PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

FINANCIAL STATEMENTS
AT 1 JANUARY - 31 DECEMBER 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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

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

INDEPENDENT AUDITOR'S REPORT

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

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Pınar Süt Mamülleri Sanayii A.Ş. (the "Company"), which comprise the statement of financial position as at 31 December 2018 and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements comprising a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

2. Basis for Opinion

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

3. Key Audit Matters

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

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Key audit matter	How our audit addressed the key audit matter
Fair value measurements land and land improvements, buildings, machinery and equipment: **(Refer to the Notes 2.7.4 and 10)** In accordance with TAS 16, "Property, Plant and Equipment", land and land improvements, buildings, machinery and equipment are measured at fair value on the financial statements The fair values of land and land improvements and buildings as at 31 December 2018, and determined based on valuations by an independent professional valuer as of 31 December 2017. As a result of Company management assessment with another external independent professional valuer, the carrying amount of land and land improvements and buildings are assumed to approximate their fair values as of 31 December 2018 after deducting current year depreciation. On the other hand, as the carrying values of machinery and equipment as at 31 December 2018 differs materially from their fair values, the Company management had an independent professional valuer for the valuation of the machinery and equipment as of the same date. Based on the valuations performed by independent professional valuer as at 31 December 2018, the carrying values of the machinery and equipment before tax increased by TRY110 million. Increases in the carrying amount arising on the revaluation of machinery and equipment are credited to the revaluation reserve in equity, net of applicable deferred income tax in the financial position. The assessment of the carrying values of property, plant and equipment was a key audit matter since the total amount of property, plant and equipment as of 31 December 2018 represents a significant share of the total assets of the Company, and these valuations include significant estimations and assumptions.	The following audit procedures were addressed in our audit work on the fair value measurement of property, plant, equipment: • We assessed the competency, capability and objectivity of the independent professional valuers who were appointed by Company management, in accordance with relevant audit standards. • The frequency of revaluation was evaluated in accordance with the relevant audit standards by taking into consideration of the conditions and periods seth forth in TAS 16. • Estimates and assumptions of the Company management are considered together with our external expert in accordance with the relevant auditing standards to ensure that the carrying values of land, land improvements and buildings as of 31 December 2018 approximate to their fair values. • We checked and confirmed completeness, and reconciled the input data on a sample basis, used by the independent professional valuers with the Company's records. • In accordance with the provisions of "ISA 620: Use of Work of Expert" standard, we got our auditor expert involved on a sample basis to evaluate the assumptions and methods used by the Company management and the independent professional valuers who were appointed by the Company management. • The compliance of the disclosures of fair value determination of related assets in the financial statements in accordance with the relevant accounting financial reporting standards were evaluated.

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

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

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

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

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

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

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 28 February 2019.

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

ORIGINAL COPY ISSUED AND SIGNED IN TURKISH

Mehmet Karakurt,
Partner

İstanbul, 28 February 2019

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PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS) AT 31 DECEMBER 2018 AND 2017

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

	Notes	31 December 2018	31 December 2017
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	4	1,193,004	1,329,702
Trade Receivables		292,348,136	250,218,193
- Trade Receivables from Related Parties	5	283,012,940	237,729,307
- Trade Receivables from Third Parties	6	9,335,196	12,488,886
Other Receivables		6,517,360	8,940,609
- Other Receivables from Related Parties	5	83,399	1,264,623
- Other Receivables from Third Parties	7	6,433,961	7,675,986
Inventories	8	169,199,697	145,837,859
Prepaid Expenses	9	3,451,261	4,538,093
- Prepaid Expenses to Third Parties		3,451,261	4,538,093
Current Income Tax Assets	25	-	171,581
Other Current Assets	18	35,429,115	26,141,384
- Other Current Assets from Third Parties		35,429,115	26,141,384
TOTAL CURRENT ASSETS		**508,138,573**	**437,177,421**
NON-CURRENT ASSETS			
Financial Investments		46,114,555	73,682,096
Other Receivables		13,359	13,359
- Other Receivables from Third Parties	7	13,359	13,359
Investments in Associates Accounted for Using Equity Method	3	83,320,562	72,476,747
Property, Plant and Equipment	10	751,713,962	614,771,847
- Land		162,713,500	162,713,500
- Land Improvements		13,344,008	13,860,000
- Buildings		80,397,486	79,739,500
- Machinery, Plant and Equipment		449,717,529	319,726,099
- Vehicles		501,615	399,442
- Furniture and Fixtures		10,659,698	11,779,410
- Construction in Progress		34,380,126	26,553,896
Intangible Assets	11	2,826,000	1,926,208
- Other Intangible Assets		2,826,000	1,926,208
Prepaid Expenses	9	269,783	1,492,836
- Prepaid Expenses to Third Parties		269,783	1,492,836
TOTAL NON-CURRENT ASSETS		**884,258,221**	**764,363,093**
TOTAL ASSETS		**1,392,396,794**	**1,201,540,514**

The financial statements at 31 December 2018 and for the year then ended have been approved for issue by Board of Directors of Pınar Süt Mamülleri Sanayii A.Ş. on 28 February 2019. General Assembly and specified regulatory bodies have the right to make amendments after statutory financial statements issued.

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

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

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

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

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

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF FINANCIAL POSITIONS (BALANCE SHEETS) AT 31 DECEMBER 2018 AND 2017

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

	Notes	31 December 2018	31 December 2017
EQUITY			
Equity Attributable to Owners of the Parent Company		**781,440,229**	**690,165,850**
Share Capital	19	44,951,051	44,951,051
Adjustment to Share Capital	19	16,513,550	16,513,550
Other Comprehensive Income/ (Expense) not to be Reclassified to Profit or Loss		352,043,990	253,424,549
- Gain/ (Loss) on Revaluation and Remeasurement		327,487,629	251,904,848
- Increase/ (Decrease) on Revaluation of Property, Plant and Equipment	10	338,600,210	261,716,422
- Actuarial Gain/ (Loss) Arising from Defined Benefit Plans		(11,112,581)	(9,811,574)
- Share of Other Comprehensive Income of Investment-in-Associates Accounted for Using Equity Method that will not be Reclassified to Profit or Loss		5,838,102	1,519,701
- Fair value gain of financial assets measured through other comprehensive income	27	18,718,259	-
Other Comprehensive Income/ (Expense) to be Reclassified to Profit or Loss		7,797,614	56,943,935
- Gain on Revaluation and Classification		-	44,991,591
- - Fair value gain of financial assets measured through other comprehensive income	27	-	44,991,591
- Share of Other Comprehensive Income of Investment-in-Associates Accounted for Using Equity Method that will be Reclassified to Profit or Loss		7,797,614	11,952,344
Reserves on Retained Earnings		60,800,423	59,129,038
- Legal Reserves	19	60,800,423	59,129,038
Distribution to shareholders		(5,537,877)	(5,537,877)
Retained Earnings		255,655,173	217,659,060
Net Profit for the Year		49,216,305	47,082,544
TOTAL EQUITY		**781,440,229**	**690,165,850**
TOTAL LIABILITIES		**1,392,396,794**	**1,201,540,514**

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
NSTATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE PERIODS 1 JANUARY - 31 DECEMBER 2018 AND 2017

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

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
OTHER COMPREHENSIVE INCOME			
Items not to be Reclassified to Profit or Loss		**48,554,829**	**93,929,101**
Increase in Revaluation of Property, Plant and Equipment	10	110,110,531	120,327,212
Fair value gain of financial assets measured through other comprehensive income	27	(27,567,542)	-
Change in Tax Rates	10	-	(6,304,836)
Share of Other Comprehensive Income of Associates Accounted for Using Equity Method that will not be Reclassified to Profit or Loss		(11,959,257)	2,210,410
- Gains (Losses) on Remeasurements of Defined Benefit Plans of Associates Accounted for Using Equity Method	3	(361,757)	(305,721)
- Revaluation Increases (Decreases) of Property, Plant and Equipments of Associates Accounted for Using Equity Method	3	(11,597,500)	2,516,131
Actuarial Gain/ Loss Arising from Defined Benefit Plans	16	(1,626,259)	(1,052,004)
Taxes Relating to Other Comprehensive Income that will not be Reclassified to Profit or Loss		(20,402,644)	(21,251,681)
- Gains on Revaluation of Property, Plant and Equipment, Tax Effect	25	(22,022,106)	(21,462,083)
- Fair value gain of financial assets measured through other comprehensive income, Tax Effect	25	1,294,210	-
- Actuarial Gain/ (Loss) Arising from Defined Benefit Plans, Tax Effect	25	325,252	210,402
Items to be Reclassified to Profit or Loss		**3,347,737**	**(888,702)**
Gains (Losses) on Remeasuring or Reclassification Adjustments on Available-for-sale Financial Assets	27	-	(3,229,985)
Share of Other Comprehensive Income of Associates Accounted for Using Equity Method that will be Reclassified to Profit or Loss		3,347,737	2,211,651
- Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets	3	-	446,436
- Gains (losses) on Foreign Currency Translation Differences of Associates Accounted for Using Equity Method	3	3,347,737	1,765,215
Taxes Relating to Other Comprehensive Income that will be Reclassified to Profit or Loss		-	129,632
- Gains (Losses) on Revaluation and/or Reclassification of Available-for-sale Financial Assets, Tax Effect	25	-	129,632
OTHER COMPREHENSIVE INCOME		**51,902,566**	**93,040,399**
TOTAL COMPREHENSIVE INCOME		**101,118,871**	**140,122,943**

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED AT 31 DECEMBER 2018 AND 2017

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

			Other Comprehensive Income/ (Expense) not to be Reclassified to Profit or Loss				Other 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	Fair value gain of financial assets measured through other comprehensive income	Share of other comprehensive income of investments accounted for using equity method that will not be reclassified to profit and loss	Gain/ (Loss) on revaluation or reclassification adjustments 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	Distribution to shareholders	Retained earnings	Net profit for the year	Total equity
Previous Period													
1 January - 31 December 2017													
Balance at 1 January 2017	**44,951,051**	**16,513,550**	**172,665,882**	**(8,969,972)**	**-**	**(566,598)**	**48,091,944**	**9,740,693**	**55,024,248**	**(5,537,877)**	**201,405,899**	**60,019,544**	**593,338,364**
Transfers	-	-	(3,509,753)	-	-	(124,111)	-	-	-	-	63,653,408	(60,019,544)	-
Total Comprehensive Income	-	-	92,560,293	(841,602)	-	2,210,410	(3,100,353)	2,211,651	-	-	-	47,082,544	140,122,943
- Profit for The Year	-	-	-	-	-	-	-	-	-	-	-	47,082,544	47,082,544
- Other Comprehensive Income/ (Loss)	-	-	92,560,293	(841,602)	-	2,210,410	(3,100,353)	2,211,651	-	-	-	-	93,040,399
Dividends	-	-	-	-	-	-	-	-	4,104,790	-	(47,400,247)	-	(43,295,457)
Balance at 31 December 2017	**44,951,051**	**16,513,550**	**261,716,422**	**(9,811,574)**	**-**	**1,519,701**	**44,991,591**	**11,952,344**	**59,129,038**	**(5,537,877)**	**217,659,060**	**47,082,544**	**690,165,850**
Current Period													
1 January - 31 December 2018													
Balance at 1 January 2018	**44,951,051**	**16,513,550**	**261,716,422**	**(9,811,574)**	**-**	**1,519,701**	**44,991,591**	**11,952,344**	**59,129,038**	**(5,537,877)**	**217,659,060**	**47,082,544**	**690,165,850**
Restatements to mandatory changes in accounting policies (Note 2) TFRS 9 impact due to policy change, net	-	-	-	-	44,991,591	16,619,368	(44,991,591)	(7,502,467)	-	-	-	-	9,116,901
Restated balances	**44,951,051**	**16,513,550**	**261,716,422**	**(9,811,574)**	**44,991,591**	**18,139,069**	**-**	**4,449,877**	**59,129,038**	**(5,537,877)**	**217,659,060**	**47,082,544**	**699,282,751**
Transfers	-	-	(11,204,637)	-	-	(341,710)	-	-	-	-	58,628,891	(47,082,544)	-
Total Comprehensive Income	-	-	88,088,425	(1,301,007)	(26,273,332)	(11,959,257)	-	3,347,737	-	-	-	49,216,305	101,118,871
- Profit for The Year	-	-	-	-	-	-	-	-	-	-	-	49,216,305	49,216,305
- Other Comprehensive Income/ (Loss)	-	-	88,088,425	(1,301,007)	(26,273,332)	(11,959,257)	-	3,347,737	-	-	-	-	51,902,566
Dividends	-	-	-	-	-	-	-	-	1,671,385	-	(20,632,778)	-	(18,961,393)
Balance at 31 December 2018	**44,951,051**	**16,513,550**	**338,600,210**	**(11,112,581)**	**18,718,259**	**5,838,102**	**-**	**7,797,614**	**60,800,423**	**(5,537,877)**	**255,655,173**	**49,216,305**	**781,440,229**

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2018 AND 2017

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

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

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2018 AND 2017

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

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

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

NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

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

96% (2017: 96%) of sales and distribution of the Company's products in the domestic market are performed by its investment-in-associate, Yaşar Birleşik Pazarlama Dağıtım Turizm ve Ticaret A.Ş. ("YBP"), and substantial portion of its exports are performed by Yaşar Dış Ticaret A.Ş., ("YDT") which are both Yaşar Group companies (Note 5).

The Company is subject to the regulations of the Capital Market Board ("CMB") and 37.95% (2017: 37.95%) of its shares are quoted on the Borsa Istanbul ("BIST"). The ultimate parent of the Company is Yaşar Holding A.Ş. ("Yaşar Holding") with 61.41% shares of the Company (2017: 61.41%) (Note 19).

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

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

Yunus Emre Mah. Kemalpaşa Cad. No: 317
Bornova/ İzmir

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of Presentation of Financial Statements

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

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

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

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

2.2 Amendments in Turkish Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2018:

- **TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The effects of the standard change are explained in Note 2.7.2.

- **TFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The effects of the standard change are explained in Note 2.7.1.

- **Annual improvements 2014 - 2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - TFRS 1, 'First time adoption of TFRS', regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
  - TAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- **TFRSI 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This TFRSI addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b) New standards, amendments and interpretations issued and effective as of 31 December 2018 have not been presented since they are not relevant to the operations of the Company or have insignificant impact on the financial statements.

c) Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:

- **Amendment to TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from TAS 39.

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

- **Amendment to TAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

- **TFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if TFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in TAS 17 and is a farreaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

  - TFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - TFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - TAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
  - TAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

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

- **Amendments to TAS 19, 'Employee benefits'** on plan amendment, curtailment or settlement'; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

  - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

- **Amendments to TAS 1 and TAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to TAS 1, 'Presentation of financial statements',and TAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other TFRSs:

  - use a consistent definition of materiality throughout TFRSs and the Conceptual Framework for Financial Reporting;
  - clarify the explanation of the definition of material; and
  - incorporate some of the guidance in TAS 1 about immaterial information.

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

2.3 Basis of consolidation

The Company does not have any subsidiary to be consolidated in the financial statements. The investments in associates are accounted for using the equity method. These are undertakings over which the Company has between 20% and 50% of the voting rights, or over which the Company has significant influence but not control. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

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

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

The carrying value of the investment in associate which is accounted for using equity method is tested for impairment according to the policy described in Note 2.7.6.

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

	Share/Voting Right (%)	
	2018	**2017**
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

Foreign currency translation

Transactions and balances

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

Translation of financial statements of foreign associate

Financial statements of the investment-in-associate operating in Germany (Pınar Foods) are prepared according to the legislation of the country in which it operates, and adjusted to the financial reporting standards issued by the CMB. The assets and liabilities of foreign associate are translated into TL from the foreign exchange rates at the balance sheet date. The income and expenses of foreign associate are translated into TL at the average foreign exchange rates. As of 31 December 2018, equivalent of 1 Euro is TL6.0280 (2017: TL4.5155) and for the year then ended the average equivalent of 1 EUR TL5.6581 (2017: TL4.1180). Exchange differences arising from re-translation of the opening net assets of investments-in-associate and the differences between the average and year-end rates are included in the "currency translation reserve" under the equity as a separate component.

Functional and presentation currency

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

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

2.4 Offsetting

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

2.5 Comparative Information

The Company prepared its financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Company prepared its balance sheet at 31 December 2018 on a comparative basis with balance sheet at 31 December 2017; and statements of comprehensive income, cash flows and changes in equity for the period of 1 January - 31 December 2017 on a comparative basis with financial statements for the period of 1 January - 31 December 2017.

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

Transition to TFRS 15 "Revenue from contracts with customers"

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

Transition to TFRS 9, 'Financial instruments';

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

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

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

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

Financial liabilities	**Original classification under IAS 39**	**New classification under IFRS 9**
Borrowings	Amortized cost	Amortized cost
Trade payables	Amortized cost	Amortized cost
Derivative instruments	Fair value through statement of profit or loss	Fair value through statement of profit or loss
Other payables	Amortized cost	Amortized cost

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

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

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

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

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

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

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

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

2.6 Change in the useful lives of tangible assets

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

2.7 Summary of Significant Accounting Policies

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

2.7.1 Revenue recognition

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

The Company recognizes revenue based on the following main principles:

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

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

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

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

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

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

Revenue from sale of goods

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

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

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

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

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

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

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

2.7.2 Financial assets

Classification and measurement

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

(a) Financial assets carried at amortized cost

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

Impairment

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

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

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

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

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

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

2.7.3 Inventories

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

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

2.7.4 Property, plant and equipment

Property, plant and equipment except for land, land improvements and buildings and machinery and equipment are stated at cost less accumulated depreciation and if exists provisions. Land, land improvements and buildings as of 31. December 2018 and machinery and equipment as of 31 December 2017 are stated at fair value less accumulated depreciation, based on valuations made by external independent expert TSKB Gayrimenkul Değerleme A.Ş. (Note 10). Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the relevant asset and the net amount is restated to the revalued amount of the asset.

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

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

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

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

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

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

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

Subsequent costs are included in the asset's carrying value recognised as seperate 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 anda re included in the related income and expense accounts, as appropriate (Note 23). On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the to retained earnings.

2.7.5 Intangible assets

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

Costs associated with maintaining computer software programs are recognized as an expense when incurred. Gain or losses on disposals or on impairments of intangible assets with respect to their amounts are included in the related income and expense accounts. Residual values of intangible assets are deemed as negligible. Intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

For the purpose of assessing impairment, intangible assets are the Companied at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less cost to sell or value in use.

2.7.6 Impairment of assets

Impairment of non-financial assets:

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

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

2.7.7 Borrowing and borrowing cost

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

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

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

2.7.8 Business combination

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

2.7.9 Earning per share

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

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

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

2.7.10 Subsequent events

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

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

2.7.11 Provisions, contingent liabilities and contingent assets

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

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

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

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

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

ii. Provision for profit sharing and bonus plans

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

2.7.12 Accounting policies, errors and change in accounting estimates

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

2.7.13 Related parties

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

a) A person or a close member of that person's family is related to a reporting entity if that person

- i) has control or joint control over the reporting entity
- ii) has significant influence over the reporting entity, or
- iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

b) An entity is related to a reporting entity if any of the following conditions applies:

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

2.7.14 Segment reporting

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

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

2.7.15 Leases

(1) The Company as the lessee

Finance Leases

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

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

Operating Leases

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

(2) The Company as the lesser

Operating leases

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

2.7.16 Taxation on income

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

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

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

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

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

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

2.7.17 Statement of cash flow

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

2.7.18 Share capital and dividends

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

2.7.19 Government grants and incentive

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

2.7.20 Research and development expenses

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

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

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

2.7.21 Going concern

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

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

2.7.22 Critical accounting estimates and judgments

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

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

Revaluations are performed with the sufficient regularity to ensure that the carrying amounts of the revalued property, plant and equipment do not differ materially from that which would be determined using fair value at the end of the reporting periods. The frequency of the revaluation depends upon the changes in the fair values of the items of property, plant and equipment. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required and revaluation is performed for entire class of revalued item simultaneously. Besides, for items of property, plant and equipment with only insignificant changes in fair value yearly revaluations and fair value measurements are considered unnecessary.

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

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

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

- Revaluation of investment property was based on the method of reference by considering highest and best use approach.

- Regarding the valuation of the machinery and equipment, technologic conditions, actual depreciation, commercial attributes and industrial positions as well as demounting and assembling costs were taken into account. Valuation assessment was performed based on all the active and functioning assets in the integrated plant due to valuation of a a fully integrated industrial plant. Such machinery and equipment were reviewed and assessed by their line.

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

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

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

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

2.8 Compliance declaration to resolutions published by POAASA and TFRS

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

NOTE 3 - INTERESTS IN OTHER ENTITIES

Investments in associates:

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

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

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

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

NOTE 3 - INTERESTS IN OTHER ENTITIES (Continued)

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

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

	31 December 2017				
	Assets	**Liabilities**	**Net Sales**	**Net Profit**	**Other Comprehensive Income/(Expense)**
- YBP	519,969,805	365,990,246	1,805,583,299	11,861,282	4,231,228
- Desa Enerji	54,259,637	8,346,540	53,102,539	2,894,294	4,272,192
- Pınar Foods	22,536,552	345,526	63,683,911	564,317	3,927,631

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

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

NOTE 4 - CASH AND CASH EQUIVALENTS

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

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

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

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

NOTE 5 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Due from and due to related parties and the transactions with related parties as of and for the years ended 31 December 2018 and 2017 are as follows:

i) Balances with related parties:

a) Short - term trade receivables from related parties:

	31 December 2018	31 December 2017
YBP	227,523,377	206,406,601
YDT	55,489,563	31,322,706
	283,012,940	**237,729,307**

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

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

b) Other short - term receivables from related parties:

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

c) Short - term trade payables to related parties:

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

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

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

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

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

d) Other short-term payables to related parties:

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

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

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

ii) Transaction with related parties:

a) Product sales:

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

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

b) Service sales:

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2018

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

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

c) Other income from operating activities:

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

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

d) Dividends received:

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

(*) Investment in associate (Note 3).

e) Other expenses from operating activities:

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

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

f) Product purchases:

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

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

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

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

g) Service purchase:

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

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

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

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

i) Financial income from related parties:

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

The majority of finance income consists of bail commission charges amounting to TL2,470,088 (2017: TL1,824,409), for the borrowings obtained by the Yaşar Group Companies from international capital markets and various financial institutions with the guarantee of the Company (Note 24.a). The commission rates of bail and financing used in the associated intercompany charges is 0.50% p.a. (2017: 0.50% p.a.).

j) Dividends to related parties:

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

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

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

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

k) Donations:

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

l) Financial expenses from related parties:

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

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

m) Key management compensation:

Key management includes members of Board of Directors and directors. The compensation paid or payable to key management is shown below:

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

The portion of total short-term benefits amounting to TL1,880,000 (31 December 2017: TL2,390,000) consists of Board of Directors appropriation according to the decision taken at the Ordinary Meeting of the General Assembly.

n) Bails given to related parties:

As of 31 December 2018 Pınar Et, YBP, Çamlı Yem and DYO Boya have provided joint and several guarantee to Yaşar Holding; for its Eurobond issued in international markets at 6 November 2014, amounting to USD250,000 thousands equivalent of TL1,315,225,000 (31 December 2017: USD250,000 thousands equivalent of TL942,975,000) due 6 May 2020. An Indemnity Agreement was signed between Yaşar Holding and the above mentioned guarantors on 3 November 2014, which states that in an occurrence of an event where a guarantor makes a payment related with the guarantee provided; Yaşar Holding will indemnify the paying guarantor. If Yaşar Holding fails to indemnify the paying guarantor, each of the guarantors will indemnify the paying guarantor by 1/5 of the payment amount.

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

o) Bails received from related parties:

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

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

a) Short - term trade receivables from third parties:

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

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

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

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

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

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

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NOTE 6 - TRADE RECEIVABLES AND PAYABLES (Continued)

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

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

b) Short - term trade payables to third parties:

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

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

c) Long - term trade payables to third parties:

Supplier current accounts	**49,739,044**	**45,819,864**

Long-term trade payables to third parties are comprised of payables regarding property, plant and equipment purchases that are amounting to EUR8,251,335 as of 31 December 2018 (31 December 2017: EUR10,147,240)

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

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

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

NOTE 7 - OTHER RECEIVABLES AND PAYABLES

a) Other short-term receivables from third parties:

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

b) Other short-term payables to third parties:

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

c) Other long-term receivables from third parties:

Deposits and guarantees given	13,359	13,359
	13,359	**13,359**

NOTE 8 – INVENTORIES

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

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

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

NOTE 9 - PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2018	31 December 2017
a) Short - term prepaid expenses to third parties:		
Prepaid expenses	3,110,021	4,244,544
Advances given	341,240	293,549
	3,451,261	**4,538,093**

b) Long - term prepaid expenses to third parties:

	31 December 2018	31 December 2017
Advances given	269,783	1,492,836
	269,783	**1,492,836**

c) Short - term deferred income from third parties:

Advances given	2,391,616	23,189
	2,391,616	**23,189**

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and accumulated depreciation between 1 January and 31 December 2018 were as follows:

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

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

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	1 January 2017	Additions	Disposals	Transfers	Accumulated Depreciation Netting Before Valuation	Revaluation Increasing	31 December 2017
Cost or revaluation:							
Land	136,679,902	-	-	-	-	26,033,598	162,713,500
Land improvements and buildings	92,470,989	1,141,316	(283,021)	8,590	(8,226,474)	8,488,100	93,599,500
Machinery, plant and equipment	238,763,486	19,873,572	(2,214,608)	11,092,858	(33,594,723)	85,805,514	319,726,099
Motor vehicles	6,984,631	-	(210,228)	-	-	-	6,774,403
Furniture and fixtures	54,920,626	2,224,954	(434,301)	-	-	-	56,711,279
Construction in progress	7,000,679	30,654,665	-	(11,101,448)	-	-	26,553,896
	536,820,313	**53,894,507**	**(3,142,158)**	**-**	**(41,821,197)**	**120,327,212**	**666,078,677**
Accumulated depreciation:							
Land improvements and buildings	(4,152,249)	(4,182,221)	107,996	-	8,226,474	-	-
Machinery, plant and equipment	(16,069,602)	(18,369,214)	844,093	-	33,594,723	-	-
Motor vehicles	(6,493,884)	(91,304)	210,227	-	-	-	(6,374,961)
Furniture and fixtures	(42,194,334)	(3,171,837)	434,302	-	-	-	(44,931,869)
	(68,910,069)	**(25,814,576)**	**1,596,618**	**-**	**41,821,197**	**-**	**(51,306,830)**
Net book value	**467,910,244**						**614,771,847**

As of 31 December 2017, main additions to property, plant and equipment are comprised of investments related to machinery and equipment and furniture and fixtures.

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

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (Continued)

There are no mortgages or other collaterals placed on property, plant and equipment as of 31 December 2018 (2017: None).

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

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

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

The carrying amounts of each class of property, plant and equipment that would have been recognized if the assets have been carried under the cost model at 31 December 2018 and 2017 are as follows:

	Land	Land improvements and buildings	Machinery and equipment
31 December 2018:			
Cost	9,059,482	74,367,201	370,814,636
Less: Accumulated depreciation	-	(21,807,580)	(113,619,242)
Net book value	**9,059,482**	**52,559,621**	**257,195,394**
31 December 2017:			
Cost	9,059,482	73,348,079	333,262,465
Less: Accumulated depreciation	-	(20,212,549)	(100,458,544)
Net book value	**9,059,482**	**53,135,530**	**232,803,921**

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

NOTE 11 - INTANGIBLE ASSETS

The movements of intangible assets and related accumulated amortization for the years ended31 December 2018 and 2017 were as follows:

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

	1 January 2017	Additions	31 December 2017
Costs:			
Rights	12,231,779	576,422	12,808,201
Construction in progress	-	593,295	593,295
Less: Accumulated amortization	(10,946,054)	(529,234)	(11,475,288)
Net book value	**1,285,725**		**1,926,208**

NOTE 12 - GOVERNMENT GRANTS AND INCENTIVES

During 2018, in scope of Turquality Project implemented by Undersecreteriat of Foreign Trade to support brandization of products made in Turkey in foreign markets and to settle the image of Turkish goods, the Company was provided TL833,034 (2017: TL395,032) government incentive. As of 31 December 2018, the company has incentive accrual amounting to TL3,675,970 (31 December 2017: TL2,355,398).

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

NOTE 13 - BORROWINGS AND BORROWING COSTS

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

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

NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

a) Borrowings:

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

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

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

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

NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

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

The redemption schedule of long-term borrowings at 31 December 2018 and 2017 is as follows:

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

31 December 2018 and 2017 are prepared in accordance with the Company's variable interest rate and the fixed rate renewal date net financial debt maturity breakdown is as follows:

31 December 2018:

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

31 December 2017:

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

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

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

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

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

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

NOTE 13 - BORROWINGS AND BORROWING COSTS (Continued)

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

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

NOTE 14 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

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

As of 31 December 2018 Pınar Et, YBP, Çamlı Yem and DYO Boya have provided joint and several guarantee to Yaşar Holding; for its Eurobond issued in international markets at 6 November 2014, amounting to USD250,000 thousands equivalent of TL1,315,225,000 (31 December 2017: USD250,000 thousands equivalent of TL942,975,000) due 6 May 2020. An Indemnity Agreement was signed between Yaşar Holding and the above mentioned guarantors on 3 November 2014, which states that in an occurrence of an event where a guarantor makes a payment related with the guarantee provided; Yaşar Holding will indemnify the paying guarantor. If Yaşar Holding fails to indemnify the paying guarantor, each of the guarantors will indemnify the paying guarantor by 1/5 of the payment amount.

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

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

The collaterals, pledges and mortgages ("CPM") position of the Company for the years ended 31 December 2018 and 2017 were as follows:

	31 December 2018			31 December 2017		
	Currency	**Amount**	**TL Equivalent**	**Currency**	**Amount**	**TL Equivalent**
The CPMs given by the Company:						
A. Total amount of CPM given for the Company's own legal personality			**50,381,694**			**62,623,308**
	TL	24,041,315	24,041,315	TL	31,856,598	31,856,598
	USD	5,006,820	26,340,379	USD	8,156,820	30,766,710
B. Total amount of CPM given on behalf of fully consolidated companies		-	-	-	-	-
C. Total amount of CPM given for continuation of its economic activities on behalf of third parties		-	-	-	-	-
D. Total amount of other CPM			**1,315,225,000**			**942,975,000**
i. Total amount of CPM given on behalf of the majority shareholder			**1,315,225,000**			**942,975,000**
	USD	250,000,000	1,315,225,000	USD	250,000,000	942,975,000
ii. Total amount of CPM given to behalf of other the Company companies which are not in scope of B and C		-	-		-	-
iii. Total amount of CPM given on behalf of third parties which are not in scope of C			-	-	-	-
TOTAL			**1,365,606,694**			**1,005,598,308**
The ratio of total amount of other CPM to Equity			168%			137%

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

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

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

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

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

Guarantees received	EUR	459,508
	USD	480,717

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

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

c) Major litigations

Ministry of Finance has carried out a tax inspection against the Company and charged tax penalties amounting to total of TL3,835,663 comprising of TL1,723,468 VAT penalties and TL2,112,195 tax loss penalties for the transactions in fiscal years between 2006 and 2011. The Company applied to İzmir 2nd Tax Court for cancellation of those tax penalties and except for the lawsuit regarding inconsistency, however they were lost. The Company appealed to a higher court to suspend the execution within the legal time and Supreme Court granted a motion for stay of execution in favor of the Company. It was subsequently decided by the Supreme Court that the decision of the court be dismissed in favor of the Company as well. The defendant administration requested to Supreme Court for correction of the decision on dismissal. In this context, the legal counselor of the Company believe that the likelihood of the rejection of the correction request by the Supreme Court is highly probable and the local court is expected to re-examine the file and decide accordingly. On the other hand, the previous suspension decree delivered by the court was removed and the penalty was annulled in the lawsuit filed in the Izmir 3rd Tax Court by the Company against the penalty subsequently given as a result of the tax assessment made in 2011. The Company management and legal counselor of the Company believe that the likelihood of losing the cases is considered to be remote. As a result, no provision was accounted for in the financial statements as of 31 December 2018.

NOTE 15 - COMMITMENTS

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

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

NOTE 16 - EMPLOYEE BENEFITS

a) Payables related to employee benefits:

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

b) Short-term provisions for employee benefits:

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

c) Long-term provisions for employee benefits:

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

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

The amount payable consists of one month's salary limited to a maximum of TL5,434.42 for each year of service as of 31 December 2018 (31 December 2017: TL4,732.48). The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees with certain actuarial assumptions.

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The maximum amount of TL6,107.60 which is effective from 1 January 2019 (1 January 2018: TL5,001.76) has been taken into consideration in calculating the provision for employment termination benefits of the Company which is calculated once in every six months.

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

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

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

NOTE 16 - EMPLOYEE BENEFITS (Continued)

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

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

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

NOTE 17 - EXPENSES BY NATURE

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

NOTE 18 - OTHER ASSETS AND LIABILITIES

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

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

NOTE 18 - OTHER ASSETS AND LIABILITIES (Continued)

b) Other current liabilities to third parties:

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

NOTE 19 - SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

The Company adopted the registered share capital system available to companies registered to the CMB and set a limit on its registered share capital representing registered type shares with a nominal value of Kr1. The Company's historical authorized registered capital at 31 December 2018 and 2017 is as follows:

	31 December 2018	31 December 2017
Registered share capital (historical values)	80,000,000	80,000,000
Authorized registered share capital with a nominal	44,951,051	44,951,051

The compositions of the Company's share capital at 31 December 2018 and 2017 were as follows:

	31 December 2018		31 December 2017	
Shareholder	**Share (%)**	**(TL)**	**Share (%)**	**(TL)**
Yaşar Holding (A,B,C)	61.41	27,603,901	61.41	27,603,901
Public quotation (C)	37.95	17,060,367	37.95	17,060,367
Other	0.64	286,783	0.64	286,783
Share capital	**100.00**	**44,951,051**	**100.00**	**44,951,051**
Adjustment to share capital		16,513,550		16,513,550
Total paid-in capital		**61,464,601**		**61,464,601**

Adjustment to share capital amounting to TL16,513,550 (2017: TL16,513,550) represents the remaining amount after net-off the accumulated losses of 2003 from the difference between restated (inflation adjusted) share capital and historical cost of share capital (before inflation adjustment).

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

As of 31 December 2018, there are 4,495,105,125 (2017: 4,495,105,125) units of shares each with a face value of Kr1 each.

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

The Company's capital is composed of 172,800 units of A type shares and 126,000 units of B type shares and 4,494,806,325 units of C type shares, and the C type shares are traded on the ISE. Based on the Company's Articles of Association, the Board of Directors comprises five to nine members elected by the General Assembly from the Company's shareholders or from outside the Company personnel, in accordance with the provisions of the Turkish Commercial Code and the CMB Regulation. In the event the Board of Directors comprises of five members, three are elected from among candidates nominated by shareholders bearing A type shares, one from those nominated by shareholders bearing B type shares and one from those nominated by shareholders bearing C type shares. In the event the Board of Directors comprises of seven members, four are elected from among candidates nominated by shareholders bearing A type shares, two from those nominated by shareholders bearing B type shares, and one from those nominated by shareholders bearing C type shares. In the event the Board of Directors comprises of nine members, five are elected from among the candidates nominated by shareholders bearing A type shares, three from those nominated by shareholders bearing B type shares, and one from those nominated by shareholders bearing C type shares. Executive director can be appointed by Board of Directors in case of their decision. Moreover, the chairman of the board and the executive director are selected among shareholders of A type shares.

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

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

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

The aforementioned amounts accounted for under "Restricted Reserves" in accordance with Turkish Commercial Code. At 31 December 2018, the restricted reserves of the Company amount to TL60,800,423 (2017: TL59,129,038) The unrestricted reserves of the Company, amounting to TL120,325,294 (2017: TL94,677,271), is classified in the retained earnings.

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

- the difference arising from the "Paid-in Capital" and not been transferred to capital yet, shall be classified under the "Adjustment to Share Capital";

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

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

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

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

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

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

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

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

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

Based on the decision of General Assembly meeting on 30 March 2018, the Company has decided to distribute TL18,961,393 of the distributable net profit for the year 2017 as dividend and payments to boards. In context of this dividend distribution decision, the Company separated TL1,671,385 as "Restricted Reserve". There is not any profit distribution decision for 2018 since General Assembly Meeting has not been conducted yet.

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

NOTE 20 - REVENUE AND COST OF SALES

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

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

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

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

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

b) General administrative expenses:

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

c) Research and development expenses:

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

NOTE 22 - OTHER INCOME/ EXPENSES FROM OPERATING ACTIVITIES

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

b) Other expense from operating activities:

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

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

NOTE 23 - INCOME/EXPENSES FROM INVESTING ACTIVITIES

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

(*) Note 5.ii.d.

	1 January - 31 December 2018	1 January - 31 December 2017
b) Expense from investing activities:		
Loss from sales of property, plant and equipment	(2,001,188)	(1,331,483)
	(2,001,188)	**(1,331,483)**

NOTE 24 - FINANCIAL INCOME/ EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
a) Financial income:		
Foreign exchange gain	7,115,828	2,849,556
Bail income from related parties	2,470,088	1,824,409
Interest income	682,247	270,464
	10,268,163	**4,944,429**
b) Financial expense:		
Foreign exchange loss	(33,043,350)	(16,073,409)
Interest expense	(27,750,293)	(12,959,625)
Foreign exchange losses from derivative transactions	(3,349,552)	-
Interest expense on term purchases	(2,426,568)	(2,005,258)
Bail expense	(632,778)	(405,556)
Other	(5,841,451)	(395,983)
	(73,043,992)	**(31,839,831)**

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

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

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

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

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

Corporations are required to pay advance corporation tax quarterly at the rate of 20% (2017: 20%) on their corporate income. Advance tax is declared by 14th and payable by the 17th (2017: 17th) of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains an amount for advance tax amount paid, it may be refunded or offset against other liabilities to the government.

Dividends paid ton on-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15% (2017: 15%). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

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

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

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

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

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

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

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

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

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

Apart from the exemptions mentioned in the preceding paragraphs, the deductions granted in 8th article of Corporate Tax Law, and 40th article of the Income Tax Law, together with other deductions mentioned in 10 th article of Corporate Tax Law, have been taken into consideration in calculation of the Company's corporate tax.

Transfer Pricing

Corporations should set the prices in accordance with the arm's length principle while entering into transactions regarding the sale or purchase of goods and services with related parties. Under the arm's length principle within the new legislation related parties must set the transfer prices for purchase and sale of goods and services as if they would have been agreed between third parties. Depending on the circumstances, a choice of accepted methods in aforementioned law of arm's length transaction has to be made by corporations for transactions with related parties. Corporations should keep the documentary evidence within the company representing how arm's length price has been determined and the methodology that has been chosen by use of any fiscal records and calculations in case of any request by tax authorities. Besides, corporations must report transactions with related parties in a fiscal period.

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

Taxation on income in the statement of comprehensive income for the years ended 31 December 2018 and 2017 are as follows:

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

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

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

The reconciliation of tax expense is as follows:

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

Deferred income taxes

The company recognizes deferred income tax assets and liabilities based upon temporary differences arising between its financial statements are reported in accordance with the CMB Financial Reporting Standards and its tax purpose financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in future periods under the liability method using a principal tax rate of 20% (2017: 20%).

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, "Law on Amendments to Certain Tax Laws and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2018 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

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

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

The breakdown of cumulative temporary differences and the resulting deferred income tax assets/ (liabilities) provided at 31 December 2018 and 2017 using the enacted tax rates at the balance sheet dates are as follows:

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

(*) The Company has investment incentive certificate relating with modernization investment at Şanlıurfa, Eskişehir and İzmir facilities. As of 31 December 2018, based on the best estimate of the Company management, it is highly probable to utilize the deferred income tax asset upon investment incentive, amounted to TL37,768,166 (2017: TL26,451,548)

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

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

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

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2018

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

NOTE 26 - EARNINGS PER SHARE

		1 January - 31 December 2018	1 January - 31 December 2017
Profit for the year	A	49,216,305	47,082,544
Weighted average number of shares with a Kr1 face value (Note 19)	B	4,495,105,125	4,495,105,125
Earnings per share with a Kr 1 face value	**A/B**	**1.0949**	**1.0474**

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

NOTE 27 - FINANCIAL INSTRUMENTS

Financial assets carried at fair value through other comprehensive income :

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

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

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

Pınar Et and Pınar Su are stated at quoted market prices as they are listed on ISE; YDT, Bintur and Çamlı Yem are stated at their fair values which are determined based on the discounted cash flows as of 31 December 2018 and 2017 by using the market interest rates and the risk premium specific to unlisted companies within the related sectors.

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

NOTE 27 - FINANCIAL INSTRUMENTS (Continued)

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

	Discount rate(%)		Growth Rate(%)	
	2018	**2017**	**2018**	**2017**
Bintur	24.48	19.50	1	1
YDT	23.28	18.30	1	1
Çamlı Yem	20.31	16.25	3	2

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

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

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

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

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

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

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

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

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

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

a) Credit risk:

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements and in turn credit risks arises from cash and cash equivalents, deposits in banks and financial intuitions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Majority of the Company's sales in domestic market are made to its investments in associate, YBP, and its exports are made to YDT which are both Yaşar Group Companies. In line with past experiences and current condition trade receivables are monitored by the Company Management and necessary provisions for impairment is recognized. The Company management believes that credit risk arises from receivables is well managed. The Company management believes that there is no risk for non-trade receivables from related parties since they are mainly comprised of receivables from shareholders. The credit risk analysis of the Company as of 31 December 2018 and 2017 are as follows:

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

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

31 December 2018	**Receivables**				
	Trade Receivables (1)		**Other Receivables**		
	Related Parties	**Third Parties**	**Related Parties**	**Third Parties**	**Bank Deposits**
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2)	**283,012,940**	**9,335,196**	**83,399**	**6,433,961**	**1,149,036**
- The part of maximum credit risk covered with guarantees	-	950,668	-	-	-
A Net book value of financial assets not due or not impaired	252,728,544	7,696,116	83,399	6,433,961	1,149,036
B. Net book value of financial assets whose conditions are renegotiated , otherwise will be classified as past due or impaired (3)	-	-	-	-	-
C. Net book value of assets past due but not impaired (4)	30,284,396	1,639,080	-	-	-
- The part covered by guarantees	-	434,891	-	-	-
D. Net book value of assets impaired					
- Past due amount (gross book value)	-	566,461	-	-	-
- Impairment amount (-)	-	(566,461)	-	-	-
- Collateral held as security and guarantees received	-	-	-	-	-
- Due amount (gross book value)	-	-	-	-	-
- Impairment amount (-)	-	-	-	-	-
- Collateral held as security and guarantees received	-	-	-	-	-
E. Off-balance items exposed to credit risk	-	-	-	-	-

(1) Notes 5 and 6.

(2) Unearned credit finance income and secured portions of due and overdue receivables are taken into consideration while determining aforementioned amounts.

(3) Considering the past experiences the Company management believes that no additional credit risk for the collection of these receivables.

(4) Considering the past experiences and collections subsequent to the balance sheet date, the Company management does not foresee any collection problem for the overdue receivables (Notes 5 and 6).

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

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD BETWEEN 1 JANUARY - 31 DECEMBER 2018

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

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

31 December 2017	**Receivables**				
	Trade Receivables (1)		**Other Receivables**		
	Related Parties	**Third Parties**	**Related Parties**	**Third Parties**	**Bank Deposits**
Maximum amount of credit risk exposed as of reporting date (A+B+C+D+E) (2)	**237,729,307**	**12,488,886**	**1,264,623**	**7,675,986**	**1,283,607**
- The part of maximum credit risk covered with guarantees	-	19,929	-	-	-
A. Net book value of financial assets not due or not impaired	227,751,722	11,789,059	1,264,623	7,675,986	1,283,607
B. Net book value of financial assets whose conditions are renegotiated , otherwise will be classified as past due or impaired (3)	-	-	-	-	-
C. Net book value of assets past due but not impaired (4)	9,977,585	699,827	-	-	-
- The part covered by guarantees	-	19,929	-	-	-
D. Net book value of assets impaired					
- Past due amount (gross book value)	-	566,461	-	-	-
- Impairment amount (-)	-	(566,461)	-	-	-
- Collateral held as security and guarantees received	-	-	-	-	-
- Due amount (gross book value)	-	-	-	-	-
- Impairment amount (-)	-	-	-	-	-
- Collateral held as security and guarantees received	-	-	-	-	-
E. Off-balance items exposed to credit risk	-	-	-	-	-

(1) Notes 5 and 6.

(2) Unearned credit finance income and secured portions of due and overdue receivables are taken into consideration while determining aforementioned amounts.

(3) Considering the past experiences the Company management believes that no additional credit risk for the collection of these receivables.

(4) Considering the past experiences and collections subsequent to the balance sheet date, the Company management does not foresee any collection problem for the overdue receivables (Notes 5 and 6).

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

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

31 December 2018	**Receivables**		
	Related Parties	**Third Parties**	**Total**
Past due 1 - 30 days	24,833,658	1,639,080	26,472,738
Past due 1 - 3 months	5,025,353	-	5,025,353
Past due 3 - 12 months	425,385	-	425,385
The part of credit risk covered with guarantees	-	*434,891*	*434,891*
	30,284,396	**1,639,080**	**31,923,476**

31 December 2017	**Receivables**		
	Related Parties	**Third Parties**	**Total**
Past due 1 - 30 days	7,923,136	680,625	8,603,761
Past due 1 - 3 months	1,700,273	19,202	1,719,475
Past due 3 - 12 months	354,176	-	354,176
The part of credit risk covered with guarantees	-	*19,929*	*19,929*
	9,977,585	**699,827**	**10,677,412**

b) Liquidity risk:

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

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

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

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

	31 December 2018				
	Carrying Value	**Total Cash outflows per agreement (=I+II+III)**	**Less than 3 months (I)**	**3 - 12 months (II)**	**1 - 5 years (III)**
Contractual maturity dates:					
Financial Liabilities					
Financial liabilities	131,652,356	152,182,918	3,920,257	116,570,370	31,692,291
Trade payables	399,030,829	404,555,999	327,054,737	26,042,603	51,458,659
Other payables	12,764,453	13,337,411	612,958	12,764,453	-
	543,447,638	**570,116,328**	**331,587,952**	**155,377,426**	**83,150,950**

	31 December 2017				
	Carrying Value	**Total Cash outflows per agreement (=I+II+III)**	**Less than 3 months (I)**	**3 - 12 months (II)**	**1 - 5 years (III)**
Contractual maturity dates:					
Financial Liabilities					
Financial liabilities	147,199,458	162,788,879	76,259,864	16,152,866	70,376,149
Trade payables	286,597,418	288,621,100	217,339,790	25,461,444	45,819,866
Other payables	22,210,525	24,315,327	2,104,802	22,210,525	-
	456,007,401	**475,725,306**	**295,704,456**	**63,824,835**	**116,196,015**

c) Market risk:

i) Foreign exchange risk

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

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

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

	Foreign Currency Position							
	31 December 2018				**31 December 2017**			
	TL Equivalent	**USD**	**EUR**	**Other (TL Equivalent)**	**TL Equivalent**	**USD**	**EUR**	**Other (TL Equivalent)**
1. Trade Receivables	51,933,883	9,841,979	25,915	-	34,669,831	9,166,348	21,101	-
2a. Monetary Financial Assets (Cash, Bank accounts included)	24,598	2,848	1,595	-	17,729	1,923	2,320	-
2b. Non-monetary Financial Assets	-	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-	-
4. Current Asset (1+2+3)	**51,958,481**	**9,844,827**	**27,510**	**-**	**34,687,560**	**9,168,271**	**23,421**	
5. Trade Receivables	-	-	-	-	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-	-	-	-	-
7. Other	-	-	-	-	-	-	-	-
8. Non-Current Assets (5+6+7)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Total Assets (4+8)	**51,958,481**	**9,844,827**	**27,510**	**-**	**34,687,560**	**9,168,271**	**23,421**	**-**
10. Trade Payables	50,641,472	594,132	7,882,516	509	33,231,812	1,202,624	6,354,919	-
11. Financial Liabilities	26,304,500	5,000,000	-	-	30,740,985	8,150,000	-	-
12a. Monetary Other Liabilities	-	-	-	-	-	-	-	-
12b. Non-monetary Other Liabilities	-	-	-	-	-	-	-	-
13. Short-Term Liabilities 10+11+12	**76,945,972**	**5,594,132**	**7,882,516**	**509**	**63,972,797**	**9,352,624**	**6,354,919**	**-**
14. Trade Payables	49,739,045	-	8,251,335	-	45,819,864	-	10,147,240	-
15. Financial Liabilities	-	-	-	-	-	-	-	-
16a. Monetary Other Liabilities	-	-	-	-	-	-	-	-
16b. Non-monetary Other Liabilities	-	-	-	-	-	-	-	-
17. Long-Term Liabilities 14+15+16	**49,739,045**	**-**	**8,251,335**	**-**	**45,819,864**	**-**	**10,147,240**	**-**
18. Total Liabilities 13+17	**126,685,017**	**5,594,132**	**16,133,851**	**509**	**109,792,661**	**9,352,624**	**16,502,159**	**-**
19. Net Asset/ (Liability) Position of Off-Balance Sheet Derivative Instruments (19a-19b)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
19a. Amount of Hedged Asset	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
19b. Amount of Hedged Liability	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
20. Net Foreign Currency Asset/(Liability) Position (9-18+19)	**(74,726,536)**	**4,250,695**	**(16,106,341)**	**(509)**	**(75,105,104)**	**(184,353)**	**(16,478,738)**	**-**
21. Net Foreign Currency Asset/(Liability) Position of Monetary Items (TFRS 7.B23) (=1+2a+3+5+6a-10-11-12a-14-15-16a)	**(74,726,536)**	**4,250,695**	**(16,106,341)**	**(509)**	**(75,105,104)**	**(184,353)**	**(16,478,738)**	**-**
22. Total Fair Value of Financial Instruments Used for Foreign Currency Hedging	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
23. Hedged amount for Foreign Currency Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
24. Hedged amount for Foreign Currency Liability	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
25. Export	**227,953,589**	**42,321,878**	**336,686**	**21,669,127**	**166,928,677**	**42,699,556**	**418,561**	**9,001,472**
26. Import	**82,959,913**	**-**	**14,668,451**	**-**	**61,827,854**	**-**	**14,688,221**	**-**

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

31 December 2018	**Sensitivity Analysis for Foreign Currency Risk**			
	Profit/ Loss		**Equity**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
Change of USD by 10% against TL:				
1- Asset/ Liability denominated in USD – net	2,236,248	(2,236,248)	2,236,248	(2,236,248)
2- The part hedged for USD risk (-)	-	-	-	-
3- USD Effect - net (1+2)	**2,236,248**	**(2,236,248)**	**2,236,248**	**(2,236,248)**
Change of EUR by 10% against TL:				
4- Asset/ Liability denominated in EUR - net	(9,708,902)	9,708,902	(9,708,902)	9,708,902
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR Effect - net (4+5)	**(9,708,902)**	**9,708,902**	**(9,708,902)**	**9,708,902**
Change of Other Currencies by average 10% against TL:				
7- Assets/ Liabilities denominated in other foreign currencies - net	-	-	-	-
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other Foreign Currency Effect - net (7+8)	**-**	**-**	**-**	**-**
TOTAL (3+6+9)	**(7,472,654)**	**7,472,654**	**(7,472,654)**	**7,472,654**

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

31 December 2017	Sensitivity Analysis for Foreign Currency Risk			
	Profit/ Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD by 10% against TL:				
1- Asset/ Liability denominated in USD – net	(69,536)	69,536	(69,536)	69,536
2- The part hedged for USD risk (-)	-	-	-	-
3- USD Effect - net (1+2)	**(69,536)**	**69,536**	**(69,536)**	**69,536**
Change of EUR by 10% against TL:				
4- Asset/ Liability denominated in EUR - net	(7,440,975)	7,440,975	(7,440,975)	7,440,975
5- The part hedged for EUR risk (-)	-	-	-	-
6- EUR Effect - net (4+5)	**(7,440,975)**	**7,440,975**	**(7,440,975)**	**7,440,975**
Change of Other Currencies by average 10% against TL:				
7- Assets/ Liabilities denominated in other foreign currencies - net	-	-	-	-
8- The part hedged for other foreign currency risk (-)	-	-	-	-
9- Other Foreign Currency Effect - net (7+8)	**-**	**-**	**-**	**-**
TOTAL (3+6+9)	**(7,510,511)**	**7,510,511**	**(7,510,511)**	**7,510,511**

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

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

ii) Interest rate risk

As of 31 December 2018 and 2017, the Company has not financial assets and liabilities with floating rate.

iii) Price risk

The profitability of the Company's operations and the cash flows generated by those operations are affected by changes in the raw material prices and market competition that are closely monitored by the Company management and precautions for cost efficiency are taken. The Company does not anticipate that prices of raw milk and other raw materials will change significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline or increase in the prices of raw milk and other stocks and raw materials.

The current risks are properly monitored by Board of Directors and Audit Committee regularly in considering the need for active financial risk management.

d) Capital risk management:

The Company's objectives when managing capital to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as the total liability (including borrowings, trade payables, due to related parties and other payables, as shown in the balance sheet) less cash and cash equivalents.

	31 December 2018	**31 December 2017**
Financial liabilities	131,652,356	147,199,458
Other payables to related parties	9,914,320	19,867,521
Less: Cash and cash equivalents (Note 4)	(1,193,004)	(1,329,702)
Net debt	140,373,672	165,737,277
Total equity	781,440,229	690,165.850
Net debt/ equity ratio	**17.96%**	**24.01%**

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

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

Classification of financial assets

The Company classified financial assets and liabilities as available-for-sale investments, borrowings and receivables. Cash and cash equivalents (Note 4), trade receivables (Notes 5 and 6) and other receivables (Note 5) of the Company are categorized as loans and receivables; and measured at amortized cost using effective interest method. Available-for-sale investments of the Company are disclosed in Note 27. Financial liabilities, other financial liabilities (Note 13), trade payables (Note 6) and other payables (Notes 5) are categorized as financial liabilities measured at amortized costs using effective interest method.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

Financial assets

The fair value of the foreign currency denominated amounts, which are translated by using the exchange rates prevailing at period-end, is considered to approximate their fair value. The fair values of certain financial assets carried at costs, including cash and due from banks, receivables and other financial assets are considered to approximate their respective carrying values due to their short-term nature. Available-for-sale investments are carried at their fair values. The fair values of available-for-sale investments which do not have quoted market prices in active markets, are determined by using general accepted valuation techniques or stated at cost, less a provision for impairment, if any, by assuming the carrying values do not differ materially from their fair values.

Financial liabilities

Fair values of bank borrowings are disclosed in Note 13.

Trade payables, payables to related parties and other monetary liabilities are estimated to be presented with their discounted carrying amounts and they are considered to approximate to their fair values and the fair values of balances denominated in foreign currencies, which are translated at year-end Exchange rates, are considered to approximate carrying values.

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

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

The table below analyses financial instruments except for the certain available for sale investments which are measured at cost less impairment, if any, as their fair values cannot be reliably estimated using generally accepted valuation techniques, carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's assets and liabilities that are measured at fair value at 31 December 2018 and 2017.

31 December 2018

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

31 December 2017

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

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

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

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

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

31 December 2018

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

31 December 2017

	Level 1	Level 2	Level 3	Total
Tangible Assets:				
Land	-	162,713,500	-	162,713,500
Buildings and land improvements	-	93,599,500	-	93,599,500
Machinery and equipment	-	319,726,099	-	319,726,099
Total assets	**-**	**576,039,099**	**-**	**576,039,099**

NOTE 30 - SUBSEQUENT EVENTS

None (31 December 2017: None).

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