

A decade of strong growth

3.7

The total turnover of the bottled water industry in Turkey is estimated to be worth close to TL 3.7 billion.

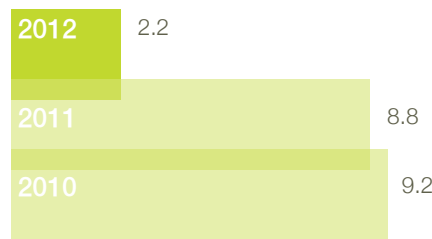
The Turkish Economy and the Water Sector in 2012

The consumption of packaged water has been growing strongly over the last decade.

2.2%

The Turkish economy grew by 2.2% in 2012.

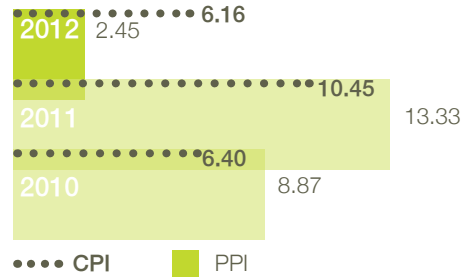
GDP Growth Rate - Fixed Prices (%)



The Turkish economy grew by 2.2% in 2012.

After growing by 8.8% year-on in 2011, the Turkish economy grew by only 2.2% in 2012.

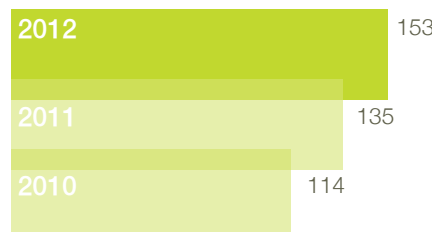
Inflation (%)



Inflation appears to be in decline.

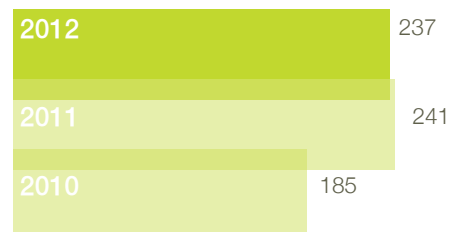
In the twelve months to end-2012, the consumer price index (CPI, 2003 = 100) increased by 6.16%. During the same period, the producer price index (PPI) plummeted from 13.33% to just 2.45%.

Exports (USD billion)



Increases in exports impacted favorably on economic indicators. Turkey's total exports increased by 13.1% in value in 2012 and reached USD 153 billion while imports were

Imports (USD billion)



down slightly by 1.8% year-on and amounted to USD 237 billion. The country's terms of trade (TOT) ratio, which was 56.0% at end-2011 rose to 64.5% as of end-2012.

Source: TurkStat, CBT, Undersecretariat of Treasury



The Turkish packaged water industry

A water problem caused by inadequate infrastructure

The water-related problems with which Turkey began contending since the early 1990s stemmed more from inadequate infrastructure, especially in population-dense urban areas, than from anything else. As just two examples of this, leaky water mains caused losses of up to 60% of the total flow through them in some localities while failure to undertake investments to properly exploit nearby water resources made it next to impossible for some municipalities to provide their citizenry with sufficient water.

The problem became so critical in İstanbul at one point that the municipality began licensing “water stations” in an effort to alleviate it to a degree. An explosion in the number of these stations and the difficulties inherent in properly supervising them forced the health ministry to intervene: in 1998, the sale of non-packaged water by the stations was prohibited.

The consumption of packaged water has been growing strongly over the last decade.

The biggest contributor to the growth in the consumption of packaged water over the last decade has been the 19-liter polycarbonate (PC) container. Turkey first became acquainted with this new form of packaging in the late 1990s and it provided a welcome alternative to both inadequate/undrinkable mains and questionable-source non-regulated water in homes as well as at business- and workplaces. Thanks especially to its economy, to its handy accompanying apparatus, and to the convenience of delivery-on-demand, the 19-liter format accounts for the

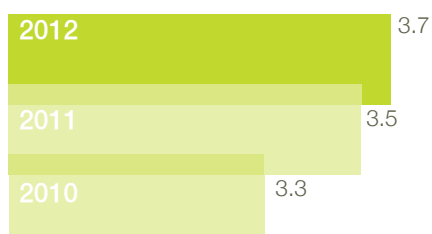
biggest share of total consumption by volume and has contributed significantly to the market's overall growth.

The Turkish packaged water industry consists essentially of two distinct segments which we may call “One-Way” (PET and glass containers) and “Returnable” (PC carboys). The single biggest problem with which the industry must contend is that of informal (which is to say unregistered) production. This problem is particularly severe in the Returnable segment and to a lesser degree in the One-Way segment, whose main delivery channel is formal retailing. Unregulated production not only leads to unfair competition but also exposes consumers and the public at large to serious health risks arising from unhygienic production methods and products.

Total sector turnover: TL 3.7 billion

The water market in Turkey in 2012 amounted to about 10.2 billion liters, on which was generated a total turnover on the order of TL 3.7 billion. The packaged water industry is currently operating at about 40% of its total capacity, which means that there is plenty of slack that could easily be put to work even if there were to be an unexpectedly strong surge in the domestic demand for its products.

Market Size of the Packaged Water Industry in Turkey (TL billion)



As an alternative to non-regulated water in homes as well as at business- and workplaces, the 19-liter polycarbonate container has contributed significantly to the growth in the consumption of packaged water over the last decade.

5&8 liters

The introduction of 5- and 8-liter glass carboys has also given a major boost to consumer demand for water packaged in glass containers.

2012 was an important year in the glass-container packaging category, with still more new brands entering the market with products in glass bottles.

22.5%

The PET retail market grew by 22.5% on a turnover basis in 2012.

Consumption rates at close to EU levels

Consumption of packaged water in Turkey is rapidly approaching EU levels. The country's per capita consumption of packaged water in 2012 amounted to 135 liters, of which 50 liters was in one-way (mostly PET) and 85 liters was in returnable (carboy) containers.

What this means is that 63% of the sector's sales by volume consist of carboys delivered to consumers while the remaining 37% consist of retail sales of water in one-way containers. According to figures published by the Turkish health ministry, there are about 300 licensed operators in the sector nationwide.

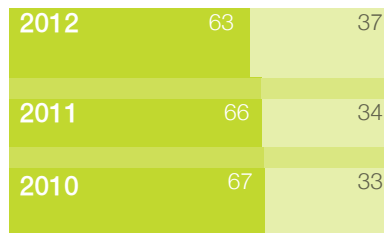
In the twelve months to end-2012, the PET market grew by 11.6% and 22.5% as measured by tonnage and turnover respectively.

Slight contraction in the carboy market

The 19-liter carboy market suffered a slight year-on-year contraction on the order of 1% in 2012 that appears to be the result both of fewer households placing orders and of orders being placed less frequently.

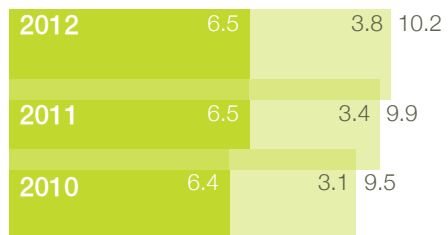
However another reason for the contraction is the highly fragmented nature of the supply side of the market, which consists of a large number of local purveyors who lack the means to deal with large volumes of business.

PET - PC Breakdown of the Packaged Water Industry in Turkey (%)



■ PC
■ PET

Total Production in the Packaged Water Industry in Turkey (billion lt)



■ PC
■ PET



63% of the sector's sales by volume consist of carboys delivered to consumers while the remaining 37% consist of retail sales of water in one-way containers.

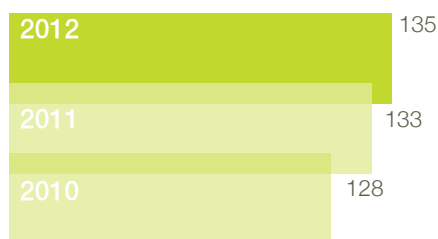
The demand for glass-container packaging is spreading.

2012 may have marked an important turning-point in the demand for water supplied in glass-container packaging. Still more new brands entered the market with products of their own in glass bottles as producers respond to growing retail consumer demand for a packaging format that used to be sold almost exclusively to hotels, restaurants, cafes and similar venues for many years. The introduction of 5- and 8-liter glass carboys has also given this market a major boost.

10.2

The water market in Turkey in 2012 amounted to about 10.2 billion liters.

Annual Per Capita Consumption in the Packaged Water Industry in Turkey (lt)



Growth Rates of the Packaged Water Industry in Turkey (%)

