

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

INDEPENDENT AUDITOR'S REPORT



To the Board of Directors of

Pınar Süt Mamülleri Sanayii A.Ş.

Report on the Financial Statements

1. We have audited the accompanying financial statements (balance sheet) of Pınar Süt Mamülleri Sanayii A.Ş. ("the Company") as at 31 December 2016 and the related 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 a summary of significant accounting policies and explanatory notes.

Management's responsibility for the financial statements

2. The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Turkish Accounting Standards ("TAS") and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error and/ or fraud.

Independent auditor's responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with standards on auditing issued by the Capital Markets Board of Turkey and Independent Auditing Standards that part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority. Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

An independent audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/ or fraud. In making those risk assessments, the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Company and its internal control system. An audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pınar Süt Mamülleri Sanayii A.Ş. as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with the TAS.

Other Matter

5. The financial statements of the Company as at and for the year ended 31 December 2015 were audited by other auditors whose report, dated 29 February 2016, expressed an unqualified opinion on those statements.

Other Responsibilities Arising From Regulatory Requirements

6. In accordance with subparagraph 4 of Article 398 of the Turkish Commercial Code ("TCC") No: 6102; auditor's report on the early risk identification system and committee has been submitted to the Company's Board of Directors on 1 March 2017.
7. In accordance with subparagraph 4 of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 is not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
8. In accordance with subparagraph 4 of Article 402 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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



İstanbul, 1 Mart 2017

ORIGINAL COPY ACCEPTED AND SIGNED IN TURKISH

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

FINANCIAL STATEMENTS

AT 1 JANUARY - 31 DECEMBER 2016

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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

| CONTENTS | PAGE |
|---|---------------|
| STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)..... | 64-66 |
| STATEMENTS OF COMPREHENSIVE INCOME | 67-68 |
| STATEMENTS OF CHANGES IN EQUITY..... | 69 |
| STATEMENTS OF CASH FLOWS..... | 70-71 |
| NOTES TO THE FINANCIAL STATEMENTS..... | 72-136 |
| NOTE 1 ORGANISATION AND NATURE OF OPERATIONS | 72 |
| NOTE 2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS..... | 72-88 |
| NOTE 3 BUSINESS COMBINATIONS | 88 |
| NOTE 4 INTERESTS IN OTHER ENTITIES..... | 89-90 |
| NOTE 5 SEGMENT REPORTING..... | 90 |
| NOTE 6 CASH AND CASH EQUIVALENTS..... | 90 |
| NOTE 7 TRANSACTIONS AND BALANCES WITH RELATED PARTIES | 91-96 |
| NOTE 8 TRADE RECEIVABLES AND PAYABLES..... | 96-98 |
| NOTE 9 RECEIVABLES AND PAYABLES FROM FINANCE SECTOR OPERATIONS | 98 |
| NOTE 10 OTHER RECEIVABLES AND PAYABLES | 98-99 |
| NOTE 11 INVENTORIES | 99 |
| NOTE 12 BIOLOGICAL ASSETS..... | 99 |
| NOTE 13 PREPAID EXPENSES AND DEFERRED INCOME | 100 |
| NOTE 14 INVESTMENT PROPERTY..... | 100 |
| NOTE 15 PROPERTY, PLANT AND EQUIPMENT | 101-103 |
| NOTE 16 RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS..... | 104 |
| NOTE 17 MEMBERS' SHARES IN CO-OPERATIVE ENTITIES AND SIMILAR INSTRUMENTS..... | 104 |
| NOTE 18 INTANGIBLE ASSETS | 104 |
| NOTE 19 GOODWILL | 104 |
| NOTE 20 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES..... | 104 |
| NOTE 21 LEASING..... | 104 |
| NOTE 22 SERVICE CONCESSION AGREEMENTS..... | 105 |
| NOTE 23 IMPAIRMENT IN ASSETS | 105 |
| NOTE 24 GOVERNMENT GRANTS AND INCENTIVES..... | 105 |
| NOTE 25 BORROWINGS AND BORROWING COSTS | 105-108 |
| NOTE 26 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES | 108-110 |
| NOTE 27 COMMITMENTS..... | 110 |
| NOTE 28 EMPLOYEE BENEFITS..... | 111-112 |
| NOTE 29 EXPENSES BY NATURE | 112 |
| NOTE 30 OTHER ASSETS AND LIABILITIES | 113 |
| NOTE 31 SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS | 113-115 |
| NOTE 32 REVENUE AND COST OF SALES | 116 |
| NOTE 33 CONSTRUCTIONS CONTRACTS..... | 116 |
| NOTE 34 GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES..... | 116-117 |
| NOTE 35 OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES..... | 117-118 |
| NOTE 36 INCOME/ EXPENSES FROM INVESTING ACTIVITIES | 118 |
| NOTE 37 FINANCIAL INCOME/ EXPENSES | 118-119 |
| NOTE 38 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS..... | 119 |
| NOTE 39 INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)..... | 119-122 |
| NOTE 40 EARNINGS PER SHARE | 123 |
| NOTE 41 SHARE BASED PAYMENTS | 123 |
| NOTE 42 INSURANCE CONTRACTS | 123 |
| NOTE 43 REPORTING IN HYPERINFLATIONARY ECONOMIES | 123 |
| NOTE 44 DERIVATIVE FINANCIAL INSTRUMENTS..... | 123 |
| NOTE 45 FINANCIAL INSTRUMENTS..... | 123-124 |
| NOTE 46 NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS | 125-133 |
| NOTE 47 FINANCIAL INSTRUMENTS (FAIR VALUE AND FINANCIAL RISK MANAGEMENT DISCLOSURES) | 134-136 |
| NOTE 48 SUBSEQUENT EVENTS..... | 136 |
| NOTE 49 OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR BE EXPLAINED FOR THE CLEAR UNDERSTANDING OF THE FINANCIAL STATEMENTS..... | 136 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)

AT 31 DECEMBER 2016 AND 2015

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

| | Notes | 31 December 2016 | 31 December 2015 |
|--|-------|--------------------|--------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | 6 | 502.652 | 298.719 |
| Trade Receivables | | 184.074.763 | 138.210.610 |
| - Trade Receivables from Related Parties | 7 | 173.044.085 | 127.333.558 |
| - Trade Receivables from Third Parties | 8 | 11.030.678 | 10.877.052 |
| Other Receivables | | 3.995.102 | 2.401.289 |
| - Other Receivables from Related Parties | 7 | 18.029 | 44.327 |
| - Other Receivables from Third Parties | 10 | 3.977.073 | 2.356.962 |
| Inventories | 11 | 103.894.123 | 112.008.255 |
| Prepaid Expenses | 13 | 4.676.913 | 5.067.388 |
| - Prepaid Expenses to Third Parties | | 4.676.913 | 5.067.388 |
| Other Current Assets | 30 | 20.593.514 | 19.933.178 |
| - Other Current Assets from Third Parties | | 20.593.514 | 19.933.178 |
| TOTAL CURRENT ASSETS | | 317.737.067 | 277.919.439 |
| NON-CURRENT ASSETS | | | |
| Financial Investments | | 76.912.081 | 79.423.446 |
| - Available-for-sale Financial Investments | 45 | 76.912.081 | 79.423.446 |
| Other Receivables | | 13.359 | 13.359 |
| - Other Receivables from Third Parties | 10 | 13.359 | 13.359 |
| Investments in Associates Accounted for Using Equity Method | 4 | 68.474.264 | 67.506.066 |
| Property, plant and equipment | 15 | 467.910.244 | 455.028.148 |
| - Land | | 136.679.902 | 136.679.902 |
| - Land Improvements | | 13.146.798 | 14.790.648 |
| - Buildings | | 75.171.942 | 76.197.460 |
| - Machinery, Plant And Equipment | | 222.693.884 | 210.082.619 |
| - Vehicles | | 490.747 | 324.713 |
| - Furniture and Fixtures | | 12.726.292 | 13.211.689 |
| - Construction in Progress | | 7.000.679 | 3.741.117 |
| Intangible Assets | 18 | 1.285.725 | 904.976 |
| - Other Intangible Assets | | 1.285.725 | 904.976 |
| Prepaid Expenses | 13 | 1.260.407 | 2.962.521 |
| - Prepaid Expenses to Third Parties | | 1.260.407 | 2.962.521 |
| TOTAL NON-CURRENT ASSETS | | 615.856.080 | 605.838.516 |
| TOTAL ASSETS | | 933.593.147 | 883.757.955 |

The financial statements at 31 December 2016 and for the year then ended have been approved for issue by Board of Directors of Pinar Süt Mamülleri Sanayii A.Ş. on 1 March 2017.

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 MAMÜLLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)

AT 31 DECEMBER 2016 AND 2015

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

| | Notes | 31 December 2016 | 31 December 2015 |
|--|-------|--------------------|--------------------|
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Short-Term Borrowings | 25 | 28.067.744 | 15.274.043 |
| - Short-Term Borrowings From Third Parties | | 28.067.744 | 15.274.043 |
| - Bank Borrowings | | 28.067.744 | 15.274.043 |
| Short-Term Portion of Long-Term Borrowings | 25 | 8.097.564 | 4.021.656 |
| - Short-Term Portion of Long-Term Borrowings From Third Parties | | 8.097.564 | 4.021.656 |
| - Bank Borrowings | | 8.097.564 | 4.021.656 |
| Other Financial Liabilities | | 3.510.364 | 5.470.820 |
| - Other Miscellaneous Financial Liabilities | 25 | 3.510.364 | 5.470.820 |
| Trade Payables | | 184.764.984 | 178.211.654 |
| - Trade Payables to Related Parties | 7 | 15.042.960 | 20.462.562 |
| - Trade Payables to Third Parties | 8 | 169.722.024 | 157.749.092 |
| Payables Related to Employee Benefits | 28 | 2.508.357 | 1.426.748 |
| Other Payables | | 28.904.622 | 32.859.058 |
| - Other Payables to Related Parties | 7 | 26.940.123 | 31.122.993 |
| - Other Payables to Third Parties | 10 | 1.964.499 | 1.736.065 |
| Deferred Income | | 53.947 | 185.820 |
| - Deferred Income From Third Parties | 13 | 53.947 | 185.820 |
| Current Income Tax Liabilities | 39 | 272.538 | 1.342.179 |
| Short-Term Provisions | | 1.162.925 | 1.320.071 |
| - Short-Term Provisions for Employee Benefits | 28 | 1.162.925 | 1.320.071 |
| Other Current Liabilities | 30 | 136.031 | 139.467 |
| - Other Current Liabilities to Third Parties | | 136.031 | 139.467 |
| TOTAL CURRENT LIABILITIES | | 257.479.076 | 240.251.516 |
| NON-CURRENT LIABILITIES | | | |
| Long-Term Borrowings | 25 | 31.111.111 | 2.000.000 |
| - Long-Term Borrowings From Third Parties | | 31.111.111 | 2.000.000 |
| - Bank Borrowings | | 31.111.111 | 2.000.000 |
| Trade Payables | | 23.197.010 | 26.813.819 |
| - Trade Payables to Third Parties | 8 | 23.197.010 | 26.813.819 |
| Long-Term Provisions | | 17.029.559 | 15.011.944 |
| - Long-Term Provisions for Employee Termination Benefits | 28 | 17.029.559 | 15.011.944 |
| Deferred Income Tax Liabilities | 39 | 11.438.027 | 12.530.714 |
| TOTAL NON-CURRENT LIABILITIES | | 82.775.707 | 56.356.477 |
| TOTAL LIABILITIES | | 340.254.783 | 296.607.993 |

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 MAMÜLLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS)

AT 31 DECEMBER 2016 AND 2015

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

| | Notes | 31 December 2016 | 31 December 2015 |
|--|-------|--------------------|--------------------|
| EQUITY | | | |
| Equity Attributable to | | | |
| Owners of the Parent Company | | | |
| | | 593.338.364 | 587.149.962 |
| Share Capital | 31 | 44.951.051 | 44.951.051 |
| Adjustment to Share Capital | 31 | 16.513.550 | 16.513.550 |
| Other Comprehensive Income/ (Expense) not to be | | | |
| Reclassified to Profit or Loss | | 163.129.312 | 169.339.572 |
| - Gain/ (Loss) on Revaluation and Remeasurement | | 163.695.910 | 169.435.676 |
| - Increase/ (Decrease) on Revaluation of | | | |
| Property, Plant and Equipment | 15 | 172.665.882 | 176.218.583 |
| - Actuarial Gain/ (Loss) Arising from | | | |
| Defined Benefit Plans | | (8.969.972) | (6.782.907) |
| - Share of Other Comprehensive Income | | | |
| of Investment-in-Associates Accounted for | | | |
| Using Equity Method that will not be Reclassified to | | | |
| Profit or Loss | | (566.598) | (96.104) |
| Other Comprehensive Income/ (Expense) to be | | | |
| Reclassified to Profit or Loss | | 57.832.637 | 62.387.413 |
| - Gain/ (Loss) on Revaluation and Classification | | 48.091.944 | 53.130.359 |
| - Gain/ (Loss) on Revaluation or Reclassification | | | |
| of Available-for-Sale Financial Investments | 45 | 48.091.944 | 53.130.359 |
| - Share of Other Comprehensive Income | | | |
| of Investment-in-Associates Accounted for | | | |
| Using Equity Method that will be Reclassified to | | | |
| Profit or Loss | | 9.740.693 | 9.257.054 |
| Reserves on Retained Earnings | | 55.024.248 | 50.558.849 |
| - Legal Reserves | 31 | 55.024.248 | 50.558.849 |
| Distribution to shareholders | | (5.537.877) | (5.537.877) |
| Retained Earnings | | 201.405.899 | 186.701.497 |
| Net Profit for the Year | | 60.019.544 | 62.235.907 |
| TOTAL EQUITY | | 593.338.364 | 587.149.962 |
| TOTAL LIABILITIES | | 933.593.147 | 883.757.955 |

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 MAMÜLLERİ SANAYİİ A.Ş.

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2016 AND 2015

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

| | Notes | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|--|-------|---------------------------------|---------------------------------|
| PROFIT OR LOSS | | | |
| Revenue | 32 | 1.067.776.692 | 1.011.204.645 |
| Cost of Sales | 32 | (876.662.891) | (848.781.037) |
| Gross Profit from Trading Operations | | 191.113.801 | 162.423.608 |
| GROSS PROFIT | | 191.113.801 | 162.423.608 |
| General Administrative Expenses | 34 | (37.768.974) | (33.891.694) |
| Marketing Expenses | 34 | (77.320.871) | (65.410.091) |
| Research and Development Expenses | 34 | (10.965.769) | (9.177.915) |
| Other Income from Operating Activities | 35 | 11.644.364 | 11.154.343 |
| Other Expense from Operating Activities | 35 | (14.047.114) | (12.280.916) |
| OPERATING PROFIT | | 62.655.437 | 52.817.335 |
| Income From Investing Activities | 36 | 5.383.488 | 3.192.060 |
| Expense From Investing Activities | 36 | (269.506) | (1.040.641) |
| Share of Results of Investment-in-Associates | 4 | 8.390.164 | 17.198.919 |
| OPERATING PROFIT BEFORE FINANCIAL INCOME/ (EXPENSE) | | 76.159.583 | 72.167.673 |
| Financial Income | 37 | 2.011.419 | 2.640.462 |
| Financial Expenses | 37 | (14.495.052) | (7.219.162) |
| PROFIT BEFORE TAX FROM CONTINUING OPERATIONS | | 63.675.950 | 67.588.973 |
| Tax Expense from Continuing Operations | | (3.656.406) | (5.353.066) |
| - Current Tax Expense | 39 | (4.161.275) | (2.772.271) |
| - Deferred Tax Income/ (Expense) | 39 | 504.869 | (2.580.795) |
| PROFIT FOR THE YEAR CONTINUING OPERATIONS | | 60.019.544 | 62.235.907 |
| PROFIT FOR THE YEAR | | 60.019.544 | 62.235.907 |
| Earnings Per Share | | 1,3352 | 1,3845 |
| - Earnings per 1 Kr number of 100 shares from continuing operations | 40 | 1,3352 | 1,3845 |

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 MAMÜLLERİ SANAYİİ A.Ş.

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2016 AND 2015

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

| Notes | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|---|---------------------------------|---------------------------------|
| OTHER COMPREHENSIVE INCOME | | |
| Items not to be Reclassified to Profit or Loss | (2.374.825) | 58.610.313 |
| Increase in Revaluation of Property, Plant and Equipment | - | 62.699.527 |
| Share of Other Comprehensive Income of Associates Accounted for Using Equity Method that will not be Reclassified to Profit or Loss | (187.760) | 627.725 |
| - Gains (Losses) on Remeasurements of Defined Benefit Plans of Associates Accounted for Using Equity Method | 4 (187.760) | (292.589) |
| - Revaluation Increases (Decreases) of Property, Plant and Equipments of Associates Accounted for Using Equity Method | 4 - | 920.314 |
| Actuarial Gain/ Loss Arising from Defined Benefit Plans | 28 (2.733.831) | (2.054.188) |
| Taxes Relating to Other Comprehensive Income that will not be Reclassified to Profit or Loss | 546.766 | (2.662.751) |
| - Gains (Losses) on Revaluation of Property, Plant and Equipment, Tax Effect | 39 - | (3.073.589) |
| - Actuarial Gain/ (Loss) Arising from Defined Benefit Plans, Tax Effect | 39 546.766 | 410.838 |
| Items to be Reclassified to Profit or Loss | (4.554.776) | 13.185.992 |
| Gains (Losses) on Remeasuring or Reclassification Adjustments on Available-for-sale Financial Assets | (5.316.740) | 11.902.358 |
| - Gains (losses) on Remeasuring Available-for-sale Financial Assets | 45 (5.316.740) | 11.902.358 |
| Share of Other Comprehensive Income of Associates Accounted for Using Equity Method that will be Reclassified to Profit or Loss | 483.639 | 1.880.769 |
| - Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets | 4 (617.547) | 1.219.692 |
| - Gains (losses) on Foreign Currency Translation Differences of Associates Accounted for Using Equity Method | 4 1.101.186 | 661.077 |
| Taxes Relating to Other Comprehensive Income that will be Reclassified to Profit or Loss | 278.325 | (597.135) |
| - Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets, Tax Effect | 39 278.325 | (597.135) |
| OTHER COMPREHENSIVE (EXPENSE)/ INCOME | (6.929.601) | 71.796.305 |
| TOTAL COMPREHENSIVE INCOME | 53.089.943 | 134.032.212 |

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 MAMÜLLERİ SANAYİİ A.Ş. STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED AT 31 DECEMBER 2016 AND 2015

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

| | Previous Period | | Current Period | | Other | | Other | | Net profit for the year | Total equity | |
|--|------------------------------|------------------------------|--|---|---|--|---|--|-------------------------|--------------|--------------|
| | 1 January - 31 December 2015 | 1 January - 31 December 2016 | 1 January - 31 December 2015 | 1 January - 31 December 2016 | Comprehensive Income/ (Expense) not to be Reclassified to Profit or Loss | Comprehensive Income/ (Expense) to be Reclassified to Profit or Loss | Comprehensive Income/ (Expense) not to be Reclassified to Profit or Loss | Comprehensive Income/ (Expense) to be Reclassified to Profit or Loss | | | |
| | Share capital | Adjustment to share capital | Increase/ (decrease) on revaluation of property, plant and equipment | Actuarial gain/ (loss) arising from defined benefit plans | Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit and loss | Gain/ (Loss) on revaluation or reclassification of available-for-sale financial assets | Share of other comprehensive income of investments accounted for using equity method that will be reclassified to profit and loss | Reserves of retained earnings | Retained earnings | | |
| Balance at 1 January 2015 | 44.951.051 | 16.513.550 | 120.120.092 | (5.139.557) | (689.165) | 41.825.136 | 7.376.285 | 43.161.534 | 179.681.182 | 87.076.222 | 529.338.453 |
| Transfers | - | - | (3.527.447) | - | (34.664) | - | - | - | 90.638.333 | (87.076.222) | - |
| Total Comprehensive Income | - | - | 59.625.938 | (1.643.350) | 627.725 | 11.305.223 | 1.880.769 | - | - | 62.235.907 | 134.032.212 |
| - Profit for The Year | - | - | - | - | - | - | - | - | - | 62.235.907 | 62.235.907 |
| - Other Comprehensive Income / (Expense) | - | - | 59.625.938 | (1.643.350) | 627.725 | 11.305.223 | 1.880.769 | - | - | - | 71.796.305 |
| Dividends | - | - | - | - | - | - | - | 7.397.315 | (83.618.018) | - | (76.220.703) |
| Balance at 31 December 2015 | 44.951.051 | 16.513.550 | 176.218.583 | (6.782.907) | (96.104) | 53.130.359 | 9.257.054 | 50.558.849 | 186.701.497 | 62.235.907 | 587.149.962 |
| Current Period | | | | | | | | | | | |
| 1 January - 31 December 2016 | 44.951.051 | 16.513.550 | 176.218.583 | (6.782.907) | (96.104) | 53.130.359 | 9.257.054 | 50.558.849 | 186.701.497 | 62.235.907 | 587.149.962 |
| Transfers | - | - | (3.552.701) | - | (282.734) | - | - | - | 66.071.342 | (62.235.907) | - |
| Total Comprehensive Income | - | - | - | (2.187.065) | (187.760) | (5.038.415) | 483.639 | - | - | 60.019.544 | 53.089.943 |
| - Profit for The Year | - | - | - | - | - | - | - | - | - | 60.019.544 | 60.019.544 |
| - Other Comprehensive Income / (Expense) | - | - | - | (2.187.065) | (187.760) | (5.038.415) | 483.639 | - | - | - | (6.929.601) |
| Dividends | - | - | - | - | - | - | - | 4.465.399 | (51.366.940) | - | (46.901.541) |
| Balance at 31 December 2016 | 44.951.051 | 16.513.550 | 172.665.882 | (8.969.972) | (566.598) | 48.091.944 | 9.740.693 | 55.024.248 | 201.405.899 | 60.019.544 | 593.338.364 |

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 MAMÜLLERİ SANAYİİ A.Ş.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2016 AND 2015

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

| | Notes | 31 December 2016 | 31 December 2015 |
|---|-------|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | 40.750.530 | 78.606.905 |
| Net Profit (Loss) for the Year | | 60.019.544 | 62.235.907 |
| Profit for the Year from Continuing Activities | | 60.019.544 | 62.235.907 |
| Adjustments Related to Reconciliation of Net Profit (Loss) for the Year: | | 14.889.258 | 11.454.131 |
| Adjustments for Depreciation and Amortization | 15 | 24.499.319 | 21.489.272 |
| Adjustments for Impairments/ Reversals | | 16.730 | 47.381 |
| - Adjustments for Decrease in Fair Value of Inventories | 4 | 16.730 | 47.381 |
| Adjustments for Provisions | | 3.358.632 | 2.549.037 |
| - Adjustments Provision for Employment Termination Benefits | 28 | 3.358.632 | 2.549.037 |
| Adjustments for Dividend Income | 36 | (5.299.938) | (3.167.071) |
| Adjustments for Interest Income/ (Expense) | | 9.573.117 | 4.981.616 |
| - Adjustments for Interest Income | | (357.449) | (57.902) |
| - Adjustments for Interest Expense | | 9.930.566 | 5.039.518 |
| Adjustments for Unrealized Foreign Currency Translation Differences | | 8.296.178 | 4.097.547 |
| Adjustments for Undistributed Profits of Investments | | | |
| Accounted for Using Equity Method | | (8.390.164) | (17.198.919) |
| - Adjustments for Undistributed Profits of Associates | 4 | (8.390.164) | (17.198.919) |
| Adjustments for Tax Income/ Losses | 39 | 3.656.406 | 5.353.066 |
| Adjustments for Gain/ Losses on Sale of Tangible Assets | | 185.956 | 1.015.652 |
| Adjustments for Other Adjustments Related to Profit/Loss Reconciliation | | (21.006.978) | (7.713.450) |
| Changes in Working Capital: | | (42.969.324) | (1.083.098) |
| Adjustments for Increases/decreases in trade receivables | | (45.864.153) | 18.301.670 |
| - Increases/decreases in trade receivables from related parties | | (45.710.527) | 19.784.708 |
| - Increases/decreases in trade receivables from third parties | | (153.626) | (1.483.038) |
| Adjustments for Increases/decreases in other receivables | | (1.620.111) | 596.585 |
| - Increases/decreases in other receivables from third parties | | (1.620.111) | 596.585 |
| Adjustments for Increases/decreases in inventory | | 8.114.132 | (15.585.592) |
| Increases/decreases in prepaid expenses | | 390.475 | (1.093.442) |
| Adjustments for Increases/decreases in trade payables | | (5.390.408) | 369.127 |
| - Increases/decreases in trade receivables to related parties | | (5.419.602) | (7.445.330) |
| - Increases/decreases in trade receivables to third parties | | 29.194 | 7.814.457 |
| Increases/Decreases in debts from Employment Termination Benefits | | 1.243.382 | 505.337 |
| Adjustments for Increases/decreases in other payable | | 228.434 | 22.536 |
| - Increases/decreases in other payable from third parties | | 228.434 | 22.536 |
| Adjustments for Increases/decreases in deferred income | | (131.873) | 30.268 |
| Adjustments for Increases/decreases in other | | | |
| liabilities of working capital | | 60.798 | (4.229.587) |
| - Increases/decreases in other liabilities | | 60.798 | (4.229.587) |
| Cash Flows From Operating Activities: | | 31.939.478 | 72.606.940 |
| Employee termination benefits paid | | (6.477.767) | (2.120.269) |
| Income taxes refund/ (paid) | | (4.993.642) | (562.388) |
| Cash in flows due to government promotion | | 20.282.461 | 8.682.622 |

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 MAMÜLLERİ SANAYİİ A.Ş.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2016 AND 2015

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

| | Notes | 31 December 2016 | 31 December 2015 |
|---|-------|---------------------|---------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | (25.666.576) | (29.930.821) |
| Cash out flows due to changes in ownership rate of subsidiaries that do not result in control cease | | (2.805.375) | - |
| Proceeds from sale of tangible and intangible assets | | 403.514 | 35.400 |
| - Proceeds from sale of tangible and intangible assets | | 403.514 | 35.400 |
| Cash outflows due to purchases of tangible and intangible assets | | (38.351.634) | (36.484.626) |
| - Cash outflows due to purchases of tangible assets | | (37.435.040) | (35.952.781) |
| - Cash outflows due to purchases of intangible assets | | (916.594) | (531.845) |
| Cash Payments of Advances and Loans | | 1.728.412 | (1.857.815) |
| - Cash Advances and Loans Made to Related Parties | | 26.298 | 101.109 |
| - Other Cash Advances and Loans Made to Other Parties | | 1.702.114 | (1.958.924) |
| Dividends received | 7 | 13.001.053 | 8.318.318 |
| Interest received | | 357.454 | 57.902 |
| NET FLOWS FROM FINANCING ACTIVITIES: | | (14.910.772) | (50.776.339) |
| Cash in flow Proceeds from borrowings | | 70.275.061 | 27.068.046 |
| - Cash in flow from borrowings | | 65.023.718 | 13.554.399 |
| - Cash in flow from other financial borrowings | | 5.251.343 | 13.513.647 |
| Cash out flow payments of borrowings | | (26.254.799) | (14.305.560) |
| - Repayments of borrowings | | (19.043.000) | (4.000.000) |
| - Cash out flow from Other financial payments of borrowings | | (7.211.799) | (10.305.560) |
| Increase/ (Decrease) in Other Payables to Related Parties | | (9.176.590) | 14.497.896 |
| Dividends paid | 7 | (44.501.541) | (72.997.203) |
| Interest paid | | (5.252.903) | (5.039.518) |
| Net increase / (Decrease) in cash and cash equivalents before foreign currency translation differences | | 173.182 | (2.100.255) |
| EFFECT OF CURRENCY TRANSLATION DIFFERENCES ON CASH AND CASH EQUIVALENTS | | 30.751 | 5.346 |
| Net Increase / (Decrease) In Cash And Cash Equivalents | | 203.933 | (2.094.909) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 298.719 | 2.393.628 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | | 502.652 | 298.719 |

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 MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

(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 and Şanlıurfa facility has started production in 2015. The Company sells its products under "Pınar" brand, which is one of the leading brands in food and beverages business in Turkey.

97% (2015: 97%) 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 7).

The Company is subject to the regulations of the Capital Market Board ("CMB") and 37,95% (2015: 37,95%) of its shares are quoted on the Borsa İstanbul ("BİST"). The ultimate parent of the Company is Yaşar Holding A.Ş. ("Yaşar Holding") with 61,41% shares of the Company (2015: 61,41%) (Note 31).

The average number of employees are 1.163 in the period. (31 December 2015: 1.172).

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

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation of Financial Statements

The accompanying financial statements are prepared in accordance with the Communiqué Serial II, No: 14.1, "Principals of Financial Reporting in Capital Markets" published in the Official Gazette numbered 28676 on 13 June 2013. According to the article 5 of the Communiqué, financial statements are prepared in accordance with Turkish Accounting Standards/ Turkish Financial Reporting Standards ("TAS"/ "TFRS") and its addendum and interpretations ("IFRIC") issued by the Public Oversight Accounting and Auditing Standards Authority ("POAASA") Turkish Accounting Standards Board.

The financial statements of the Company are prepared according to the CMB announcement of 7 June 2013 relating to financial statements presentations. Prior period financial figures were restated, where necessary, accordingly.

With the decision taken on 17 March 2005, the CMB announced that, effective from 1 January 2005, the application of inflation accounting is no longer required for companies operating in Turkey and preparing their financial statements in accordance with the financial reporting standards.

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

2.2 Amendments in Turkish Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2016:

- Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:
 - TFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
 - TFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to TFRS 1) regarding servicing contracts.
 - TAS 19, 'Employee benefits' regarding discount rates
 - TAS 34, 'Interim financial reporting' regarding disclosure of information.
- Amendment to TAS 16, 'Property, plant and equipment' and TAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
- Amendment to TAS 1, 'Presentation of financial statements' on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

b) **New standards, amendments and interpretations issued and effective as of 31 December 2016 have not been presented since they are not relevant to the operations of the Company or have insignificant impact on the financial statements.**

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

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

- 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.
- TFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2017. 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.
- Amendment to TFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- TFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, 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.
- Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 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 effective 1 January 2018.
- TFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
- TAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

- IFRIC 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC 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

The Company will determine the effects of these amendments above on the operations of the Company and will apply after effective date. The above mentioned amendments and interpretations are not expected to have significant impact on the Company's consolidated financial statements. New standards and amendments effective after 1 January 2016 which are not related with operations of the Company, are not listed 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 Company's share of its associates' post-acquisition profits or losses is recognized in the statement of comprehensive income, and its share of post-acquisition movements in reserves of the associated undertakings, such as fair value changes in available-for-sale financial assets, revaluation of property, plant and equipment, depreciation transfer and derecognition of such reserves, is recognized in the statement of changes in equity and the statement of comprehensive income. Dividends to be received or receivable from associates are accounted for as a reduction of the carrying amount of the investment.

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

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

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

The table below sets out the associates and the proportion of ownership interest as of 31 December 2016 and 2015 (Note 4):

| | Share/Voting Right (%) | |
|--|------------------------|-------|
| | 2016 | 2015 |
| Investments-in-associates | | |
| YBP | 31,82 | 31,82 |
| Desa Enerji Elektrik Üretim A.Ş. ("Desa Enerji") | 30,52 | 30,52 |
| Pınar Foods GmbH ("Pınar Foods") | 44,94 | 44,94 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

In addition, the Company made an agreement at 11 November 2016 with Dimes Gıda Sanayii Ticaret A.Ş. ("Dimes") regarding the milk production and distribution to schools in Turkey. According to this agreement, an ordinary partnership was established namely as "Dimes - Pınar Adi Ortaklığı" ("Dimes - Pınar") with the contribution of 45% of Pınar Süt and 55% of Dimes. The operations of Dimes-Pınar will start in 2017.

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 2016, equivalent of 1 Euro is TL3,7099 (2015: TL3,1776) and for the year then ended the average equivalent of 1 Euro TL3,3413 (2015: TL3,0183). Exchange differences arising from re-translation of the opening net assets of investments-in-associate and the differences between the average and year-end rates are included in the "currency translation reserve" under the equity as a separate component.

Functional and presentation currency

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

2.4 Offsetting

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are the 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.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

2.5 Comparative Information

The Company prepared its financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Company prepared its balance sheet at 31 December 2016 on a comparative basis with balance sheet at 31 December 2015; and statements of comprehensive income, cash flows and changes in equity for the period of 1 January - 31 December 2016 on a comparative basis with financial statements for the period of 1 January - 31 December 2015.

2.6 Summary of Significant Accounting Policies

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

2.6.1 Revenue recognition

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

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. (Note 32).

Revenue is recognized as follows:

Sales of goods:

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

Sales of services:

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

Interest income:

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

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

Rental income- recognized evenly on an accrual basis.

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

2.6.2 Inventories

The Company's raw material inventory mainly consist of cheddar cheese, lactic butter and packaging materials used for production of dairy products and fruit juice; work-in-progress inventory mainly consist of raw milk, milk powder, melting cheese, pasteurized lactic butter and pasteurized milk; finished goods inventory mainly consist of UHT milk, white cheese, kasseri, labaneh, 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 11).

2.6.3 Property, plant and equipment

Property, plant and equipment, except for land and land improvements, buildings, machinery and equipment acquired 1 January 2005 are carried at cost less accumulated depreciation, all tangible assets are stated at cost in the purchasing power of 31 December 2004. After 1 January 2005 to obtain the pen obtained which is reflected in the financial statements at cost less accumulated depreciation up to the balance sheet date. Land and land improvements and buildings and machinery and equipment are stated at fair value as of 31.12.2015, based on valuations by external independent valuers namely TSKB Gayrimenkul Değerleme A.Ş. (Note 15). Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the relevant asset, and the net amount is restated to the revalued amount of the asset.

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

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

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.

Depreciation is provided on the cost or revalued amounts of property, plant and equipment on a straight-line basis less any impairment (Note 15).

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:

| | Years |
|---------------------------------|--------------|
| Buildings and land improvements | 15-50 |
| Machinery and equipment | 15-25 |
| Furniture and fixtures | 5-10 |
| Motor vehicles | 5 |

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

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

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

Repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred. The Company derecognizes the carrying amounts of the replaced parts related to renovations regardless of whether the replaced parts were depreciated separately. Major overhauls are depreciated over shorter of their useful lives or the remaining useful life of the related assets. Gains or losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are included in the related income and expense accounts, as appropriate (Note 36). On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

2.6.4 Intangible assets

Intangible assets have finite useful lives and mainly comprise acquired rights. These assets which is acquired before 1 January 2005, TL is the intake adjusted acquisition cost expressed in the power on 31 December 2004, for items that are obtained after 1 January 2005 over the cost of acquisition is less accumulated amortization and present value the value of the net after deduction of impairment is recognized in the financial statements. They are recorded at acquisition cost and amortized on a straight-line basis over their estimated useful lives for a period of five years from the date of acquisition (Note 18). Costs associated with maintaining computer software programs are recognized as an expense when incurred. Gain or losses on disposals or on impairments of intangible assets with respect to their amounts are included in the related income and expense accounts. Residual values of intangible assets are deemed as negligible. Intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, intangible assets are the Companyed at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less cost to sell or value in use.

2.6.5 Impairment of assets

Impairment of financial asset:

- Assets carried at amortized cost

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) Adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

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

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

- Assets classified as available for sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a the Company of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, impairment losses recognized in the consolidated comprehensive income statement, on equity instruments are not reversed through the consolidated statement of comprehensive income.

Impairment of non-financial assets:

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

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.

2.6.6 Borrowing and borrowing cost

Borrowings are recognized initially at the proceeds received, net of any transaction costs incurred. In subsequent periods, borrowings are restated at amortized cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings. Borrowing costs are expensed as incurred (Note 37). If the borrowings mature within 12 months, then they are classified in current liabilities, otherwise they are classified in non-current liabilities (Note 25). Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

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

2.6.7 Financial assets

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

i. Classification

a) Loans and receivables

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

- *Available-for-sale financial assets*

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

ii. **Recognition and measurement**

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

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

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

2.6.8 **Business combination**

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

2.6.9 **Earnings 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 40)

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.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

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.

2.6.10 Subsequent events

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

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

2.6.11 Provisions, contingent liabilities and contingent assets

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are treated as contingent assets or liabilities (Note 26). The Company does not recognize contingent assets and liabilities. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed, where an inflow of economic benefits is probable.

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

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

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

ii. Provision for profit sharing and bonus plans

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

2.6.12 Accounting policies, errors and change in accounting estimates

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

2.6.13 Related parties

For the purpose of these financial statements, shareholders having control, joint control or significant influence over the Company, Yaşar Group Companies, key management personnel and board members, and their close family members, in each case together with and companies controlled, jointly controlled or significantly influenced by them are considered and referred to as related parties (Note 7).

2.6.14 Segment reporting

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

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

2.6.15 Leases

(1) *The Company as the lessee*

Finance Leases

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property net off any tax incentives received, if any, or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities (Note 21). 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 15)

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.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

(2) *The Company as the lesser*

Operating leases

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

2.6.16 Taxation on income

The tax expense for the period comprises current and deferred income tax. The current income tax liability includes the taxes payable calculated on the taxable portion of the period income with tax rates enacted on the balance sheet date (Note 39). 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 (Note 39).

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 (Note 39).

2.6.17 Statement of cash flow

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

2.6.18 Share capital and dividends

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

2.6.19 Government grants and incentive

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

The Company recognizes the subsidy received for brand development and marketing by way of crediting respective selling and marketing costs whereas the subsidy received for usage of milk powder in products sold abroad is net off against the cost of sales (Note 24).

2.6.20 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) Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Company recognizes tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. In this respect, the Company recognised deferred income tax assets arising from tax losses carried forward and other deductible differences as their future utilisation is virtually certain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made (Note 39).

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

The generally accepted valuation techniques used in fair value determination of available-for-sale investments for which there is no quoted market price exists, consist of several assumptions, which are based on the management's best estimates (Note 45).

c) 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 frequent revaluations and fair value measurements are considered unnecessary.

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

- As there were no recent similar buying/ selling transactions nearby, revaluations of land were based on the method of reference comparison whereas revaluations of buildings and land improvements were based on the method of cost approach.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

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

- In the market reference comparison method, current market information was utilized, taking into consideration the comparable property in the market in recent past in the region, price adjustment was made within the framework of criteria that could affect market conditions, and accordingly an average m2 sale value was determined for the lands subject to the valuation. The similar pieces of land found were compared in terms of location, size, settlement status, physical conditions, real estate marketing firms were consulted for up-to-date valuation of the estate market, also, current information and experience of the professional valuation company was utilized.
- In the cost approach method, fair value of the buildings and land improvements was calculated by considering recent re-construction costs and related depreciation. In the cost approach method, above explained market reference comparison method was used in calculation of the land value, one of the components.
- Whenever a fully integrated industrial plant was in discussion, the revaluation work was performed based on all the active and functioning assets in the integrated plant rather than taking as basis the data for the second-hand market within the scope of the valuation of the machinery and equipment. Such machinery and equipment were reviewed and assessed by their line.

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

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

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

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

NOTE 3 - BUSINESS COMBINATIONS

None (2015: None).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 4 - INTERESTS IN OTHER ENTITIES

Investments-in-associates:

| | 31 December 2016 | | 31 December 2015 | |
|-------------|-------------------|-------|-------------------|-------|
| | TL | % | TL | % |
| YBP | 47.258.500 | 31,82 | 50.112.244 | 31,82 |
| Desa Enerji | 13.261.935 | 30,52 | 11.357.242 | 30,52 |
| Pinar Foods | 7.953.829 | 44,94 | 6.036.580 | 44,94 |
| | 68.474.264 | | 67.506.066 | |

Movement in investments-in-associates during the years 2016 and 2015 are as follows:

| | 2016 | 2015 |
|--|-------------------|-------------------|
| 1 January | 67.506.066 | 52.997.281 |
| Share of profit before taxation of investments-in-associates - net | 8.390.164 | 17.198.919 |
| Increase in fair value reserves of investments-in-associates - net | (617.547) | 1.219.692 |
| Dividend income from investments-in-associates (Note 7.ii.d) | (7.701.115) | (5.151.247) |
| Currency translation reserve | 1.101.186 | 661.077 |
| Increase in revaluation reserve of investments-in-associates | - | 920.314 |
| Actuarial loss arising from defined benefit plans of investments-in associates | (187.760) | (292.589) |
| Elimination of net effect of unrealized profits on inventory | (16.730) | (47.381) |
| 31 December | 68.474.264 | 67.506.066 |

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

| | 31 December 2016 | | | | |
|---------------|------------------|-------------|---------------|------------|---------------------------------------|
| | Assets | Liabilities | Net Sales | Net Profit | Other Comprehensive Income/ (Expense) |
| - YBP | 454.542.466 | 304.953.442 | 1.633.551.020 | 17.817.119 | (2.595.831) |
| - Desa Enerji | 50.694.926 | 7.241.666 | 50.217.035 | 6.240.801 | - |
| - Pinar Foods | 18.540.603 | 841.827 | 55.556.297 | 1.815.896 | 2.450.156 |
| | | | | | |
| | 31 December 2015 | | | | |
| - YBP | 414.182.842 | 255.608.000 | 1.567.514.196 | 48.441.679 | 4.056.000 |
| - Desa Enerji | 42.882.815 | 5.670.358 | 36.548.331 | 4.356.629 | 1.822.385 |
| - Pinar Foods | 14.714.235 | 1.281.702 | 47.917.893 | 1.012.756 | 1.470.907 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 4 - INTERESTS IN OTHER ENTITIES (Continued)

Details of significant investment in associates of the Company as at 31 December 2016 and 2015 are as follows:

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

NOTE 5 - SEGMENT REPORTING

None (2015: None).

NOTE 6 - CASH AND CASH EQUIVALENTS

| | 31 December 2016 | 31 December 2015 |
|--------------------|------------------|------------------|
| Cash in hand | 69.423 | 54.979 |
| Banks | 433.229 | 243.740 |
| - Demand deposits | 333.229 | 243.740 |
| - TL | 39.151 | 243.740 |
| - Foreign currency | 294.078 | - |
| - Time deposits | 100.000 | - |
| - TL | 100.000 | - |
| | 502.652 | 298.719 |

As of 31 December 2016, the Company has time deposits amounting to TL100.000 with an effective interest rate of 6,75% per annum ("p.a.") (31 December 2015: None).

As of 31 December 2016, the Company has foreign currency denominated demand deposits amounting to USD83.558 and EUR6, equivalent of TL294.078 (31 December 2015: None).

As at 31 December 2016 the Company has cash in hands amounting to USD4.628 and EUR7.005, equivalent of TL42.276 (31 December 2015: USD3.948 and EUR2.670, equivalent of TL19.963).

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.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 7 - 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 2016 and 2015 are as follows:

i) Balances with related parties:

| | 31 December 2016 | 31 December 2015 |
|--|--------------------|--------------------|
| a) Short-term trade receivables from related parties: | | |
| YBP | 148.408.031 | 114.266.138 |
| YDT | 25.819.038 | 14.310.242 |
| | 174.227.069 | 128.576.380 |
| Less: Unearned finance income | (1.182.984) | (1.242.822) |
| | 173.044.085 | 127.333.558 |

The effective weighted average interest rates applied to trade receivables from related parties are 9,04% p.a. as of 31 December 2016 and mature within 2 months (31 December 2015: 11,36% p.a. and mature within 2 months).

As of 31 December 2016, trade receivables from related parties amounting to TL 10.836.538 (2015: TL 3.919.492), over which no provision for impairment is provided of overdue receivables and aging is shown Note 46.a.

b) Other short-term receivables from related parties:

| | | |
|--|---------------|---------------|
| DYO Boya Fab. San. ve Tic. A.Ş. ("DYO Boya") | 17.032 | 29.889 |
| Viking Kağıt ve Selüloz A.Ş. ("Viking") | - | 14.438 |
| Other | 997 | - |
| | 18.029 | 44.327 |

As of 31 December 2016, other receivables of the Company from related parties consist of receivables related with bail commission charges.

c) Short-term trade payables to related parties:

| | | |
|---|-------------------|-------------------|
| Çamlı Yem Besicilik Sanayi ve Tic. A.Ş. ("Çamlı Yem") | 7.152.251 | 4.569.567 |
| Yaşar Holding | 3.271.633 | 2.890.262 |
| HDF FZCO | 2.003.912 | - |
| Desa Enerji | 1.475.387 | 2.486.475 |
| Yadex International GmbH ("Yadex") | 571.537 | 9.183.773 |
| Other | 636.864 | 1.412.023 |
| | 15.111.584 | 20.542.100 |
| Less: Unincurred finance cost | (68.624) | (79.538) |
| | 15.042.960 | 20.462.562 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 7 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

TL 571.537 (2015: TL 9.183.773) of due to related parties is the payable to Yadex arising from import transactions conducted by these companies on behalf of the Company. Trade payables to Çamlı Yem and Desa Enerji mainly consist of raw material, steam and electricity purchases.

As of 31 December 2016, the effective weighted average interest rate applied to those payables is 9,06% (2015: 11,40%) and maturity is 2 months (2015: 2 months).

d) Other short-term payables to related parties:

| | 31 December 2016 | 31 December 2015 |
|--|-------------------|-------------------|
| Yaşar Holding (*) | 23.373.508 | - |
| YBP (**) | - | 18.480.994 |
| Pınar Entegre Et ve Un San. A.Ş. ("Pınar Et") (**) | - | 9.418.107 |
| Other (***) | 3.566.615 | 3.223.892 |
| | 26.940.123 | 31.122.993 |

(*) As of 31 December 2016, the Company has non-trade payables to Yaşar Holding amounting to TL 23.373.508 and the effective weighted average interest rate applied to those receivables is 11%. Company management expects to collect other receivables from Yaşar Holding between three to twelve months.

(**) As of 31 December 2015 the Company has non-trade payables to YBP and Pınar Et and the effective weighted average interest rate applied to those payables is 12%.

(***) Majority of other short term payables to related parties consist of bonus payments to board of directors according to the decision taken at the General Assembly Meetings held at 30 March 2016 and 26 March 2015 (31 December 2015: bonus payments according to the decision taken at General Assembly Meetings held at 26 March 2015).

ij) Transaction with related parties:

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|--------------------------|---------------------------------|---------------------------------|
| a) Product sales: | | |
| YBP | 893.010.139 | 862.889.474 |
| YDT | 126.800.976 | 123.953.781 |
| Pınar Et | 669.497 | 760.255 |
| Other | 484.883 | 149.570 |
| | 1.020.965.495 | 987.753.080 |

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.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 7 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|---|---------------------------------|---------------------------------|
| b) Service sales: | | |
| YDT | 2.588.381 | 3.290.626 |
| YBP | 662.339 | 571.266 |
| Pınar Et | 372.347 | 410.265 |
| Çamlı Yem | 384.599 | 389.939 |
| Other | 396.880 | 299.691 |
| | 4.404.546 | 4.961.787 |
| c) Other income from operating activities: | | |
| YDT | 8.458.065 | 7.111.452 |
| YBP | 969.669 | 835.471 |
| Çamlı Yem | 987.345 | 916.940 |
| Other | 3.317 | 3.712 |
| | 10.418.396 | 8.867.575 |
| Other income from operating activities mostly consist of foreign exchange income from export receivables and rent income from YBP and Çamlı Yem. | | |
| d) Dividends received: | | |
| YBP (*) | 7.701.115 | 5.151.247 |
| Pınar Et | 5.288.200 | 3.162.016 |
| Bintur Turizm ve Catering Hizmetleri A.Ş. ("Bintur") | 11.738 | 5.055 |
| | 13.001.053 | 8.318.318 |
| (*) Investment-in-associate (Note 4). | | |
| e) Other expenses from operating activities: | | |
| YDT | 743.489 | 964.581 |
| Çamlı Yem | 543.051 | 259.872 |
| Yaşar Holding | 186.895 | 94.014 |
| Other | 285.826 | 329.660 |
| | 1.759.261 | 1.648.127 |
| Other expenses from operating activities are mostly consist of unearned financial expenses, interest expenses and foreign exchange expenses related with trade payables of the Company. | | |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 7 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|------------------------------|---------------------------------|---------------------------------|
| f) Product purchases: | | |
| Yadex | 18.708.547 | 23.540.139 |
| Desa Enerji | 14.212.525 | 14.624.937 |
| Çamlı Yem | 10.406.116 | 10.059.742 |
| Hedef Ziraat Ticaret A.Ş. | 3.713.381 | 3.507.233 |
| Other | 195.754 | 161.956 |
| | 47.236.323 | 51.894.007 |

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

g) Service purchases:

| | | |
|---------------|-------------------|-------------------|
| Yaşar Holding | 12.671.518 | 11.820.820 |
| YBP | 5.891.031 | 5.201.803 |
| YDT | 5.059.784 | 4.633.065 |
| HDF FZCO | 2.597.344 | 679.091 |
| Bintur | 672.653 | 704.315 |
| Other | 1.789.165 | 415.705 |
| | 28.681.495 | 23.454.799 |

Service purchases from YBP, which is Company's associate and Yaşar Group company, are related to promotion and advertisement, whereas service purchases from Yaşar Holding are related to various services and consultancy charges.

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

| | | |
|---------------|----------------|----------------|
| Yaşar Holding | 538.255 | 149.014 |
| Other | 166.742 | 17.099 |
| | 704.997 | 166.113 |

i) Financial income from related parties:

| | | |
|---------------|------------------|------------------|
| Yaşar Holding | 1.530.263 | 1.405.925 |
| Other | 66.227 | 110.041 |
| | 1.596.490 | 1.515.966 |

The majority of finance income consists of bail commission charges amounting to TL 1.596.490 (2015: TL1.515.966), for the borrowings obtained by the Yaşar Group Companies from international capital markets and various financial institutions with the guarantee of the Company (Note 37.a). The commission rates of bail and financing used in the associated intercompany charges is 0,50% p.a. (2015: 0,50% p.a.).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 7 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|---|---------------------------------|---------------------------------|
| j) Dividends to related parties: | | |
| Yaşar Holding | 27.327.863 | 44.718.321 |
| Other | 2.417.753 | 3.429.051 |
| | 29.745.616 | 48.147.372 |

On the Ordinary Meeting of the General Assembly for the year 2015 as of 30 March 2016, it has been decided to distribute dividend amounting to TL46.901.541 (2015: TL76.220.703). TL17.155.925 portion of this dividend (2015: 28.073.331 TL) was paid to other shareholders.

k) Donations:

| | | |
|--------------------|----------------|----------------|
| Yaşar Eğitim Vakfı | 596.730 | 336.275 |
| Yaşar Üniversitesi | 300.000 | 350.000 |
| | 896.730 | 686.275 |

l) Financial expenses from related parties:

| | | |
|---------------|------------------|------------------|
| Yaşar Holding | 2.139.943 | 113.828 |
| YBP | 1.357.640 | 1.365.451 |
| Other | 804.581 | 799.551 |
| | 4.302.164 | 2.278.830 |

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

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:

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|------------------------------------|---------------------------------|---------------------------------|
| Total short-term employee benefits | 6.128.441 | 7.776.407 |
| Severance benefit | 178.495 | 7.019 |
| Other long-term benefits | 138.490 | 95.856 |
| | 6.445.426 | 7.879.282 |

The portion of total short-term benefits amounting to TL2.400.000 (31 December 2015: TL3.400.000) consists of Board of Directors appropriation according to the decision taken at the Ordinary Meeting of the General Assembly.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 7 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

n) Bails given to related parties:

As of 31 December 2016 Pinar 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 USD 250.000.000 equivalent of TL 879.800.000 (31 December 2015: USD 250.000.000 equivalent of TL 726.900.000) 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.

The Company jointly guarantees the repayment of loans obtained by Yaşar Group companies from a financial institution amounting to EUR 11.111.111, equivalent of TL 41.221.111 (31 December 2015: EUR 22.222.222, equivalent of TL 70.613.333) (Note 26).

o) Bails received from related parties:

Received bails are related with guarantee letter amounting to TL 35.000.000 guarantees provided by YBP (31 December 2015: guarantees provided by YBP related with guarantee letters amounting to TL 10.080.901).

NOTE 8 - TRADE RECEIVABLES AND PAYABLES

| | 31 December 2016 | 31 December 2015 |
|--|-------------------|-------------------|
| a) Short-term trade receivables from third parties: | | |
| Customer current accounts | 3.648.761 | 3.286.474 |
| Cheques and notes receivable | 8.079.417 | 8.279.786 |
| | 11.728.178 | 11.566.260 |
| Less: Provision for impairment of receivables | (594.894) | (489.856) |
| Unearned finance income | (102.606) | (199.352) |
| | 11.030.678 | 10.877.052 |

The effective weighted average interest rate on TL denominated trade receivables is 9,22% p.a. as of 31 December 2016 (2015: 11,32% p.a.).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

The agings of trade receivables as of 31 December 2016 and 2015 are as follows;

| | 31 December 2016 | 31 December 2015 |
|------------------|-------------------|-------------------|
| Overdue | 1.141.852 | 510.922 |
| 0 - 30 days | 3.976.259 | 4.302.142 |
| 31 - 60 days | 4.388.017 | 2.817.251 |
| 61 - 90 days | 524.550 | - |
| 91 days and over | 1.000.000 | 3.246.737 |
| | 11.030.678 | 10.877.052 |

The Company management does not expect any collection risk regarding its trade receivables overdue but not impaired amounting to TL1.141.852 as of 31 December 2016 (31 December 2015: TL510.922) considering its past experience and subsequent collections (Note 46.a).

The aging of overdue receivables as of 31 December 2016 and 2015 are as follows:

| | | |
|----------------------|------------------|----------------|
| 0 - 3 months overdue | 1.141.852 | 510.922 |
|----------------------|------------------|----------------|

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

| | 2016 | 2015 |
|---|----------------|----------------|
| 1 January | 489.856 | 464.722 |
| Collection | (21.600) | - |
| Charged to consolidated statement of comprehensive income (Note 35.b) | 126.638 | 25.134 |
| 31 December | 594.894 | 489.856 |

b) Short-term trade payables to third parties:

| | 31 December 2016 | 31 December 2015 |
|-------------------------------|--------------------|--------------------|
| Supplier current accounts | 169.047.626 | 156.113.174 |
| Cheques | 1.708.258 | 2.922.295 |
| | 170.755.884 | 159.035.469 |
| Less: Unincurred finance cost | (1.033.860) | (1.286.377) |
| | 169.722.024 | 157.749.092 |

As of 31 December 2016 and 2015, the effective weighted average interest rates used in unincurred finance cost calculation for short-term trade payables including TL, USD and EUR denominated liabilities are as follows:

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 8 - TRADE RECEIVABLES AND PAYABLES (Continued)

| | 31 December 2016 | 31 December 2015 |
|-------------------|------------------|------------------|
| TL trade payable | 9,26% | 11,32% |
| USD trade payable | 2,32% | 2,36% |
| EUR trade payable | 2,27% | 2,50% |

Trade payables mature within two months (2015: two months).

c) Long-term trade payables to third parties:

| | | |
|---------------------------|-------------------|-------------------|
| Supplier current accounts | 23.197.010 | 26.813.819 |
| | 23.197.010 | 26.813.819 |

Long-term trade payables to third parties are comprised of payables regarding property, plant and equipment purchases that are amounting to EUR6.252.732 as of 31 December 2016 (31 December 2015: EUR8.438.387). The effective weighted average interest rate for trade payables is 2,29% p.a. (2015: 2,33% p.a.).

The redemption schedules of long-term trade payables at 31 December 2016 and 2015 are as follows:

| | | |
|------|-------------------|-------------------|
| 2017 | - | 11.324.069 |
| 2018 | 10.437.624 | 7.966.929 |
| 2019 | 9.560.203 | 7.215.400 |
| 2020 | 1.495.025 | 307.421 |
| 2021 | 1.136.105 | - |
| 2022 | 568.053 | - |
| | 23.197.010 | 26.813.819 |

NOTE 9 - RECEIVABLES AND PAYABLES FROM FINANCE SECTOR OPERATIONS

None (2015: None).

NOTE 10 - OTHER RECEIVABLES AND PAYABLES

| | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| a) Other short-term receivables from third parties: | | |
| Value Added Tax ("VAT") receivable | 2.925.948 | 1.563.737 |
| Deposits and guarantees given | 20.723 | 419.885 |
| Other | 1.030.402 | 373.340 |
| | 3.977.073 | 2.356.962 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 10 - OTHER RECEIVABLES AND PAYABLES (Continued)

b) Other long-term receivables from third parties:

| | 31 December 2016 | 31 December 2015 |
|-------------------------------|------------------|------------------|
| Deposits and guarantees given | 13.359 | 13.359 |
| | 13.359 | 13.359 |

c) Other short-term payables to third parties:

| | | |
|-------------------------|------------------|------------------|
| Taxes and funds payable | 1.798.888 | 1.567.455 |
| Other | 165.611 | 168.610 |
| | 1.964.499 | 1.736.065 |

NOTE 11 - INVENTORIES

| | 31 December 2016 | 31 December 2015 |
|----------------------------|--------------------|--------------------|
| Raw materials | 34.095.294 | 31.657.651 |
| - Raw materials | 33.206.727 | 28.808.380 |
| - Raw materials in transit | 888.567 | 2.849.271 |
| Work-in-progress | 27.888.422 | 31.390.257 |
| Finished goods | 33.851.499 | 42.160.283 |
| Spare parts and palettes | 8.058.908 | 6.800.064 |
| | 103.894.123 | 112.008.255 |

The costs of inventories recognized as expense and included in cost of sales amounted to TL742.261.706 (2015: TL729.550.934) (Note 29). Inventories are carried at cost, and there are no inventories valued at fair value less costs to sell as of 31 December 2016.

NOTE 12 - BIOLOGICAL ASSETS

None (2015: None).

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

1 OCAK - 31 ARALIK 2016 HESAP DÖNEMİNE AİT

FİNANSAL TABLOLARA İLİŞKİN AÇIKLAYICI DİPNOTLAR

(Tutarlar aksi belirtilmedikçe Türk Lirası ("TL") olarak ifade edilmiştir.)

NOTE 13 - PREPAID EXPENSES AND DEFERRED INCOME

| | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| a) Short-term prepaid expenses to third parties: | | |
| Prepaid expenses | 4.491.868 | 4.977.685 |
| Advances given | 185.045 | 89.703 |
| | 4.676.913 | 5.067.388 |
| b) Long-term prepaid expenses to third parties: | | |
| Advances given | 1.260.407 | 2.962.521 |
| | 1.260.407 | 2.962.521 |
| c) Short-term deferred income from third parties: | | |
| Advances received | 53.947 | 185.820 |
| | 53.947 | 185.820 |

NOTE 14 - INVESTMENT PROPERTY

None (2015: None).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements of property, plant and equipment and accumulated depreciation between 1 January and 31 December 2015 were as follows:

| | 1 January 2015 Opening | Additions | Disposals | Transfers | Accumulated Depreciation Netting Before Valuation | Revaluation Increasing/ (Decreasing) | 31 December 2015 Closing |
|----------------------------------|------------------------------|---------------------|--------------------|--------------|--|--|--------------------------------|
| Cost or valuation: | | | | | | | |
| Land | 73.580.424 | - | (9.300) | - | - | 63.108.778 | 136.679.902 |
| Land improvements and buildings | 93.373.554 | 206.656 | (117.960) | 5.818.503 | (7.762.051) | (530.594) | 90.988.108 |
| Machinery, plant and equipment | 175.171.588 | 18.895.362 | (1.884.872) | 53.494.660 | (35.715.462) | 121.343 | 210.082.619 |
| Motor vehicles | 6.556.886 | 114.177 | (31.676) | - | - | - | 6.639.387 |
| Furniture and fixtures | 48.113.571 | 3.594.255 | (327.424) | 1.250.532 | - | - | 52.630.934 |
| Construction in progress | 51.162.481 | 13.142.331 | - | (60.563.695) | - | - | 3.741.117 |
| | 447.958.504 | 35.952.781 | (2.371.232) | - | (43.477.513) | 62.699.527 | 500.762.067 |
| Accumulated depreciation: | | | | | | | |
| Land improvements and buildings | (3.861.463) | (3.971.351) | 70.763 | - | 7.762.051 | - | - |
| Machinery, plant and equipment | (22.623.757) | (13.983.134) | 891.429 | - | 35.715.462 | - | - |
| Motor vehicles | (6.136.668) | (208.988) | 30.982 | - | - | - | (6.314.674) |
| Furniture and fixtures | (36.813.726) | (2.932.478) | 326.959 | - | - | - | (39.419.245) |
| | (69.435.614) | (21.095.951) | 1.320.133 | - | 43.477.513 | - | (45.733.919) |
| Net book value | 378.522.890 | | | | | | 455.028.148 |

As of 31 December 2015, main additions to property, plant and equipment are comprised of investments related to productions lines of the Company.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 15 - PROPERTY, PLANT AND EQUIPMENT (Continued)

There are no mortgages or other collaterals placed on property, plant and equipment as of 31 December 2016 (2015: None)

Current year's depreciation and amortization charges were allocated to cost of goods sold by TL 18.760.035 (2015: TL 16.180.953), to the cost of inventories by TL 831.249 (2015: TL817.068), to selling and marketing expenses by TL1.995.902 (2015: TL 1.857.492) (Note 34.a), to general administrative expenses by TL 2.371.298 (2015: TL 2.119.600) (Note 34.b), to research and development expenses by TL 540.835 (2015: TL 514.159) (Note: 34.c).

Movements in revaluation reserve related to land, buildings, land improvements, machinery and equipment as of 31 December 2016 and 2015 were as follows:

| | 2016 | 2015 |
|--|--------------------|--------------------|
| 1 January | 176.218.583 | 120.120.092 |
| Disposal of revaluation funds due to sale of property, plant and equipment -net | (130.241) | (156.495) |
| Increase in revaluation reserve arising from revaluation of land, buildings and land improvements | - | 59.625.938 |
| Depreciation transfer upon revaluation reserve - net | (3.422.460) | (3.370.952) |
| 31 December | 172.665.882 | 176.218.583 |

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 2016 and 2015 are as follows:

| | Land | Land improvements and buildings | Machinery and equipment |
|--------------------------------|------------------|------------------------------------|----------------------------|
| 31 December 2016: | | | |
| Cost | 9.059.482 | 72.481.194 | 303.854.743 |
| Less: Accumulated depreciation | - | (18.166.418) | (84.394.224) |
| Net book value | 9.059.482 | 54.314.776 | 219.460.519 |
| 31 December 2015: | | | |
| Cost | 9.059.482 | 70.998.313 | 275.173.876 |
| Less: Accumulated depreciation | - | (20.176.633) | (98.787.307) |
| Net book value | 9.059.482 | 50.821.680 | 176.386.569 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 16 - RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

None (2015: None).

NOTE 17 - MEMBERS' SHARES IN CO-OPERATIVE ENTITIES AND SIMILAR INSTRUMENTS

None (2015: None).

NOTE 18 - INTANGIBLE ASSETS

The movements of intangible assets and related accumulated amortization for the years ended 31 December 2016 and 2015 were as follows:

| | 1 January 2016 | Additions | | 31 December 2016 |
|--------------------------|----------------|----------------|-----------|------------------|
| Costs: | | | | |
| Rights | 11.315.185 | 916.594 | | 12.231.779 |
| Accumulated amortization | (10.410.209) | (535.845) | | (10.946.054) |
| Net book value | 904.976 | 380.749 | | 1.285.725 |
| | 1 January 2015 | Additions | Disposals | 31 December 2015 |
| Costs: | | | | |
| Rights | 10.784.116 | 531.845 | (776) | 11.315.185 |
| Accumulated amortization | (10.017.664) | (393.321) | 776 | (10.410.209) |
| Net book value | 766.452 | 138.524 | - | 904.976 |

NOTE 19 - GOODWILL

None (2015: None).

NOTE 20 - EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

None (2015: None).

NOTE 21 - LEASING

None (2015: None).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 22 - SERVICE CONCESSION AGREEMENTS

None (2015: None).

NOTE 23 - IMPAIRMENT IN ASSETS

None (2015: None).

NOTE 24 - GOVERNMENT GRANTS AND INCENTIVES

During 2016, in accordance with bulletin of Ministry of Agriculture and Rural Affairs, numbered 2011/40, regarding the utilization of milk powder within export goods, the Company was provided TL 5.097.400 government incentive. The relevant incentive amount was reflected to the statement of comprehensive income by netting off against the cost of sales (2015 : TL 4.909.770).

Also in scope of Turquality Project implemented by Undersecretariat of Foreign Trade to support brandization of products made in Turkey in foreign markets and to settle the image of Turkish goods, the Company was provided TL 1.700.078 (2015: TL 1.163.580) government incentive. The incentive amount is deducted from selling and marketing expenses.

Also the Company had benefit from the incentives of Agriculture and Livestock Ministry related to increasing the export of milk powder in 2016 and TL11.440.813 was recorded as government grant (2015: TL 1.640.100).

There are investment incentive certificates to which the Company has been entitled by the official authorities (Note 39).

NOTE 25 - BORROWINGS AND BORROWING COSTS

| | 31 December 2016 | 31 December 2015 |
|--|-------------------|-------------------|
| From third parties: | | |
| Short-term borrowings | 28.067.744 | 15.274.043 |
| Short-term portion of long-term borrowings | 8.097.564 | 4.021.656 |
| Short-term borrowings | 36.165.308 | 19.295.699 |
| Long-term borrowings | 31.111.111 | 2.000.000 |
| Long-term borrowings | 31.111.111 | 2.000.000 |
| | 67.276.419 | 21.295.699 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 25 - BORROWINGS AND BORROWING COSTS (Continued)

a) Borrowings:

| | Effective weighted | | Original currency | | TL equivalent | |
|---|------------------------------|------------------|-------------------|------------------|-------------------|-------------------|
| | average interest rate p.a. % | | | | | |
| | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Short-term borrowings: | | | | | | |
| TL borrowings (*) | 11,35 | - | 6.019.864 | 736.043 | 6.019.864 | 736.043 |
| USD borrowings (*) | 1,71 | 1,28 | 5.000.000 | 5.000.000 | 17.596.000 | 14.538.000 |
| EUR borrowings (*) | - | - | 1.200.000 | - | 4.451.880 | - |
| Short-term portion of long-term bank borrowings: | | | | | | |
| Short-term portion of long term | | | | | | |
| TL borrowings (**) | 13,94 | 14,44 | 8.097.564 | 4.021.656 | 8.097.564 | 4.021.656 |
| Total short-term borrowings | | | | | 36.165.308 | 19.295.699 |
| Long-term bank borrowings: | | | | | | |
| TL borrowings (**) | 13,69 | 14,44 | 31.111.111 | 2.000.000 | 31.111.111 | 2.000.000 |
| Total long-term bank borrowings | | | | | 31.111.111 | 2.000.000 |

(*) As of 31 December 2016 short-term financial liabilities consist of spot and rotative loans. There are not any interest payments for spot loans while interest rate for rotative loan is 11,35% p.a. (31 December 2015: TL denominated bank loans consist of spot loans and there are not any interest payments). As of 31 December 2016 and 2015 USD short-term loans consist of export credits with interest rate of 1,71% p.a.

(**) As of 31 December 2016, TL denominated long-term borrowings consist of loans with a fixed interest rate of 13,60% and 13,81%. (31 December 2015: 14,44%)

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 25 - BORROWINGS AND BORROWING COSTS (Continued)

Guarantees given for The Company's financial liabilities and other financial liabilities are explained in Note 26.

The redemption schedule of long-term borrowings at 31 December 2016 and 2015 is as follows:

| | 31 December 2016 | 31 December 2015 |
|------|-------------------|------------------|
| 2017 | - | 2.000.000 |
| 2018 | 7.777.777 | - |
| 2019 | 7.777.777 | - |
| 2020 | 7.777.777 | - |
| 2021 | 7.777.780 | - |
| | 31.111.111 | 2.000.000 |

31 December 2016 and 2015 are prepared in accordance with the Company's variable interest rate and the fixed rate renewal date net financial debt maturity breakdown is as follows:

| | Total |
|-----------------------------|-------------------|
| 31 December 2016: | |
| Borrowings with fixed rates | 62.824.539 |
| Borrowings without interest | 4.451.880 |
| Total | 67.276.419 |
| 31 December 2015: | |
| Borrowings with fixed rates | 20.559.656 |
| Borrowings without interest | 736.043 |
| Total | 21.295.699 |

There is no floating interest rate borrowing as of 31 December 2016 (31 December 2015: None).

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

| | Carrying Amounts | | Fair Values | |
|-----------------|------------------|------------------|------------------|------------------|
| | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Bank borrowings | 67.276.419 | 21.295.699 | 67.624.511 | 21.381.048 |

The fair values are based on cash flows discounted using the rates based on the borrowing rates of 10,77% p.a. and 2,24% p.a for TL and USD denominated bank borrowings, respectively (31 December 2015: 11,08% p.a. and 1,73% p.a for TL and USD denominated bank borrowings, respectively).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 25 - BORROWINGS AND BORROWING COSTS (Continued)

b) Other financial liabilities:

In 2016, the Company had other financial liabilities amounting to TL 3.510.364 mainly obtained by way of letter against documents and bill of exchanges with respect to purchase of trading purpose merchandise goods (31 December 2015: TL 5.470.820). Letter against documents mature within one year and the effective weighted average commission rate applied to such liabilities is 1% p.a. (31 December 2015: 1% p.a.).

NOTE 26 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

| | 31 December 2016 | 31 December 2015 |
|-----------------------------|--------------------|--------------------|
| a) Guarantees Given: | | |
| Bails | 921.021.111 | 797.513.333 |
| Letters of guarantee | 45.641.896 | 49.761.625 |
| | 966.663.007 | 847.274.958 |

As of 31 December 2016 Pinar 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 USD 250.000.000 equivalent of TL 879.800.000 (31 December 2015: USD 250.000.000 equivalent of TL 726.900.000) 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.

The Company jointly guarantees the repayment of loans obtained by Yaşar Group companies from a financial institution amounting to EUR 11.111.111, equivalent of TL 41.221.111 (31 December 2015: EUR 22.222.222, equivalent of TL 70.613.333).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 26 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The collaterals, pledges and mortgages ("CPM") position of the Company for the years ended 31 December 2016 and 2015 were as follows:

| | 31 December 2016 | | | 31 December 2015 | | |
|---|------------------|-------------|--------------------|------------------|-------------|--------------------|
| | 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 | | | 45.641.896 | | | 49.761.625 |
| | TL | 28.021.896 | 28.021.896 | TL | 35.223.625 | 35.223.625 |
| | USD | 5.006.820 | 17.620.001 | USD | 5.000.000 | 14.538.000 |
| 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 | | | 921.021.111 | | | 797.513.333 |
| i. Total amount of CPM given on behalf of the majority shareholder | | | 879.800.000 | | | 726.900.000 |
| | USD | 250.000.000 | 879.800.000 | USD | 250.000.000 | 726.900.000 |
| ii. Total amount of CPM given to behalf of other the Company companies which are not in scope of B and C | | | 41.221.111 | | | 70.613.333 |
| | EUR | 11.111.111 | 41.221.111 | EUR | 22.222.222 | 70.613.333 |
| iii. Total amount of CPM given on behalf of third parties which are not in scope of C | | - | - | | - | - |
| TOTAL | | | 966.663.007 | | | 847.274.958 |
| The ratio of total amount of other CPM to Equity | | | 155% | | | 136% |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 26 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

| | 31 December 2016 | 31 December 2015 |
|--------------------------------|-------------------|-------------------|
| b) Guarantees received: | | |
| Bails | 35.000.000 | 10.080.901 |
| Guarantee notes | 6.040.289 | 5.282.455 |
| Letters of guarantee | 4.949.245 | 7.601.856 |
| Guarantee cheques | 4.743 | 823.743 |
| Mortgages | - | 75.000 |
| | 45.994.277 | 23.863.955 |

Received bails are related with guarantee letter amounting to TL 35.000.000 guarantees provided by YBP (31 December 2015: TL 10.080.901).

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

| | | |
|----------------------------|-----|---------|
| Guarantees received | EUR | 725.404 |
| | USD | 433.717 |

Foreign currency denominated guarantees given as of 31 December 2015 is as follows:

| | | |
|----------------------------|-----|-----------|
| Guarantees received | EUR | 1.346.200 |
| | USD | 465.017 |

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 Izmir 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 2016.

NOTE 27 - COMMITMENTS

As of 31 December 2016, the Company has purchase commitments of 476 tons of concentrated fruit juice equivalent of TL2.239.564, packaging materials amounting to USD356.358 equivalent of TL1.254.095 (2015: 713 tons of concentrated fruit juice equivalent of TL3.439.243, packaging materials amounting to and USD503.499 equivalent of TL1.463.975).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 28 - EMPLOYEE BENEFITS

a) Payables related to employee benefits

| | 31 December 2016 | 31 December 2015 |
|----------------------------------|------------------|------------------|
| Social security premiums payable | 2.421.318 | 1.319.445 |
| Payables to personnel | 87.039 | 107.303 |
| | 2.508.357 | 1.426.748 |

b) Short-term provisions for employee benefits:

| | | |
|---|------------------|------------------|
| Bonus provisions to top management | 622.040 | 910.040 |
| Provision for seniority incentive bonus | 540.885 | 410.031 |
| | 1.162.925 | 1.320.071 |

Movement of bonus provision to top management for the year ended at 2016 and 2015 are as follow:

| | 2016 | 2015 |
|--------------------|----------------|----------------|
| 1 January | 910.040 | 910.040 |
| Bonus payment | (288.000) | - |
| 31 December | 622.040 | 910.040 |

c) Long-term provisions for employee benefits:

| | | |
|---|-------------------|-------------------|
| Provision for employment termination benefits | 16.309.234 | 14.322.537 |
| Provision for seniority incentive bonus | 720.325 | 689.407 |
| | 17.029.559 | 15.011.944 |

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

The amount payable consists of one month's salary limited to a maximum of TL4.297,21 for each year of service as of 31 December 2016 (31 December 2015: TL3.828,37). 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.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 28 - EMPLOYEE BENEFITS (Continued)

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 TL4.426,16 which is effective from 1 January 2017 (1 January 2016: TL4.092,53) has been taken into consideration in calculating the provision for employment termination benefits of the Company which is calculated once in every six months.

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

| | 31 December 2016 | 31 December 2015 |
|-------------------------------|------------------|------------------|
| Discount rate (%) | 3,95 | 3,95 |
| Probability of retirement (%) | 97,51 | 97,33 |

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

| | 2016 | 2015 |
|----------------------|-------------------|-------------------|
| 1 January | 14.322.537 | 11.839.581 |
| Interest costs | 1.831.499 | 1.310.512 |
| Actuarial losses | 2.733.831 | 2.054.188 |
| Paid during the year | (4.105.766) | (2.120.269) |
| Annual charge | 1.527.133 | 1.238.525 |
| 31 December | 16.309.234 | 14.322.537 |

The total of interest cost, actuarial losses and increase during the year amounting to TL6.092.463 (2015: TL4.603.225) was included in general administrative costs (Note 34.b) amounting to TL3.358.632 (2015: TL2.549.037) and other comprehensive income amounting to TL2.733.831 (2015: TL2.054.188).

NOTE 29 - EXPENSES BY NATURE

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|-------------------------------|---------------------------------|---------------------------------|
| Direct material costs | 742.261.706 | 729.550.934 |
| Staff costs | 70.319.528 | 58.464.177 |
| Advertisement | 34.638.678 | 31.055.663 |
| Energy | 33.691.944 | 32.450.734 |
| Repair and maintenance | 32.654.880 | 29.619.417 |
| Depreciation and amortization | 24.485.138 | 21.410.468 |
| Consultancy charges | 12.975.678 | 12.324.166 |
| Other | 51.690.953 | 42.385.178 |
| | 1.002.718.505 | 957.260.737 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 30 - OTHER ASSETS AND LIABILITIES

| | 31 December 2016 | 31 December 2015 |
|--|-------------------|-------------------|
| a) Other current assets from third parties: | | |
| Deferred Value Added Tax | 14.685.482 | 12.981.090 |
| Income accrual | 5.903.920 | 6.948.001 |
| Other | 4.112 | 4.087 |
| | 20.593.514 | 19.933.178 |

Income accruals are comprised of government subsidy to be received for brand developments and related marketing activities, and for usage of milk powder in products sold abroad.

b) Other current liabilities to third parties:

| | | |
|------------------|----------------|----------------|
| Expense accruals | 136.031 | 139.467 |
| | 136.031 | 139.467 |

NOTE 31 - 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 2016 and 2015 is as follows:

| | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| 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 2016 and 2015 were as follows:

| Shareholder | 31 December 2016 | | 31 December 2015 | |
|------------------------------|------------------|-------------------|------------------|-------------------|
| | 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 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 31 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

Adjustment to share capital amounting to TL16.513.550 (2015: 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).

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 2016, there are 4.495.105.125 (2015: 4.495.105.125) units of shares each with a face value of Kr1 (2015: Kr1) each.

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 Financial Reporting Standards ("TFRS"). At 31 December 2016, the restricted reserves of the Company amount to TL55.024.248 (2015: TL50.558.849). The unrestricted reserves of the Company, amounting to TL68.227.511 (2015: TL57.358.544), is classified in the retained earnings.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 31 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

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.

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 III-19.1 settled by CMB on 1 February 2014 and dividend payment decision taken in general assembly and also in conformity with relevant legislations

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

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

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

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

Based on the decision of General Assembly meeting on 30 March 2016, the Company has decided to distribute TL46.901.541 of the distributable net profit for the year ended as dividend and payments to boards. In context of this dividend distribution decision, the Company separated TL4.465.399 as "Restricted Reserve". There is not any profit distribution decision for 2016 since General Assembly Meeting has not been conducted yet.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 32 - REVENUE AND COST OF SALES

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|--------------------------------|---------------------------------|---------------------------------|
| Domestic sales | 1.286.531.319 | 1.219.474.081 |
| Export sales | 126.800.976 | 123.953.781 |
| Merchandise goods sales | 4.127.103 | 1.641.934 |
| Gross Sales | 1.417.459.398 | 1.345.069.796 |
| Less: Discounts | (322.048.686) | (303.554.377) |
| Returns | (27.634.020) | (30.310.774) |
| Net sales | 1.067.776.692 | 1.011.204.645 |
| Cost of merchandise goods sold | (4.002.138) | (1.620.352) |
| Cost of goods sold | (872.660.753) | (847.160.685) |
| Cost of sales | (876.662.891) | (848.781.037) |
| Gross Profit | 191.113.801 | 162.423.608 |

NOTE 33 - CONSTRUCTIONS CONTRACTS

None (2015: None).

NOTE 34 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|-------------------------------|---------------------------------|---------------------------------|
| a) Marketing expenses: | | |
| Advertisement | 34.638.678 | 31.055.663 |
| Staff costs | 7.488.872 | 7.149.038 |
| Consultancy | 5.743.914 | 5.295.847 |
| Repair and maintenance | 5.705.981 | 4.671.193 |
| Outsourced services | 5.530.289 | 5.026.423 |
| Transportation | 4.814.280 | 1.374.797 |
| Depreciation and amortization | 1.995.902 | 1.857.492 |
| Rent | 1.909.625 | 1.153.511 |
| Other | 9.493.330 | 7.826.127 |
| | 77.320.871 | 65.410.091 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 34 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING EXPENSES, RESEARCH AND DEVELOPMENT EXPENSES (Continued)

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|--|---------------------------------|---------------------------------|
| b) General administrative expenses: | | |
| Staff costs | 11.056.983 | 11.583.065 |
| Consultancy charges | 7.231.764 | 7.028.319 |
| Outsourced services | 4.505.304 | 3.217.292 |
| Employment termination benefits | 3.358.632 | 2.549.037 |
| Taxes (Corporate Tax excluded) | 3.135.873 | 1.891.384 |
| Depreciation and amortization | 2.371.298 | 2.119.600 |
| Repair and maintenance | 1.523.899 | 1.506.692 |
| Energy | 981.195 | 972.839 |
| Other | 3.604.026 | 3.023.466 |
| | 37.768.974 | 33.891.694 |

c) Research and development expenses:

| | | |
|-------------------------------|-------------------|------------------|
| Staff costs | 4.671.567 | 3.772.729 |
| Repair and maintenance | 2.937.378 | 2.501.630 |
| Outsourced services | 1.710.178 | 1.454.589 |
| Depreciation and amortization | 540.835 | 514.159 |
| Other | 1.105.811 | 934.808 |
| | 10.965.769 | 9.177.915 |

NOTE 35 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|---|---------------------------------|---------------------------------|
| a) Other income from operating activities: | | |
| Foreign exchange gain | 8.458.065 | 7.111.452 |
| Rent income | 1.864.856 | 1.739.145 |
| Income from sales of scrap | 834.651 | 1.355.167 |
| Unearned financial income on term purchases | 71.722 | 332.981 |
| Other | 415.070 | 615.598 |
| | 11.644.364 | 11.154.343 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 35 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES (Continued)

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|--|---------------------------------|---------------------------------|
| b) Other expense from operating activities: | | |
| Foreign exchange loss | (9.795.657) | (7.080.247) |
| Interest expense | (1.828.258) | (1.870.635) |
| Donations | (919.980) | (696.107) |
| Unearned financial expense on term sales | (178.570) | (387.270) |
| Provision for doubtful receivables | (126.638) | (25.134) |
| Other | (1.198.011) | (2.221.523) |
| | (14.047.114) | (12.280.916) |

NOTE 36 - INCOME/ EXPENSES FROM INVESTING ACTIVITIES

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|--|---------------------------------|---------------------------------|
| a) Income from investing activities: | | |
| Dividend income (*) | 5.299.938 | 3.167.071 |
| Income from sales of property, plant and equipment | 83.550 | 24.989 |
| | 5.383.488 | 3.192.060 |

(*) Note 7.ii.d.

b) Expense from investing activities:

| | | |
|--|------------------|--------------------|
| Loss from sales of property, plant and equipment | (269.506) | (1.040.641) |
| | (269.506) | (1.040.641) |

NOTE 37 - FINANCIAL INCOME/ EXPENSES

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|----------------------------------|---------------------------------|---------------------------------|
| a) Financial income: | | |
| Bail income from related parties | 1.596.490 | 1.515.966 |
| Foreign exchange gain | 318.817 | 1.066.594 |
| Interest income | 96.112 | 57.902 |
| | 2.011.419 | 2.640.462 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 37 - FINANCIAL INCOME/ EXPENSES (Continued)

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|------------------------------|---------------------------------|---------------------------------|
| b) Financial expense: | | |
| Foreign exchange loss | (5.961.252) | (3.855.534) |
| Late interest expense | (4.170.929) | (2.262.662) |
| Interest expense | (3.931.379) | (906.221) |
| Bail expense | (183.746) | (16.567) |
| Other | (247.746) | (178.178) |
| | (14.495.052) | (7.219.162) |

NOTE 38 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

None (2015: None).

NOTE 39 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES)

As of 31 December 2016 and 2015, corporation taxes currently payable are as follows:

| | 31 December 2016 | 31 December 2015 |
|---------------------------------------|------------------|------------------|
| Corporation taxes currently payable | 4.161.275 | 2.772.271 |
| Less: Prepaid corporate tax | (3.888.737) | (1.430.092) |
| Current income tax liabilities | 272.538 | 1.342.179 |

Corporation tax is payable at a rate of 20% for 2016 (2015: 20%). On the total income of the Company after adjusting for certain disallowable expenses, exempt income (exemption for participation in subsidiaries, exemption for investment incentive allowance etc.) and allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-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% (2015: 15%). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

NOTE 39 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

Corporations are required to pay advance corporation tax quarterly at the rate of 20% (2015: 20%) on their corporate income. Advance tax is declared by 14th and payable by the 17th (2015: 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.

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.

According to Turkish Corporate Income Tax Law numbered 5520, effective from 21 June 2006, a 75% portion of the gains derived from the sales of preferential rights, usufruct shares and founding shares from investment equity and real property, which has remained in assets for more than two full years are exempt from corporate tax. To be entitled to the exemption, the relevant gain is required to be held in a fund account in the liabilities and it must not be withdrawn from the entity for a period of five years. The sales considerations have to be collected up until the end of the second calendar year following the year the sale was realized.

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.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 39 - INCOME TAXES (INCLUDING DEFERRED TAX ASSETS AND LIABILITIES) (Continued)

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. The profit distributed in a disguised manner through transfer pricing completely or partially in the last day of the fiscal period when the circumstances defined in the 13th article occurred, will be assessed as distributed profit share or transferred amount to headquarter for limited taxpayers. After the distributed profit share is considered as net profit share and complemented to gross amount, deemed profit will be subject to corporate tax. Previous taxation processes will be revised accordingly by taxpayer who distributes disguised profit. In order to make adjustments in this respect, the taxes assessed in the name of the company distributing dividends in a disguised manner must be finalized and paid.

Taxation on income in the statement of comprehensive income for the years ended 31 December 2016 and 2015 are as follows:

| | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|---------------------------------|---------------------------------|---------------------------------|
| Current corporation tax expense | (4.161.275) | (2.772.271) |
| Deferred tax income | 504.869 | (2.580.795) |
| Taxation on income | (3.656.406) | (5.353.066) |

The reconciliation of tax expense is as follows:

| | | |
|---|--------------------|--------------------|
| Profit before tax | 63.675.950 | 67.588.973 |
| Tax calculated at tax rates applicable to the profit | (12.735.190) | (13.517.795) |
| Expenses not deductible for tax purposes | (44.008) | (195.161) |
| Tax effect upon the results of investments-in-associates | 1.678.033 | 3.439.784 |
| Income tax due to dividends received from available-for-sale investments | 1.057.640 | 632.403 |
| Utilized investment incentive during period | 4.935.489 | 6.895.900 |
| Recognition of deferred income tax asset / (liability) on investment incentive | 1.225.452 | (2.634.084) |
| Other | 226.178 | 25.887 |
| Total taxation on income | (3.656.406) | (5.353.066) |

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% (2015: 20%).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 39 - 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 2016 and 2015 using the enacted tax rates at the balance sheet dates are as follows:

| | 31 December 2016 | | 31 December 2015 | |
|---|----------------------------------|---|----------------------------------|---|
| | Cumulative temporary differences | Deferred income tax assets/ (liabilities) | Cumulative temporary differences | Deferred income tax assets/ (liabilities) |
| Revaluation of property, plant and equipment | 191.891.201 | (19.225.319) | 196.346.148 | (20.127.565) |
| Difference between carrying values (excluding revaluation reserve) and tax bases of property, plant and equipment and intangible assets | 67.362.098 | (13.659.928) | 59.854.644 | (12.158.437) |
| Difference between carrying value and tax bases of available-for-sale investments | 51.953.496 | (2.336.066) | 57.270.227 | (2.614.391) |
| Unused tax credits (*) | (69.553.957) | 21.109.990 | (59.782.773) | 19.884.538 |
| Provision for employment termination benefits | (16.309.234) | 3.261.847 | (14.322.537) | 2.864.507 |
| Other | 2.942.755 | (588.551) | 1.896.830 | (379.366) |
| Deferred tax assets | | 24.371.837 | | 22.749.045 |
| Deferred tax liabilities | | (35.809.864) | | (35.279.759) |
| Deferred tax liabilities - net | | (11.438.027) | | (12.530.714) |

(*) The Company has investment incentive certificate relating with modernization investment at Şanlıurfa, Eskişehir and İzmir facilities. As of 31 December 2016, 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 TL 21.109.990 (2015: TL19.884.538).

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

| | 2016 | 2015 |
|---|---------------------|---------------------|
| 1 January | (12.530.714) | (4.258.001) |
| Credited to statement of comprehensive income | 504.869 | (2.580.795) |
| Charged to actuarial gain/loss arising from defined benefit plans | 546.766 | 410.838 |
| Charged to fair value reserve of available-for-sale investments | 278.325 | (597.135) |
| Calculated on revaluation fund | - | (3.073.589) |
| Cash refunds of taxes paid in past years (*) | (237.273) | (2.432.032) |
| 31 December | (11.438.027) | (12.530.714) |

(*) The Company has not benefited from the investment incentive related with the investment in Şanlıurfa for 2015 and paid the related corporate tax. During 2016, objection by the Company was concluded and TL 237.273 was received by cash. (31 December 2015: The Company has not benefited from the investment incentive related with the investment in Şanlıurfa for 2013 and paid the related corporate tax. In 2015 the appeal of the Company has accepted and TL 2.432.032 received by cash.)

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 40 - EARNINGS PER SHARE

| | | 1 January - 31 December 2016 | 1 January - 31 December 2015 |
|--|------------|---------------------------------|---------------------------------|
| Profit for the year | A | 60.019.544 | 62.235.907 |
| Weighted average number of shares with a Kr1 face value (Note 31) | B | 4.495.105.125 | 4.495.105.125 |
| Earnings per share with a Kr 1 face value | A/B | 1,3352 | 1,3845 |

There are no differences between basic and diluted earnings per share. Since the General Assembly Meeting of the year 2016 has not been performed yet, dividend distribution decision has not been taken.

NOTE 41 - SHARE BASED PAYMENTS

None (2015: None).

NOTE 42 - INSURANCE CONTRACTS

None (2015: None).

NOTE 43 - REPORTING IN HYPERINFLATIONARY ECONOMIES

Please see Note 2.

NOTE 44 - DERIVATIVE FINANCIAL INSTRUMENTS

None (2015: None).

NOTE 45 - FINANCIAL INSTRUMENTS

Available-for-sale investments:

| | 31 December 2016 | | 31 December 2015 | |
|-----------|-------------------|-------|-------------------|-------|
| | TL | (%) | TL | (%) |
| Pınar Et | 56.686.829 | 12,58 | 61.484.371 | 12,58 |
| Çamlı Yem | 12.577.226 | 5,47 | 13.365.502 | 5,47 |
| Pınar Su | 6.951.719 | 8,77 | 3.871.418 | 8,77 |
| YDT | 580.036 | 1,76 | 581.039 | 1,76 |
| Bintur | 96.910 | 1,33 | 101.755 | 1,33 |
| Other | 19.361 | - | 19.361 | - |
| | 76.912.081 | | 79.423.446 | |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 45 - FINANCIAL INSTRUMENTS (Continued)

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 2016 and 2015 by using the market interest rates and the risk premium specific to unlisted companies within the related sectors. The discount and growth rates used in discounted cash flow models as at 31 December 2016 and 2015 are as follows:

| | Discount rate(%) | | Growth Rate (%) | |
|-----------|------------------|-------|-----------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| Bintur | 19,00 | 11,24 | 1 | 1 |
| YDT | 17,80 | 11,24 | 1 | 0 |
| Çamlı Yem | 15,64 | 8,11 | 2 | 2 |

The movements of available-for-sale investments in 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| 1 January | 79.423.446 | 67.521.088 |
| Contribution to capital increase of available-for-sale investment: | | |
| Pınar Su | 2.805.375 | - |
| Fair value gain/ (loss) | | |
| Pınar Et | (4.797.542) | 11.764.391 |
| Pınar Su | 274.926 | (729.397) |
| YDT | (1.002) | 40.593 |
| Bintur | (4.847) | 13.448 |
| Çamlı Yem | (788.275) | 813.323 |
| 31 December | 76.912.081 | 79.423.446 |

The movements of available-for-sale investments in 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| 1 January | 53.130.359 | 41.825.136 |
| Fair value (loss)/ gain | (5.316.740) | 11.902.358 |
| Deferred income tax on fair value reserve of available-for-sale investments (Note 39) | 278.325 | (597.135) |
| 31 December | 48.091.944 | 53.130.359 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow, and fair value interest rate risk), capital risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets.

Risk management is carried out by the senior management and finance department of the Company under policies approved by Board of Directors. The Board of Directors provides principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and capital risk and closely monitors financial and operational risks (especially arising from meat price fluctuations).

The financial risk management objectives of the Company are defined as follows;

- Safeguarding the Company's core earnings stream from its major assets through the effective control and management of foreign exchange risk and interest rate risk;
- Effective and efficient usage of credit facilities in both the short and long term through the adoption of reliable liquidity management planning and procedures;
- Effective monitoring and minimizing risks sourced from counterparts.

a) Credit risk:

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements and in turn credit risks arises from cash and cash equivalents, deposits in banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Majority of the Company's sales in domestic market are made to its investments in associate, YBP, and its exports are made to YDT which are both Yaşar Group Companies. In line with past experiences and current condition trade receivables are monitored by the Company Management and necessary provisions for impairment is recognized. The Company management believes that credit risk arises from receivables is well managed. The Company management believes that there is no risk for non-trade receivables from related parties since they are mainly comprised of receivables from shareholders. The credit risk analysis of the Company as of 31 December 2016 and 2015 are as follows:

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2016

| | <u>Receivables</u> | | | | |
|---|------------------------------|--------------------------|----------------------------|--------------------------|--------------------------|
| | <u>Trade Receivables (1)</u> | | <u>Other Receivables</u> | | <u>Bank Deposits</u> |
| | <u>Related Parties</u> | <u>Third Parties</u> | <u>Related Parties</u> | <u>Third Parties</u> | |
| Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2) | 173.044.085 | 11.030.678 | 18.029 | 3.977.073 | |
| - The part of maximum credit risk covered with guarantees | - | 948.387 | - | - | - |
| A. Net book value of financial assets not due or not impaired | 162.207.547 | 9.888.826 | 18.029 | 3.977.073 | 433.229 |
| B. Net book value of financial assets whose conditions are renegotiated , otherwise will be classified as past due or impaired (3) | - | - | - | - | - |
| C. Net book value of assets past due but not impaired (4) | 10.836.538 | 1.141.852 | - | - | - |
| - The part covered by guarantees | - | 152.229 | - | - | - |
| D. Net book value of assets impaired | - | - | - | - | - |
| - Past due amount (gross book value) | - | 594.894 | - | - | - |
| - Impairment amount (-) | - | (594.894) | - | - | - |
| - Collateral held as security and guarantees received | - | - | - | - | - |
| - Due amount (gross book value) | - | - | - | - | - |
| - Impairment amount (-) | - | - | - | - | - |
| - Collateral held as security and guarantees received | - | - | - | - | - |
| E. Off-balance items exposed to credit risk | - | - | - | - | - |

(1) Notes 7 and 8.

(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 7 and 8).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2015

| | Receivables | | | | Bank Deposits |
|---|-----------------------|-------------------|--------------------|------------------|------------------|
| | Trade Receivables (1) | | Other Receivables | | |
| | Related Parties | Third Parties | Related Parties | Third Parties | |
| Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2) | 127.333.558 | 10.877.052 | 44.327 | 2.356.962 | 243.740 |
| - The part of maximum credit risk covered with guarantees | - | 238.080 | - | - | - |
| A. Net book value of financial assets not due or not impaired | 123.414.066 | 10.366.130 | 44.327 | 2.356.962 | 243.740 |
| 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) | 3.919.492 | 510.922 | - | - | - |
| - The part covered by guarantees | - | 77.749 | - | - | - |
| D. Net book value of assets impaired | - | - | - | - | - |
| - Past due amount (gross book value) | - | 489.856 | - | - | - |
| - Impairment amount (-) | - | (489.856) | - | - | - |
| - 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 7 and 8.

(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 7 and 8).

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

| 31 December 2016 | Receivables | | |
|--|-------------------|------------------|-------------------|
| | Related Parties | Third Parties | Total |
| Past due 1 - 30 days | 7.213.983 | 1.096.509 | 8.310.492 |
| Past due 1 - 3 months | 3.613.956 | 45.343 | 3.659.299 |
| Past due 1 - 12 months | 8.599 | - | 8.599 |
| <i>The part of credit risk covered with guarantees</i> | - | 152.229 | 152.229 |
| | 10.836.538 | 1.141.852 | 11.978.390 |

| 31 December 2015 | Receivables | | |
|--|------------------|----------------|------------------|
| | Related Parties | Third Parties | Total |
| Past due 1 - 30 days | 3.098.933 | 112.525 | 3.211.458 |
| Past due 1 - 3 months | 559.658 | 398.397 | 958.055 |
| Past due 1 - 12 months | 260.901 | - | 260.901 |
| <i>The part of credit risk covered with guarantees</i> | - | 77.749 | 77.749 |
| | 3.919.492 | 510.922 | 4.430.414 |

b) Liquidity risk:

Prudent liquidity risk management comprises maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of fund providers lines from high quality lenders. In order to maintain liquidity, the Company management closely monitors the timely collection of trade receivables, takes actions to minimize the effect of delay in collections and arranges cash and non-cash credit lines from financial institutions in case of requirement.

31 December 2016

| | Carrying Value | Total Cash outflows | | | |
|------------------------------------|--------------------|---------------------------|------------------------|--------------------|-------------------|
| | | per agreement (=I+II+III) | Less than 3 months (I) | 3 - 12 months (II) | 1 - 5 years (III) |
| Contractual maturity dates: | | | | | |
| Financial Liabilities | | | | | |
| Financial liabilities | 70.786.783 | 82.824.897 | 32.562.155 | 8.573.455 | 41.689.287 |
| Trade payables | 207.961.994 | 208.995.855 | 181.294.877 | 11.698.736 | 16.002.242 |
| Other payables | 28.904.622 | 31.166.884 | 3.009.304 | 28.157.580 | - |
| | 307.653.399 | 322.987.636 | 216.866.336 | 48.429.771 | 57.691.529 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

| | 31 December 2015 | | | | |
|------------------------------------|--------------------|---|------------------------|--------------------|-------------------|
| | 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 | 26.766.519 | 27.457.457 | 2.801.815 | 22.297.111 | 2.358.531 |
| Trade payables | 205.025.473 | 207.016.150 | 179.577.569 | 11.587.920 | 15.850.661 |
| Other payables | 31.122.993 | 33.385.255 | 3.223.498 | 30.161.757 | - |
| | 262.914.985 | 267.858.862 | 185.602.882 | 64.046.788 | 18.209.192 |

c) **Market risk:**

i) **Foreign exchange risk**

The Company is exposed to foreign exchange risks through the impact of rate changes on translation into TL of foreign currency denominated assets and liabilities. The Company minimizes the risk through balancing foreign currency denominated assets and liabilities. These risks are monitored by analyses of the foreign currency position. Current risks are discussed by the Audit Committee and the Board of Directors regularly and the foreign exchange rates relevant to the foreign currency position of the Company are mentioned.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

| | Foreign Currency Position | | | | | | | |
|---|---------------------------|-------------------|---------------------|--------------------------|---------------------|--------------------|---------------------|--------------------------|
| | 31 December 2016 | | | | 31 December 2015 | | | |
| | TL Equivalent | USD | EUR | Other (TL Equivalent) | TL Equivalent | USD | EUR | Other (TL Equivalent) |
| 1. Trade Receivables | 26.228.105 | 7.441.870 | 10.425 | - | 12.990.525 | 4.423.385 | 31.819 | 27.983 |
| 2a. Monetary Financial Assets (Cash, Bank accounts included) | 336.354 | 88.186 | 7.011 | - | 19.963 | 3.948 | 2.670 | - |
| 2b. Non-monetary Financial Assets | - | - | - | - | - | - | - | - |
| 3. Other | - | - | - | - | - | - | - | - |
| 4. Current Asset (1+2+3) | 26.564.459 | 7.530.056 | 17.436 | - | 13.010.488 | 4.427.333 | 34.489 | 27.983 |
| 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) | 26.564.459 | 7.530.056 | 17.436 | - | 13.010.488 | 4.427.333 | 34.489 | 27.983 |
| 10. Trade Payables | 22.145.095 | 930.094 | 5.086.905 | - | 24.728.728 | 3.175.190 | 4.876.808 | - |
| 11. Financial Liabilities | 25.558.244 | 5.997.489 | 1.200.000 | - | 19.269.537 | 6.627.300 | - | - |
| 12a. Monetary Other Liabilities | - | - | - | - | - | - | - | - |
| 12b. Non-monetary Other Liabilities | - | - | - | - | - | - | - | - |
| 13. Short-Term Liabilities 10+11+12 | 47.703.339 | 6.927.583 | 6.286.905 | - | 43.998.265 | 9.802.490 | 4.876.808 | - |
| 14. Trade Payables | 23.197.012 | - | 6.252.732 | - | 26.813.819 | - | 8.438.387 | - |
| 15. Financial Liabilities | - | - | - | - | - | - | - | - |
| 16a. Monetary Other Liabilities | - | - | - | - | - | - | - | - |
| 16b. Non-monetary Other Liabilities | - | - | - | - | - | - | - | - |
| 17. Long-Term Liabilities 14+15+16 | 23.197.012 | - | 6.252.732 | - | 26.813.819 | - | 8.438.387 | - |
| 18. Total Liabilities 13+17 | 70.900.351 | 6.927.583 | 12.539.637 | - | 70.812.084 | 9.802.490 | 13.315.195 | - |
| 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) | (44.335.892) | 602.473 | (12.522.201) | - | (57.801.596) | (5.375.157) | (13.280.706) | 27.983 |
| 21. Net Foreign Currency Asset/(Liability) Position of Monetary Items (TFRS 7.B23) | | | | | | | | |
| (=1+2a+3+5+6a-10-11-12a-14-15-16a) | (44.335.892) | 602.473 | (12.522.201) | - | (57.801.596) | (5.375.157) | (13.280.706) | 27.983 |
| 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 | 126.800.976 | 39.264.196 | 860.041 | 5.388.024 | 123.953.781 | 42.793.555 | 349.395 | 6.799.898 |
| 26. Import | 51.864.880 | - | 15.523.323 | - | 47.090.512 | - | 15.371.931 | - |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2016

Sensitivity Analysis for Foreign Currency Risk

| | Profit/ Loss | | Equity | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Appreciation of foreign currency | Depreciation of foreign currency | Appreciation of foreign currency | Depreciation of foreign currency |
| Change of USD by 10% against TL: | | | | |
| 1- Asset/ Liability denominated in USD – net | 212.022 | (212.022) | 212.022 | (212.022) |
| 2- The part hedged for USD risk (-) | - | - | - | - |
| 3- USD Effect - net (1+2) | 212.022 | (212.022) | 212.022 | (212.022) |
| Change of EUR by 10% against TL: | | | | |
| 4- Asset/ Liability denominated in EUR - net | (4.645.611) | 4.645.611 | (4.645.611) | 4.645.611 |
| 5- The part hedged for EUR risk (-) | - | - | - | - |
| 6- EUR Effect - net (4+5) | (4.645.611) | 4.645.611 | (4.645.611) | 4.645.611 |
| Change of Other Currencies by average 10% against TL: | | | | |
| 7- Assets/ Liabilities denominated in other foreign currencies - net | - | - | - | - |
| 8- The part hedged for other foreign currency risk (-) | - | - | - | - |
| 9- Other Foreign Currency Effect - net (7+8) | - | - | - | - |
| TOTAL (3+6+9) | (4.433.589) | 4.433.589 | (4.433.589) | 4.433.589 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2015

| | 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 average 10% against TL: | | | | |
| 1- Asset/ Liability denominated in USD - net | (1.562.881) | 1.562.881 | (1.562.881) | 1.562.881 |
| 2- The part hedged for USD risk (-) | - | - | - | - |
| 3- USD Effect - net (1+2) | (1.562.881) | 1.562.881 | (1.562.881) | 1.562.881 |
| Change of EUR by average 10% against TL: | | | | |
| 4- Asset/ Liability denominated in EUR - net | (4.220.077) | 4.220.077 | (4.220.077) | 4.220.077 |
| 5- The part hedged for EUR risk (-) | - | - | - | - |
| 6- EUR Effect - net (4+5) | (4.220.077) | 4.220.077 | (4.220.077) | 4.220.077 |
| Change of Other Currencies by average 10% against TL: | | | | |
| 7- Assets/ Liabilities denominated in other foreign currencies - net | 2.798 | (2.798) | 2.798 | (2.798) |
| 8- The part hedged for other foreign currency risk | - | - | - | - |
| 9- Other Foreign Currency Effect - net (7+8) | 2.798 | (2.798) | 2.798 | (2.798) |
| TOTAL (3+6+9) | (5.780.160) | 5.780.160 | (5.780.160) | 5.780.160 |

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 46 - NATURE AND LEVEL OF RISKS DERIVING FROM FINANCIAL INSTRUMENTS (Continued)

ii) Interest rate risk

As of 31 December 2016 and 2015, 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 2016 | 31 December 2015 |
|--|------------------|------------------|
| Financial liabilities | 70.786.783 | 26.766.519 |
| Other payables to related parties | 26.940.123 | 31.122.993 |
| Less: Cash and cash equivalents (Note 6) | (502.652) | (298.719) |
| Net debt | 97.224.254 | 57.590.793 |
| Total equity | 593.338.364 | 587.149.962 |
| Net debt/ equity ratio | 16,39% | 9,81% |

The Company's strategy is to maintain low levels of balance sheet gearing and indebtedness consistent with its conservative financial profile. The Company management regularly monitors the debt/ equity ratio.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 47 - 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 6), trade receivables (Notes 7 and 8) and other receivables (Note 7) 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 4. Financial liabilities (Note 25), other financial liabilities (Note 8), trade payables (Note 8) and other payables (Notes 7) 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 25.

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 MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 47 - 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 2016 and 2015.

31 December 2016

| | Level 1 | Level 2 | Level 3 (*) | Total |
|--------------------------------|-------------------|----------|-------------------|-------------------|
| Assets: | | | | |
| Available-for-sale investments | 63.638.548 | - | 13.273.533 | 76.912.081 |
| Total assets | 63.638.548 | - | 13.273.533 | 76.912.081 |

31 December 2015

| | Level 1 | Level 2 | Level 3 (*) | Total |
|--------------------------------|-------------------|----------|-------------------|-------------------|
| Assets: | | | | |
| Available-for-sale investments | 65.355.789 | - | 14.067.657 | 79.423.446 |
| Total assets | 65.355.789 | - | 14.067.657 | 79.423.446 |

(*) As of 31 December 2016 and 2015, there is no transfer between the levels 1 and 2. Please see Note 45 for the movement of Level 3 financial instruments.

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

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2016

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

NOTE 47 - 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 2016 and 2015;

31 December 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|---------|--------------------|---------|--------------------|
| Tangible Assets: | | | | |
| Land | - | 136.679.902 | - | 136.679.902 |
| Buildings and land improvements | - | 88.318.740 | - | 88.318.740 |
| Machinery and equipment | - | 222.693.884 | - | 222.693.884 |
| Total assets | - | 447.692.526 | - | 447.692.526 |

31 December 2015

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|---------|--------------------|---------|--------------------|
| Tangible Assets: | | | | |
| Land | - | 136.679.902 | - | 136.679.902 |
| Buildings and land improvements | - | 90.988.108 | - | 90.988.108 |
| Machinery and equipment | - | 210.082.619 | - | 210.082.619 |
| Total assets | - | 437.750.629 | - | 437.750.629 |

NOTE 48 - SUBSEQUENT EVENTS

None (2015: None).

NOTE 49 - OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR BE EXPLAINED FOR THE CLEAR UNDERSTANDING OF THE FINANCIAL STATEMENTS

None (2015: None).

.....