

Turkey's dairy production is increasing.

64%

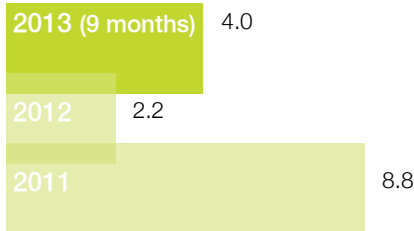
Plain milk accounts for 64% of the total market for dairy products in Turkey.

The Turkish economy and the sector in 2013
Turkey's dairy industry continues to grow year after year in terms both of total output and of processing capacity.

4%

The Turkish economy grew by 4% in the first nine months of 2013.

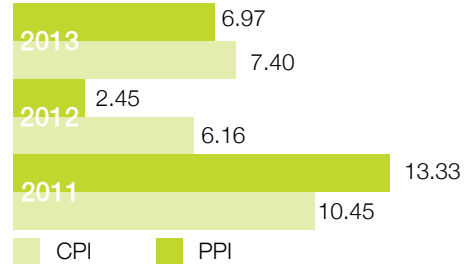
GDP Growth Rate - Fixed Prices (%)



The Turkish economy grew by 4% as of the third quarter of 2013

Having grown by 2.2% in 2012, the Turkish economy achieved a 4% rate of growth in the first nine months of 2013.

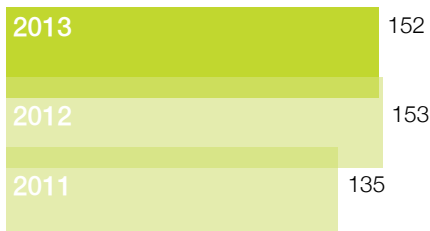
Inflation (%)



Inflation appears to be on a rising trend

At end-2013 Turkey's 2003 base-year consumer price index was 7.40% higher than what it had been twelve months earlier while the producer price index, which had declined by 2.4% in 2012, rose to 6.97% in the year to end-2013.

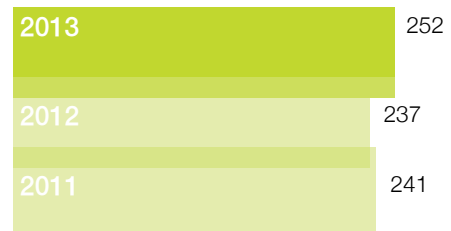
Exports (USD billion)



Exports make a net contribution to growth of zero

According to TurkStat-published provisional figures for 2013, Turkey's exports last year amounted to USD 151.9 billion in value while its imports weighed in at USD 251.7 billion.

Imports (USD billion)



The resulting USD 99.8 billion foreign trade deficit was 18.7% bigger than what it had been the year before while the ratio of the country's exports to imports fell from 64.5% in 2012 to 60.3% in 2013.

Global milk consumption

The Dairy Industry

World markets

The world market for milk (including non-packaged milk) amounted to 287 million liters in 2013 and accounted for 18% of all beverage consumption. Packaged milks made up a 61% share of this while milk powders and non-packaged milks had market shares of 12% and 24% respectively. The packaged milk market was split 41%/59% between UHT and pasteurized milk. In 2010-2013, the UHT milk market grew by an annualized compound rate of 4% while the pasteurized milk market grew by only 2%. It is projected that these growth rates will be 3% and 2.5% respectively in 2013-2016. Worldwide per capita consumption of dairy products corresponded to 45 liters in 2013.

Emerging economies are expected to account for about a 60% share of total world production by 2020 with developed economies' share falling to around 40%. Heightened health awareness strengthens the demand for natural foods while low-/non-fat products and vitamin-/mineral-fortified products are becoming increasingly more popular and the demand for "functional" products is also growing. There is also greater product diversity, especially in products intended for children.

The Turkish market

According to Ipsos KMG, a survey-based marketing research firm, UHT milk accounts for a 44% share of the total Turkish milk market as measured on a tonnage basis. Of that, 93.0% consists of plain milk with flavored milks (4.8%), fortified milks (1%), light milks (0.9%), and organic milks (0.2%) commanding only very small market shares.

Misleading statements appearing on a number of websites and in the press, some of which went so far as to encourage the consumption of unregulated milk, frustrated efforts to promote the consumption of wholesome milk in Turkey and even caused misgivings about milk consumption in general in the public mind. Again according to Ipsos KMG figures for 2013, sales of non-packaged milk increased by 2.0 tons year-on, pasteurized milk sales remained unchanged, and UHT milk sales fell by 2.0 tons. The three categories' market shares last year were 54%, 2.0%, and 44.0% respectively.

In keeping with its principle of supporting social responsibility projects, last year Pınar Süt continued to take part in the School Milk Campaign that was launched in 2012. Under this project, free milk was distributed to children attending 4,685 schools in Turkey's southeastern provinces. This project is planned to continue in 2014 as well.

Producers also undertook communication investments that focused on the importance of milk as an effective way of overcoming dietary protein deficiencies in Turkey. Such activities also helped support the demand for UHT milk.

Market developments by product category

Milks

- **Plain milk:** Plain milk contributed 64% of the total market's turnover in 2013. Last year there was a 7% decline in sales on a tonnage basis and a 1% drop in total turnover.
- **Light milk:** Light milk accounted for a 2.7% of the market's total turnover. Although sales in this category were down on a tonnage basis, on a turnover basis they were up by 4%.
- **Fortified milk for children:** Fortified children's milk accounted for a 3.1% share of market turnover in which both total tonnage and turnover were down year-on.
- **Fortified milk for adults:** Sales in this category, which account for 0.8% of market turnover, were up by 31% on a tonnage basis and increased by 85% on a turnover basis.
- **Flavored milk:** Sales in the flavored milk category in 2013 lost some of their year-on momentum but still increased by 5% and 11.4% on a tonnage and turnover basis respectively. Such sales accounted amounted to about 30.5 million liters on which was generated a turnover worth about TL 143 million.
- **Pasteurized milk:** Pasteurized milk sales contributed 12.6% of the market's turnover in 2013. This corresponded to 46 million liters (down by 4% year-on) and to a turnover amounting to TL 1339.5 million (up by 7.7%). (Nielsen 2013)
- **Organic milk:** Organic milk accounted for a 1.2% share of the market's total turnover.

Cheeses

Total turnover in the cheese category, which increased by 12% last year, amounted to TL 1.3 billion of which 35% was contributed by salted white cheese, 40% by kashkaval, and 15% by spreadable cheeses. On a tonnage basis the market grew by 4% year-on and reached about 80 thousand tons. (Nielsen 2013)

Yoghurts & ayrans

The yoghurt market's total turnover in 2013 amounted to TL 1.1 billion on 321 thousand tons of product sold. Tonnage and sales were down by 7% and 0.4% respectively last year. While sales of homogenized yoghurt were up by 0.1% on a turnover basis those of cream-top yoghurt increased by 1.3% on the same measure. Improved sales in the latter segment boosted its market share by a point from 28% to 29%. The fruit yoghurt market, which contributed a 9% share, shrank by 8% year-on.

The ayran market's turnover amounted to TL 150 million in sales of 69 thousand tons. This segment's turnover grew by 9% in 2013 while its tonnage was up by 4%.

Bottled ayran sales, accounting for 55% of total turnover, were up by 12%; at 40%, the share of individual-portion packaged ayran products increased by 2% year-on. Multipack products accounted for a 4% of the market's total turnover last year.

According to the Tetra Pak Dairy Index published in May 2013, the world's total milk consumption amounted to 280.3 billion liters in 2012. Tetra Pak projects a worldwide consumption figure of 301.3 billion liters in 2015.