

Distinguishing ourselves as our sector's innovator...



Chairperson's Message

Having distinguished itself in its sector as a pioneer and innovator, Viking Kağıt is now reshaping its corporate plans, strategies, and goals.

2013

We have begun our preparations for 2013 and beyond and we are formulating our plans aimed at achieving satisfactory growth.

Esteemed stakeholders

The global economy continues to be adversely affected by the intractable difficulties confronting the world's developed economies.

Although five years have passed since the outbreak of the global financial crisis in 2008, global markets continued to be plagued by uncertainties and volatilities in 2013.

The public-finance issues confronting EU countries of late period perpetuated the vicious circle of low growth - recession - unemployment all year long in 2012. The situation on the other side of the Atlantic was not much different with the United States seeming to devote a great deal of its energies to presidential and congressional elections for most of 2012 and then, for the rest of the year, to efforts to contend with a self-imposed "fiscal cliff" which had been embodied in tax law. Such problems confronting the developed world naturally affected developing countries by constricting and diverting international trade and capital flows. The growth performances of this group, of which Turkey is a member, visibly weakened. To sum up, 2012 was a year during which the global growth outlook deteriorated.

Looking at the economic policy front, central banks continued to adhere to expansionist monetary policies in an environment characterized by extremely weak inflationary pressures. Policy choices focused on stimulating growth however failed to fully achieve the results desired of them owing to seemingly intransigent structural problems and to efforts by the banking industry to shrink its balance sheets.

The Turkish economy grew by 2.2% in 2012.

In Turkey, inflation resumed its downward trend while the country's current account deficit continued to improve all year long as weak domestic demand fueled exports and reduced imports. A variety of measures also bore fruit with the result that the current account deficit fell to USD 49 billion as of end-2012. In this process, the contribution of domestic demand to growth declined while that of net external demand increased. Thus although the absolute rate of year-on growth shrank to just 2.2%, the overall composition of that growth had a much healthier appearance than was the case in 2011. The rate of consumer price inflation fell to 6.16% in 2012 thanks in part to policy implementation but also to an absence of the previous year's base effects.

The prevailing opinion at this time is that 2013 is going to be a somewhat better year for the Turkish economy. Sustainable growth will remain the shared goal of all economic authorities. In line with this, we may expect that the Turkish central bank (CBT) will continue to adhere to monetary policies that call for and support financial stability and that the Turkish economy will grow by about 4% or so in 2013.

High growth potential and the promise of a bright future are the two most outstanding characteristics of our industry.

Per capita consumption of tissue paper products in Turkey is well below the rates prevailing in other comparable countries as well as world averages. Per capita tissue paper consumption in 2006 was 2.8 kgs; although it has increased since then, it was still only 5 kgs in 2012. That is considerably less than half of the 13.8 kgs consumed in many

western European countries and it is also well below current consumption rates even among countries in Turkey's immediate vicinity.

Today there are nearly ten major players in Turkey's tissue paper sector, whose combined installed production capacity is quite high. What this means is that there is considerable amount of supply-side surplus given present demand. Nevertheless it is also easy to spot serious growth potential that is waiting to be tapped through the implementation of the right strategies.

The existence of that potential, the fact that the sector's turnover grew by 14.3% (more than double the rate of CPI inflation) and reached the TL 920 million level, and the steadily increasing interest being shown by domestic and international investors all strengthen our faith in our industry's future.

Our effective production, marketing, and sales activities in 2012 sustained our consistent performance last year as well.

Viking Kağıt registered successful financial and operational results in 2012.

In 2012 we booked total sales of 35,661 tons and gross sales revenues of TL 129.3 million. This corresponds to a year-on growth rate of 4.0% in our turnover. Last year we booked USD 17 million on foreign sales made to 23 countries. On a tonnage basis, our exports corresponded to 37% of our total sales.

Since the day it was founded, our company has been a player shaping the market with innovative and functional products that appeal to consumers. Viking Kağıt introduced Turkey's first cotton-textured toilet paper, first aloe vera-enhanced toilet paper, and first three-ply toilet paper. In 2012 the company successfully authored yet another first that raised the quality standards of Turkey's tissue paper industry with the introduction of Premia- and Lily-brand paper towels that may safely come into contact with foods. The first products of their kind in our country, these paper towels have been certified food-contact-safe by ISEGA, an internationally accredited independent testing institute based in Germany.

An important innovation at our company in 2012 involved a reorganization of our business processes. As a result of this reorganization, we have changed over to a channel-focused management system under which our at-home and our away-from-home sales and

distribution activities are now under the responsibility of two separate departments.

One outcome of this strategic decision was that we achieved significant growth progress in our 100%-cellulose Premia, Lily, and Senso lines in the at-home channel and in the Select line in the away-from-home channel.

While undergoing these changes, we lost no momentum in our investment activities. Last year we commissioned the industrial roll production line needed for manufacturing the center-pull kitchen towels and toilet papers that we see as having an important place in our at-home channel. We also added four units to our flat product manufacturing line. Another unit that we commissioned last year is designed to further increase our paper quality. This last is a project that we have been working on for quite some time. We also continued with a variety of other improvement and development investments at our factory in 2012.

Looking to the future, we believe that our company will continue to be a model of sustainable growth for the Turkish economy in the years ahead as well.

We are aware that our industry holds out the prospects for considerably more growth and development in the future as well. Our business strategies are informed by attitudes that seek to take the best possible advantage of every opportunity that the market has to offer. Those strategies are what will enable Viking Kağıt to advance confidently into the future and to grow its market share.

In 2012 we completed the transformation process which we launched and which we believe to be vitally important to the future of our company. We have formulated our plans aimed at achieving satisfactory growth in 2013 and beyond.

We are committed to the uncompromising implementation of our corporate strategies in order to fulfill the goals that we have defined for ourselves and to create increasingly more value for all of our stakeholders in the future as well. I therefore take this opportunity in closing to extend my thanks to our shareholders for standing by us at all times, to our employees for their superior performance and dedicated efforts, and to all of our customers for preferring Viking Kağıt quality.

İdil Yiğitbaşı

Chairperson of the Board of Directors

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