

PINAR SÜT MAMULLERİ SANAYİİ A.Ş

Meeting Notes – March 1, 2019

Speaker: Gürkan Hekimoğlu, General Manager

With the 46 years' experience, Pınar Süt has created categories in the sector and it is a company that has always achieved the firsts and continues to do. With more than 18,000 producers, Pınar Süt, that is one of the leader companies in sector, distribute our products to more than 150,000 sales points. We process the collected milk in the 3 facilities of company in Izmir, Eskişehir and Şanlıurfa. We make our production in an area which consists from approximately 98,000 m² indoor area and 357,000 m² total area. 2018 was a difficult year for many sectors in our country. However, we will mention you a little bit about how we are progressing by taking many measures together with our experienced company and our colleagues. Experience, speed and following the market closely are the significant points. **[slide 1]**

Net sales touched up to TL 1.488 billion and provided a 20% turnover growth. There was an export turnover as TL 47.4 million within it. We did investments for modernization and capacity increase. We realized our investment of TL 67.6 million. We achieve all of these with 1,062 number of employees. The value of EBITDA rose up to TL 112.9 million. There was an increase in the amount of raw milk production. Our country was ranked as number 8 on world milk production. We have a young population. It is important to consume healthy protein products. Unfortunately, Turkey is dependent on foreign countries in terms of input costs. The raw milk base prices increased in the rate of 9.3% in 1st February and a raise happened starting from August 15 and the prices have gone up by 11% with the base price as 1.71 TL/liter at the end of the year. There were also huge incentives given by the government to the producers. But ultimately, in order to ensure sustainability of production, the earnings of producers need to be sustainable and continuous so that we can deliver the products we purchased as an industrial facility by the right price for you. In 2018, on the production of milk, although milk and ayran displayed a growth, in the category of the cheese, there was a decrease. In the cottage cheese which comes from the subcategory of the cheese as %7 and the fresh cheese as %6 realized a significant. In 2018, Pınar Süt continued to work seriously for R&D development. Pınar Kefir which is the new product of our company was launched to the market in 2018. We added new flavors like strawberry, banana and peanut milk for Pınar Protein Family. We won the best innovation award in Dubai thanks to our product "Chocolabneh". According to a research, which is conducted by a business magazine Platin with the subject based on the Industry 4.0, classifies the pioneer companies in «Platin Global 100 Index» in the international trading, Pınar Süt was awarded again in the beverage sector in this year. Based on the researches performed by Capital and Zenna Research and Consulting Companies, Pınar Süt was selected the most admired company in the category of milk and dairy products. **[slide 2]**

Milk production reached up to 6-7%. The most important factor in the increase of raw milk prices is the increase of input costs. The price increases in raw milk the average raw milk base price realized 25.3% higher in 2018 compared to 2017. In 2019, although the prices are currently stable, the government made an extra protection and incentives for the producers by increasing support. **[slide 3]**

When we look at the quantity of packaged goods, we do not see a radical change. When we glance at the penetration, we see that the household reached a serious level. We reached TL 8.8 billion turnover and this means an increase by 20%. When we take a brief look at the category, the main product groups are seen as cheese, milk, yoghurt, butter and ayran shared in the pie chart. **[slide 4]**

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Pinar Süt preserves its leading position in many product categories by the rate of 29.4% in total UHT milk market compared with rivals. We continued our leader position by 65.7% in the category of protein milk which has been launched already. When we look at the cheese category, we continue to grow and maintain our leadership in cheese groups with more value added, innovation for years basically on fresh cheese and for labneh. We continue also our leadership in foreign countries with labneh. Also, although we launched our product of spreadable cheese as ranked 7., we became second firm in the market in a short time. Our market share is 12.6% and this was 12.7% for the previous year looking like at almost the same level. **[slide 5]**

88% of Pinar Süt's sales consist of dairy products. The other 12% can be listed as fruit juice, mayonnaise, ketchup and powder products. It is equivalent to approximately 16% of export for total milk products in Turkey. Based on sales channel, share of export attained at USD 47.4 million by the share of 15%. It is equivalent to approximately 16% of export for total milk products in Turkey. Excluding milk powder for the added value products, I can say that this rate is higher. Also, 81% of sales are made mainly through our distribution company Yaşar Birleşik Pazarlama. "School Milk Program" with around 10 thousand tons which we conducted in 2018, has an impact on the part of direct sales. **[slide 6]**

When we observe our income statement, our net sales occurred TL 1,487.8 million. The cost of goods sold is also almost at the same level. We worked for minimize the negative effects which we faced, by taking cautions like productivity and optimization. EBITDA realized as TL 112.9 million as reached a growth by the rate of 31.1%. Without realizing any significant increase in operating profit, exchange rate and interest rate raised in August and our net profit for the period increased in TL 49.2 million compared to the previous year. **[slide 7]**

Our net sales and gross profit margins augmented. Our margins increased. By looking at them quarterly, we would better understand the situation. During the quarter, it was difficult to follow our input costs, electricity, water, raw materials, packaging. However, it was difficult for the consumer to perceive the issue, and it took time for the market to accept it. Therefore, we have tried to reflect these costs carefully on our prices. Contraction provides no benefit for nobody. However, it was not easy. It is important to catch optimum without losing consumers and market share. We wish to the year 2019 and beyond will be better. **[slide 8-9-10]**

Speaker: Hikmet Altan, Yaşar Holding CFO

Q&A

1. Can you give us a guidance for the year of 2019?

As required the capital market regulations, we cannot disclose any guidance for 2-3 years. Therefore we cannot mention our predictions and cannot define any numerical information related with the company and its budgets. However, as I expressed clearly, it is the year in which we do not foresee a major growth. We will have a growth in accordance with the circumstances in our country.

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2. How will continue Pinar Süt's volume growth in 2019?

As a strategy, value added products like enriched milk are among the products that Pinar Süt purpose to grow up. Also, both marketing investments and capital expenditures will continue during the year.

3. Whether the raw material prices of milk will rise? What's your estimation?

We have no expectation related to increase on the input prices. This can derived from increase on prices of forage and its raw materials, rising of exchange rate, some seasonal effects and reduction or augmentation in milk supply. We consider that there will be any distinct changing on milk prices.

4. Question about the difference between our brand's prices and other market brands' prices by the name of "private label":

There is an index we base for us and we make an effort for becoming leader on this index. Also, in general, we believe in continuity of this index during 2019.

5. The rate of interests became above 30%. How is it going on currently?

The short term interest rates climbed up to 40% during August and September but now, this ratio diminished to approximately 20% levels. For the next periods, we will not foresee any increase on the rate of credits.

6. Do you have any plan for the participation on the tender of the school milk project for this year?

The tender has not been announced yet. We see this as a social responsibility more than aiming for profit.

7. What will be your investment plan for 2019?

We will be more cautious during the year compared to the previous year. We will look at the second half of the year specifically. However, probably, the amount of our investment will be below the last year.

8. Regarding dividends...

This will be announced very soon.

9. Will you raise the prices?

We evaluate this decision according to the cost increases, the market conditions and competitive conditions. In periods of huge market fluctuations, we wait for calm down and becoming stability of the market.