - term trade payables to third parties:

	31 December 2018	31 December 2017
Supplier current accounts	323,663,686	223,707,257

Trade payables mature within two months (31 December 2017: two months).

c) Long - term trade payables to third parties:

Supplier current accounts	49,739,044	45,819,864
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Long-term trade payables to third parties are comprised of payables regarding property, plant and equipment purchases that are amounting to EUR8,251,335 as of 31 December 2018 (31 December 2017: EUR10,147,240)

The redemption schedules of long-term trade payables at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
2019	-	17,275,720
2020	22,694,538	16,249,011
2021	14,674,156	6,128,877
2022	8,210,776	4,615,349
2023	4,159,574	1,550,907
	49,739,044	45,819,864

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

a) Other short-term receivables from third parties:

	31 December 2018	31 December 2017
Value Added Tax ("VAT") receivable	3,898,461	7,284,218
Deposits and guarantees given	2,114,836	20,090
Other	420,664	371,678
	6,433,961	7,675,986

b) Other short-term payables to third parties:

Taxes and funds payable	2,608,486	2,007,575
Other	241,647	335,429
	2,850,133	2,343,004

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 2018	31 December 2017
Raw materials	53,140,957	47,745,833
- Raw materials	49,350,020	38,983,195
- Raw materials in transit	3,790,937	8,762,638
Work-in-progress	50,114,803	42,086,930
Finished goods	56,626,137	48,122,231
Spare parts and palettes	9,317,800	7,882,865
	169,199,697	145,837,859

The costs of inventories recognized as expense and included in cost of sales amounted to TL1,065,257,417 (2017:TL887,854,434) (Note 17). Inventories are carried at cost, and there are no inventories valued at fair value less costs to sell as of 31 December 2018.

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NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2018	31 December 2017
a) Short - term prepaid expenses to third parties:		
Prepaid expenses	3,110,021	4,244,544
Advances given	341,240	293,549
	3,451,261	4,538,093
b) Long - term prepaid expenses to third parties:		
	31 December 2018	31 December 2017
Advances given	269,783	1,492,836
	269,783	1,492,836
c) Short - term deferred income from third parties:		
Advances given	2,391,616	23,189
	2,391,616	23,189

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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 2018 were as follows:

	1 January 2018	Additions	Disposals	Transfers	Accumulated Depreciation Netting Before Valuation	Revaluation Increasing	31 December 2018
Cost or revaluation:							
Land	162,713,500	-	-	-	-	-	162,713,500
Land improvements and buildings	93,599,500	1,438,430	(1,746,301)	3,943,931	-	-	97,235,560
Machinery, plant and equipment	319,726,099	19,988,244	(4,149,330)	30,708,916	(26,666,931)	110,110,531	449,717,529
Motor vehicles	6,774,403	195,038	(273,050)	-	-	-	6,696,391
Furniture and fixtures	56,711,279	2,074,461	(977,325)	-	-	-	57,808,415
Construction in progress	26,553,896	42,479,077	-	(34,652,847)	-	-	34,380,126
	666,078,677	66,175,250	(7,146,006)	-	(26,666,931)	110,110,531	808,551,521
Accumulated depreciation:							
Land improvements and buildings	-	(3,600,784)	106,718	-	-	-	(3,494,066)
Machinery, plant and equipment	-	(26,851,241)	184,310	-	26,666,931	-	-
Motor vehicles	(6,374,961)	(92,865)	273,050	-	-	-	(6,194,776)
Furniture and fixtures	(44,931,869)	(3,140,013)	923,165	-	-	-	(47,148,717)
	(51,306,830)	(33,684,903)	1,487,243	-	26,666,931	-	(56,837,559)
Net book value	614,771,847						751,713,962

As of 31 December 2018, main additions to property, plant and equipment are comprised of investments related to machinery and equipment and furniture and fixtures.

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NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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	31 December 2017
Cost or revaluation:							
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 machinery and equipment and furniture and fixtures.

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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 2018 (2017: None).

Current year's depreciation and amortization charges were allocated to cost of goods sold by TL28,590,874 (2017: TL20,863,298) to the cost of inventories by TL715,657 (2017: TL797,276), to marketing expenses by TL2,077,212 (2017: TL1,979,415 TL) (Note 21.a), to general administrative expenses by TL2,218,636 (2017: TL2,244,058) (Note 21.b), to research and development expenses by TL613,901 (2017: TL459,763) (Note 21.c).

Movements in revaluation reserve related to land, buildings, land improvements, machinery and equipment as of 31 December 2018 and 2017 were as follows:

	2018	2017
1 January	261,716,422	172,665,882
Disposal of revaluation funds due to sale of property, plant and equipment -net	(2,700,130)	(490,706)
Increase in revaluation reserve arising from revaluation of land, buildings and land improvements	-	30,220,718
Machinery, plants and equipment revaluation resulting increase - net	88,088,425	68,644,411
Change in tax rate	-	(6,304,836)
Depreciation transfer upon revaluation reserve - net	(8,504,507)	(3,019,047)
31 December	338,600,210	261,716,422

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 2018 and 2017 are as follows:

	Land	Land improvements and buildings	Machinery and equipment
31 December 2018:			
Cost	9,059,482	74,367,201	370,814,636
Less: Accumulated depreciation	-	(21,807,580)	(113,619,242)
Net book value	9,059,482	52,559,621	257,195,394
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

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NOTE 11 - INTANGIBLE ASSETS

The movements of intangible assets and related accumulated amortization for the years ended 31 December 2018 and 2017 were as follows:

	1 January 2018	Additions	31 December 2018
Costs:			
Rights	12,808,201	322,355	13,130,556
Construction in progress	593,295	1,108,813	1,702,109
Less: Accumulated amortization	(11,475,288)	(531,377)	(12,006,665)
Net book value	1,926,208		2,826,000
	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

NOTE 12 - GOVERNMENT GRANTS AND INCENTIVES

During 2018, 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 TL833,034 (2017: TL395,032) government incentive. As of 31 December 2018, the company has incentive accrual amounting to TL3,675,970 (31 December 2017: TL2,355,398).

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

NOTE 13 - BORROWINGS AND BORROWING COSTS

	31 December 2018	31 December 2017
Short-term borrowings	65,255,444	83,904,341
Short-term portion of long-term borrowings	40,841,356	9,961,784
Short-term borrowings	106,096,800	93,866,125
Long-term borrowings	25,555,556	53,333,333
Long-term borrowings	25,555,556	53,333,333
	131,652,356	147,199,458

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NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

a) Borrowings:

	Effective weighted		Original currency		TL equivalent	
	average interest rate p.a. (%)					
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Short - term borrowings:						
TL borrowings (*)	31.76	13.85	38,950,944	53,163,356	38,950,944	53,163,356
USD borrowings (*)	3.22	1.92	5,000,000	8,150,000	26,304,500	30,740,985
Short - term portion of long - term bank borrowings:						
Short-term portion of long term						
TL borrowings	15.07	13.12	40,841,356	9,961,784	40,841,356	9,961,784
Total short - term borrowings					106,096,800	93,866,125
Long - term bank borrowings:						
TL borrowings (**)	14.31	14.48	25,555,556	53,333,333	25,555,556	53,333,333
Total long - term bank borrowings:					25,555,556	53,333,333

(*) As of 31 December 2018 short-term financial liabilities consist of spot loans. Interest rate for spot loans is 31.76% p.a. (31 December 2017: TL denominated short-term financial liabilities consist of spot loans and interest rate for spot loan is 13.85% p.a). As of 31 December 2018 USD short-term financial liabilities consist of export credits with interest rate 3.22% p.a (31 December 2017: 1.92% p.a).

(**) As of 31 December 2018 TL denominated long-term borrowings consist of loans with a fixed interest rate of 12.95% p.a and 16.30% p.a (As of 31 December 2017, TL denominated long-term borrowings consist of loans with a fixed interest rate of 12.95% p.a and 15.60% p.a).

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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 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
2019	-	37,777,776
2020	10,000,000	7,777,777
2021	15,555,556	7,777,780
	25,555,556	53,333,333

31 December 2018 and 2017 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:

31 December 2018:

Borrowings with fixed rates	131,652,356
Total	131,652,356

31 December 2017:

Borrowings with fixed rates	146,892,659
Borrowings without interest	306,799
Total	147,199,458

There is no floating interest rate borrowing as of 31 December 2018 (31 December 2017: None).

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

	Carrying Amounts		Fair Values	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Bank borrowings	131,652,356	147,199,458	129,146,646	147,484,712

The fair values are based on cash flows discounted using the rates based on the borrowing rates of 24.02% p.a. and 2.85% p.a. for TL and USD denominated bank borrowings, respectively (31 December 2017: 14.16% p.a., 4% p.a. for TL and USD denominated bank borrowings, respectively).

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NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

As of 31 December 2018 the movement of net borrowings are as follows:

	2018	2017
1 January	145,869,756	66,773,767
Cash in flow from borrowings	287,374,692	307,470,898
Repayment of borrowings	(299,245,392)	(229,794,085)
Currency translation difference	(4,555,975)	2,270,895
Accrual of interest effect	879,573	(24,669)
Change in cash and cash equivalents	136,698	(827,050)
31 December	130,459,352	145,869,756

NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
a) Guarantees given:		
Bails	1,315,225,000	942,975,000
Letter of guarantee	50,381,694	62,623,308
	1,365,606,694	1,005,598,308

As of 31 December 2018 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 thousands equivalent of TL1,315,225,000 (31 December 2017: USD250,000 thousands equivalent of TL942,975,000) 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.

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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 2018 and 2017 were as follows:

	31 December 2018			31 December 2017		
	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			50,381,694			62,623,308
	TL	24,041,315	24,041,315	TL	31,856,598	31,856,598
	USD	5,006,820	26,340,379	USD	8,156,820	30,766,710
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			1,315,225,000			942,975,000
i. Total amount of CPM given on behalf of the majority shareholder			1,315,225,000			942,975,000
	USD	250,000,000	1,315,225,000	USD	250,000,000	942,975,000
ii. Total amount of CPM given to behalf of other the Company companies which are not in scope of B and C		-	-	-	-	-
iii. Total amount of CPM given on behalf of third parties which are not in scope of C		-	-	-	-	-
TOTAL			1,365,606,694			1,005,598,308

The ratio of total amount of other CPM to Equity

168%

137%

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

	31 December 2018	31 December 2017
b) Guarantees received:		
Bails	61,333,333	61,111,111
Guarantee notes	10,308,154	7,345,343
Letters of guarantee	4,244,889	11,873,888
Guarantee cheques	266,817	4,743
	76,153,193	80,335,085

Received bails are related with guarantee letter amounting to TL61,333,333 guarantees provided by YBP, YDT and Yaşar Holding (31 December 2017: Received bails are related with guarantee letter amounting to TL61,111,111 guarantees provided by YBP and Yaşar Holding).

Foreign currency denominated guarantees given as of 31 December 2018 is as follows:

Guarantees received	EUR	459,508
	USD	480,717

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

Guarantees received	EUR	1,412,150
	USD	444,097

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 Izmir 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 2018.

NOTE 15 - COMMITMENTS

As of 31 December 2018 the Company has not any purchase commitments (2017: None).

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NOTE 16 - EMPLOYEE BENEFITS

a) Payables related to employee benefits:

	31 December 2018	31 December 2017
Social security premiums payable	1,717,592	2,557,933
Payables to personnel	85,554	86,017
	1,803,146	2,643,950

b) Short-term provisions for employee benefits:

Provision for seniority incentive bonus	308,267	773,005
Bonus provisions to top management	-	512,040
	308,267	1,285,045

c) Long-term provisions for employee benefits:

Provision for employment termination benefits	21,863,974	18,646,901
Provision for seniority incentive bonus	1,101,807	497,881
	22,965,781	19,144,782

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 TL5,434.42 for each year of service as of 31 December 2018 (31 December 2017: TL4,732.48). 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 TL6,107.60 which is effective from 1 January 2019 (1 January 2018: TL5,001.76) 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:

	2018	2017
Discount rate (%)	5.00	4.50
Probability of retirement (%)	97.32	97.52

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NOTE 16 - EMPLOYEE BENEFITS (Continued)

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

	2018	2017
1 January	18,646,901	16,309,234
Interest costs	3,603,082	2,144,366
Actuarial losses	1,626,259	1,052,004
Paid during the year	(3,895,510)	(2,490,459)
Annual charge	1,883,242	1,631,756
31 December	21,863,974	18,646,901

The total of interest cost, actuarial losses and increase during the year amounting to TL7,112,583 (2017: TL4,828,126) was included in general administrative expenses amounting to TL1,883,242 (2017: TL3,776,122) financial expenses amounting to TL3,603,082, and other comprehensive income amounting to TL1,626,259 (2017: TL1,052,004).

NOTE 17 - EXPENSES BY NATURE

	1 January - 31 December 2018	1 January - 31 December 2017
Direct material costs	1,065,257,417	887,854,434
Staff costs	84,151,958	72,735,361
Repair and maintenance	48,262,131	39,615,028
Energy	45,840,733	36,933,139
Advertisement	40,719,058	40,165,610
Depreciation and amortization	34,216,280	26,377,782
Consultancy charges	16,679,256	14,028,057
Other	75,865,763	66,333,861
	1,410,992,596	1,184,043,272

NOTE 18 - OTHER ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
a) Other current assets from third parties:		
Deferred Value Added Tax	31,925,371	23,781,874
Income accrual	3,499,672	2,355,398
Other	4,072	4,112
	35,429,115	26,141,384

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NOTE 18 - OTHER ASSETS AND LIABILITIES (Continued)

b) Other current liabilities to third parties:

	31 December 2018	31 December 2017
Expense accruals	20,016	310,185
	20,016	310,185

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 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
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 2018 and 2017 were as follows:

Shareholder	31 December 2018		31 December 2017	
	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 (2017: 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 2018, there are 4,495,105,125 (2017: 4,495,105,125) units of shares each with a face value of 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 2018, the restricted reserves of the Company amount to TL60,800,423 (2017: TL59,129,038) The unrestricted reserves of the Company, amounting to TL120,325,294 (2017: TL94,677,271), 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.

There are no use of capital correction differences other than being added to capital.

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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-19.1settled 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 2018, the Company has decided to distribute TL18,961,393 of the distributable net profit for the year 2017 as dividend and payments to boards. In context of this dividend distribution decision, the Company separated TL1,671,385 as "Restricted Reserve". There is not any profit distribution decision for 2018 since General Assembly Meeting has not been conducted yet.

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NOTE 20 - REVENUE AND COST OF SALES

	1 January - 31 December 2018	1 January - 31 December 2017
Domestic sales	1,741,304,821	1,472,253,139
Export sales	227,953,589	166,928,677
Merchandise goods sales	224,974	182,555
Gross Sales	1,969,483,384	1,639,364,371
Less: Discounts	(439,153,438)	(367,421,678)
Returns	(42,497,806)	(31,891,989)
Net sales	1,487,832,140	1,240,050,704
Cost of merchandise goods sold	(214,201)	(161,970)
Cost of goods sold	(1,256,037,198)	(1,043,132,880)
Cost of sales	(1,256,251,399)	(1,043,294,850)
Gross Profit	231,580,741	196,755,854

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

	1 January - 31 December 2018	1 January - 31 December 2017
a) Marketing expenses:		
Advertisement	40,719,058	40,165,610
Staff costs	9,620,553	8,476,895
Repair and maintenance	8,799,224	6,032,971
Consultancy	7,961,815	6,583,047
Outsourced services	7,460,072	6,396,570
Rent	4,489,530	2,000,861
Transportation	3,638,510	5,468,101
Depreciation and amortization	2,077,212	1,979,415
Other	14,091,958	12,323,291
	98,857,932	89,426,761

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NOTE 21 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES (Continued)

b) General administrative expenses:

	1 January - 31 December 2018	1 January - 31 December 2017
Staff costs	13,093,840	11,473,747
Consultancy charges	8,717,441	7,445,010
Outsourced services	6,377,728	5,462,085
Taxes (Corporate tax excluded)	3,386,108	2,710,190
Depreciation and amortization	2,218,636	2,244,058
Repair and maintenance	1,955,841	1,832,134
Energy	997,445	1,024,090
Other	5,668,976	7,146,784
	42,416,015	39,338,098

c) Research and development expenses:

Staff costs	5,614,895	4,943,489
Repair and maintenance	3,932,426	3,469,456
Outsourced services	2,148,534	1,894,550
Depreciation and amortization	613,901	459,763
Other	1,157,494	1,216,305
	13,467,250	11,983,563

NOTE 22 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

	1 January - 31 December 2018	1 January - 31 December 2017
a) Other income from operating activities:		
Foreign exchange gain	19,958,496	5,136,217
Rent income	2,254,213	1,981,849
Income from sale of auxiliary material and scrap	1,205,613	923,669
Other	4,244,175	1,921,671
	27,662,497	9,963,406

b) Other expense from operating activities:

Foreign exchange loss	(16,227,152)	(4,153,135)
Donations	(2,511,700)	(276,850)
Interest expense	(1,326,674)	(711,711)
Other	(3,254,989)	(2,382,620)
	(23,320,515)	(7,524,316)

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NOTE 23 - INCOME/EXPENSES FROM INVESTING ACTIVITIES

	1 January - 31 December 2018	1 January - 31 December 2017
a) Income from investing activities:		
Dividend income (*)	4,333,747	5,518,989
Income from sales of property, plant and equipment	2,174,869	296,148
	6,508,616	5,815,137

(*) Note 5.ii.d.

b) Expense from investing activities:

Loss from sales of property, plant and equipment	(2,001,188)	(1,331,483)
	(2,001,188)	(1,331,483)

NOTE 24 - FINANCIAL INCOME/ EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
a) Financial income:		
Foreign exchange gain	7,115,828	2,849,556
Bail income from related parties	2,470,088	1,824,409
Interest income	682,247	270,464
	10,268,163	4,944,429

b) Financial expense:

Foreign exchange loss	(33,043,350)	(16,073,409)
Interest expense	(27,750,293)	(12,959,625)
Foreign exchange losses from derivative transactions	(3,349,552)	-
Interest expense on term purchases	(2,426,568)	(2,005,258)
Bail expense	(632,778)	(405,556)
Other	(5,841,451)	(395,983)
	(73,043,992)	(31,839,831)

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

As of 31 December 2018 and 2017, corporation taxes currently payable are as follows:

	31 December 2018	31 December 2017
Corporation taxes currently payable	539,771	768,232
Less: Prepaid corporate tax	(488,534)	(939,813)
Current income tax liabilities (Assets related to current period tax)	51,237	(171,581)

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% (2017: 20%) on their corporate income. Advance tax is declared by 14th and payable by the 17th (2017: 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% (2017: 15%). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

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%.

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

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.

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 2018 and 2017 are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Current corporation tax expense	(539,771)	(768,232)
Deferred tax income	13,222,170	6,904,800
Taxation on income	12,682,399	6,136,568

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

The reconciliation of tax expense is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	36,533,906	40,945,976
Tax calculated at tax rates applicable to the profit	(8,037,460)	(8,189,195)
Expenses not deductible for tax purposes	(160,349)	(127,729)
Tax effect upon the results of investments-in-associates	2,996,572	982,240
Income tax due to dividends received from available-for-sale investments	953,424	1,103,798
Utilized investment incentive during period	5,172,324	6,321,180
Recognition of deferred income tax asset / (liability) on investment incentive	11,316,618	5,341,558
Other	441,270	704,716
Total taxation on income	12,682,399	6,136,568

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% (2017: 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 2018 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 2018 and 2017 using the enacted tax rates at the balance sheet dates are as follows:

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	Cumulative temporary differences	Deferred income tax assets/ (liabilities)	Cumulative temporary differences	Deferred income tax assets/ (liabilities)
Revaluation of property, plant and equipment	404,012,748	(65,412,539)	307,906,447	(46,190,025)
Difference between carrying values (excluding revaluation reserve) and tax bases of property, plant and equipment and intangible assets	82,165,445	(16,633,814)	74,308,404	(15,062,406)
Difference between carrying value and tax bases of available-for-sale investments	21,703,382	(914,210)	48,723,511	(2,218,771)
Unused tax credits (*)	169,131,231	37,768,166	(105,989,670)	26,451,548
Provision for employment termination benefits	(21,863,974)	4,372,795	(18,646,901)	3,729,380
Other	(4,253,694)	850,738	(6,650,808)	1,330,162
Deferred tax liabilities - net		(39,968,864)		(31,960,112)

(*) The Company has investment incentive certificate relating with modernization investment at Şanlıurfa, Eskişehir and İzmir facilities. As of 31 December 2018, 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 TL37,768,166 (2017: TL26,451,548)

Movements in deferred income tax liabilities can be analyzed as follows:

	2018	2017
1 January	(31,960,112)	(11,438,027)
Credited to statement of comprehensive income	13,222,170	6,904,800
Charged to actuarial gain/loss arising from defined benefit plans	325,252	210,402
Charged to fair value reserve of available-for-sale investments	1,294,210	129,632
Change in tax rate	-	(6,304,836)
Calculated on revaluation fund	(22,022,106)	(21,462,083)
Cash refunds of taxes paid in past years (*)	(828,278)	-
31 December	(39,968,864)	(31,960,112)

(*) The Company has not benefited from the investment incentive related with the investment in Şanlıurfa for 2015 and paid the related corporate tax. During 2018, objection by the Company was concluded and TL828,278 was received by cash.

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NOTE 26 - EARNINGS PER SHARE

		1 January - 31 December 2018	1 January - 31 December 2017
Profit for the year	A	49,216,305	47,082,544
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	1.0949	1.0474

There are no differences between basic and diluted earnings per share. Since the General Assembly Meeting of the year 2018 has not been performed yet, dividend distribution decision has not been taken.

NOTE 27 - FINANCIAL INSTRUMENTS

Financial assets carried at fair value through other comprehensive income :

	31 December 2018	31 December 2017
Fair value difference assets recorded in other comprehensive income (*)	46,114,555	-
Available-for-sale financial assets	-	73,682,096
	46,114,555	73,682,096

(*) Explanations on the change in accounting policy are presented in Note 2.7.2.

	31 December 2018		31 December 2017	
	TL	(%)	TL	(%)
Pınar Et	27,901,577	12.58	52,761,567	12.58
Çamlı Yem	12,005,969	5.47	13,105,043	5.47
Pınar Su	4,909,406	8.77	7,069,545	8.77
YDT	1,148,861	1.76	590,110	1.76
Bintur	129,381	1.33	136,470	1.33
Other	19,361	-	19,361	-
	46,114,555		73,682,096	-

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 2018 and 2017 by using the market interest rates and the risk premium specific to unlisted companies within the related sectors.

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NOTE 27 - FINANCIAL INSTRUMENTS (Continued)

The discount and growth rates used in discounted cash flow models as at 31 December 2018 and 2017 are as follows:

	<u>Discount rate(%)</u>		<u>Growth Rate(%)</u>	
	2018	2017	2018	2017
Bintur	24.48	19.50	1	1
YDT	23.28	18.30	1	1
Çamli Yem	20.31	16.25	3	2

The movements of financial assets carried at fair value through other comprehensive income in 2018 and 2017 were as follows:

	2018	2017
1 January	73,682,096	76,912,081
Fair value gain/ (loss)		
Pınar Et	(24,859,990)	(3,925,262)
Pınar Su	(2,160,139)	117,826
YDT	558,751	10,074
Bintur	(7,088)	39,560
Çamli Yem	(1,099,075)	527,817
31 December	46,114,555	73,682,096

The movements of financial assets carried at fair value through other comprehensive income in 2018 and 2017 were as follows:

	2018	2017
1 January	44,991,591	48,091,944
Fair value loss	(27,567,542)	(3,229,985)
Deferred income tax on fair value reserve of financial assets carried at fair value through other comprehensive income (Note 25)	1,294,210	129,632
31 December	18,718,259	44,991,591

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.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

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 (fluctuations in raw material prices, especially raw milk).

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.

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 intuitions, 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 2018 and 2017 are as follows:

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2018

	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)	283,012,940	9,335,196	83,399	6,433,961	
- The part of maximum credit risk covered with guarantees	-	950,668	-	-	-
A Net book value of financial assets not due or not impaired	252,728,544	7,696,116	83,399	6,433,961	1,149,036
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)	30,284,396	1,639,080	-	-	-
- The part covered by guarantees	-	434,891	-	-	-
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 2017

	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)	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 2018

	Receivables		
	Related Parties	Third Parties	Total
Past due 1 - 30 days	24,833,658	1,639,080	26,472,738
Past due 1 - 3 months	5,025,353	-	5,025,353
Past due 3 - 12 months	425,385	-	425,385
<i>The part of credit risk covered with guarantees</i>	-	434,891	434,891
	30,284,396	1,639,080	31,923,476

31 December 2017

	Receivables		
	Related Parties	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 3 - 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

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.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2018					
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	131,652,356	152,182,918	3,920,257	116,570,370	31,692,291
Trade payables	399,030,829	404,555,999	327,054,737	26,042,603	51,458,659
Other payables	12,764,453	13,337,411	612,958	12,764,453	-
	543,447,638	570,116,328	331,587,952	155,377,426	83,150,950

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

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.

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

	Foreign Currency Position							
	31 December 2018				31 December 2017			
	TL Equivalent	USD	EUR	Other (TL Equivalent)	TL Equivalent	USD	EUR	Other (TL Equivalent)
1. Trade Receivables	51,933,883	9,841,979	25,915	-	34,669,831	9,166,348	21,101	-
2a. Monetary Financial Assets (Cash, Bank accounts included)	24,598	2,848	1,595	-	17,729	1,923	2,320	-
2b. Non-monetary Financial Assets	-	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-	-
4. Current Asset (1+2+3)	51,958,481	9,844,827	27,510	-	34,687,560	9,168,271	23,421	-
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)	51,958,481	9,844,827	27,510	-	34,687,560	9,168,271	23,421	-
10. Trade Payables	50,641,472	594,132	7,882,516	509	33,231,812	1,202,624	6,354,919	-
11. Financial Liabilities	26,304,500	5,000,000	-	-	30,740,985	8,150,000	-	-
12a. Monetary Other Liabilities	-	-	-	-	-	-	-	-
12b. Non-monetary Other Liabilities	-	-	-	-	-	-	-	-
13. Short-Term Liabilities 10+11+12	76,945,972	5,594,132	7,882,516	509	63,972,797	9,352,624	6,354,919	-
14. Trade Payables	49,739,045	-	8,251,335	-	45,819,864	-	10,147,240	-
15. Financial Liabilities	-	-	-	-	-	-	-	-
16a. Monetary Other Liabilities	-	-	-	-	-	-	-	-
16b. Non-monetary Other Liabilities	-	-	-	-	-	-	-	-
17. Long-Term Liabilities 14+15+16	49,739,045	-	8,251,335	-	45,819,864	-	10,147,240	-
18. Total Liabilities 13+17	126,685,017	5,594,132	16,133,851	509	109,792,661	9,352,624	16,502,159	-
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)	(74,726,536)	4,250,695 (16,106,341)	(509)	(75,105,104)	(184,353)	(16,478,738)	-	-
21. Net Foreign Currency Asset/(Liability) Position of Monetary Items (TFRS 7.B23) (=1+2a+3+5+6a-10-11-12a-14-15-16a)	(74,726,536)	4,250,695 (16,106,341)	(509)	(75,105,104)	(184,353)	(16,478,738)	-	-
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	227,953,589	42,321,878	336,686	21,669,127	166,928,677	42,699,556	418,561	9,001,472
26. Import	82,959,913	-	14,668,451	-	61,827,854	-	14,688,221	-

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NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2018

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	2,236,248	(2,236,248)	2,236,248	(2,236,248)
2- The part hedged for USD risk (-)	-	-	-	-
3- USD Effect - net (1+2)	2,236,248	(2,236,248)	2,236,248	(2,236,248)
Change of EUR by 10% against TL:				
4- Asset/ Liability denominated in EUR - net	(9,708,902)	9,708,902	(9,708,902)	9,708,902
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR Effect - net (4+5)	(9,708,902)	9,708,902	(9,708,902)	9,708,902
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)	(7,472,654)	7,472,654	(7,472,654)	7,472,654

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PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
BETWEEN 1 JANUARY - 31 DECEMBER 2018

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

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

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD
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(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

NOTE 28 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

ii) Interest rate risk

As of 31 December 2018 and 2017, 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 2018	31 December 2017
Financial liabilities	131,652,356	147,199,458
Other payables to related parties	9,914,320	19,867,521
Less: Cash and cash equivalents (Note 4)	(1,193,004)	(1,329,702)
Net debt	140,373,672	165,737,277
Total equity	781,440,229	690,165,850
Net debt/ equity ratio	17.96%	24.01%

The Company management regularly monitors the debt/ equity ratio and updates when necessary.

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED 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 2018

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

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.

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH
PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
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(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (Continued)

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:

- 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 2018 and 2017.

31 December 2018

	Level 1	Level 2	Level 3	Total
Assets:				
Financial investments	32,810,983	-	13,303,572	46,114,555
Total assets	32,810,983	-	13,303,572	46,114,555

31 December 2017

	Level 1	Level 2	Level 3	Total
Assets:				
Financial investments	59,831,112	-	13,850,984	73,682,096
Total assets	59,831,112	-	13,850,984	73,682,096

As of 31 December 2018 and 2017, there is no transfer between the levels 1 and 2.

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

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

NOTE 29 - FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) (Continued)

The following table presents the Company's non-financial assets that are measured fair value at 31 December 2018 and 2017:

31 December 2018

	Level 1	Level 2	Level 3	Total
Tangible Assets:				
Land	-	162,713,500	-	162,713,500
Buildings and land improvements	-	93,741,494	-	93,741,494
Machinery and equipment	-	449,717,529	-	449,717,529
Total assets	-	706,172,523	-	706,172,523

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

NOTE 30 - SUBSEQUENT EVENTS

None (31 December 2017: None).

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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 28, 2019, Thursday at 11:30 at Yunus Emre Mah. Kemalpaşa Caddesi No: 317 Bornova/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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To access Pınar Süt investor relations web site:



Pınar Süt Share Performance (Compared to BIST ALL Index)

