

Earnings Presentation of 2012 H1

Speaker: Mr. Gürkan Hekimoğlu, General Manager

We will make a brief introduction to Pınar Süt and go over its financial results in a few minutes. I don't want to repeat all of the gains secured under Pınar brand name that Tunç just talked about, but I would like to underline that Pınar Süt is the first private enterprise in its sector. This becomes all the more important when we consider that it happened many years ago. It is the first brand name recalled by consumers. It is a company that carried out manufacturing at European Union norms; it is a very important company single-handedly accountable for 17% of Turkey's exports to abroad. This strength is maintained with its producers, suppliers, distribution network, the quality criteria I just mentioned, and the product portfolio created.

After this introduction, the crucial criterion is the market dynamics since they determine the future and day-to-day activities of our company. Let's look at what is going on in the world, in our country, and particularly in the milk sector that makes up a substantial part of our product group; as you know, worldwide milk production is approximately 714 million tons. Of this, 135 million tons are produced in the EU Countries only, and 15 million tons in Turkey. This figure is arrived after years of increase; Turkey now ranks 15th and as such, is a significant actor. Turkey has nearly 11.6 million cattle, 4.6 million of which are milk cows. This figure increases by the day with the cattle breeds. Why is that important? This is crucial when we look at it from the perspective of increased productivity and increased raw milk costs and quality. Let me share some striking figures here. In the past 5 years, milk production in Turkey grew 18% although the number of animals did not show much change. The greatest factor in this growth is the 7% increase in productivity in the past 5 years, which is a result of the joint efforts and activities of the Ministry of Agriculture, businesses, veterinarians, agricultural engineers and producers. This 7% growth corresponds to a production of approximately 2.86 tons per cattle. When we look at the fair target, at international targets, it is nearly 6 tons/year/cattle. This is a remarkable target. With regard to the milk production in our country, we are looking at a vast hinterland. Looking at the milk market in the world, we see that there is an increasing trend towards drinking milk and packaged milk in emerging countries. Turkey also follows suite and increases in this direction continue. There are some key reasons, the first one being health, second social policies, or policies implemented by governments. The "school milk program" is a typical example of this; this program is in place in nearly 85 countries. While drinking milk consumption per person in Turkey still emerges as 24-25 liters, it has significant room for growth, since the

real rival is the unpackaged milk sold on the streets, which corresponds to nearly 50% of Turkey 's consumption. This means half of the total consumption. 50% of the total milk is, unfortunately, made available in the market under unhygienic and improper conditions. However, packaged milk, i.e. healthy milk acquires additional share from this market every day. Considering our leader position also here, we keep growing every year.

When we note the processed food and their prices, like Tunç mentioned, there is some decline in processed meat and milk prices in this quarter. There was 6.7% decrease in food product manufacturing in 2012 on a year-to-year basis. But when we look at that a little later on, you will see that Pınar Süt had a different growth. I would like to state a few points here. As you see in the presentation, there is a transition from unpackaged cheese to packaged cheese, from unpackaged milk to packaged milk. One of the greatest factors in this move is the significant work put in by the relevant bodies of the government during the harmonization process with the EU legislation. Another factor is the establishment of the National Milk Board; the joint search meetings held by the related bodies of the government, the private sector, producers' union, and universities, and the creation of a structure enabled a healthier start-up. As I mentioned earlier, support provided to school milk programs, granting powdered milk incentives to exporting companies to balance the seasonal rises and declines in milk allowed some betterment in the supply/demand balances of the milk's seasonal fluctuations in Turkey. This, in turn, will provide for higher quality milk operations at more optimum costs for our producers in terms of price and productivity in the future. This will open the way for the sector. However, it will take some time because this transition is a process just as it was in Europe and the US; but this process is the right way and it is a promising one. One thing I would like to note here is the fact that producers and industrialists are now able to foresee the near future in milk prices as the National Milk Board announces a seasonal base milk price, and they are able to revise their plans accordingly. This is one of the key structural changes that took place in the recent years in Turkey. Although it is slightly confusing for the industrialists and producers in the short term, we are certain that this will bring us benefit, significant benefit in the near future and in the distant future, since we, at Pınar Süt, have been making long-term milk buying policies for many years, with the strength we draw from our 30,000 producers.

Looking at the overall dairy products market, Turkey presents a market worth TL 2.8 billion. Pınar Süt is a serious actor in this sector with a share of nearly 17.6%. How does it achieve that? By constantly investing in its brand; continually upgrading the quality of its products; maximizing its productivity and performance. As you can see, Pınar maintains its leadership

in UHT milk with 31% share, and in light milk with 66%. Organic milk - I would like to specifically emphasize that we were the first in Turkey to do organic milk production and we are expanding the hinterland for this product, which I will talk about later, and when we compare it with the competition, you can see that we are ahead by a large margin in many aspects. This is one of the important points here. Looking at the first half of 2012, while the market grew 5.6% in turnover, there was 9% contraction in terms of volume. Considering the impact of flavored milk, in other words, the effect of school milk for children, and the children's increased habit of drinking milk, we can see that the flavored milk market grows constantly and will grow even further. We see that it has expanded by 24% over the last 4 years. An important fact is that we have continually increased our marketing activities and kept our product a current topic.

When we make a comparison with our competition in the market, you can follow this route from the diagram.

When it comes to creating differentiation through new products, following the organic milk UHT milk I just mentioned, we are continuing to develop organic product variants such as organic white cheese, organic yoghurt, and organic light yoghurt. We are the first company to have obtained organic certificate. Certainly, different competitors will emerge as organic milk production develops in Turkey, but I believe we will maintain the advantage of being the pioneer and the first by a large margin. Our targets are also in this direction. We also keep diversifying light product variants, especially in the fresh group, for our health-conscious consumers. These include light yoghurt drink and light yoghurt. In addition, we have changed the packaging of our 1-liter packaging in the fruit juice segment, and began giving our new products to the market in our new look. You can see that on the shelves. I would also like to talk about our marketing activities. We have ceaselessly sustained our marketing activities in key product segments like Pınar Beyaz spreadable cheese and Pınar Labaneh. We are making frequent use of virtual media that particularly young people use a lot. Please note that Pınar Labaneh campaign alone received 83,000 likes, while just a short video within the scope of the Pınar Cream Cheese campaign was watched by 680,000 people. These are clear evidences of the value our customers, our consumers give to our products.

Regarding the product groups and channel distribution, although our diagram does not show a big difference in percentages, you will notice a 2-point rise in our exports. 85% of our sales is realized by Yaşar Birleşik Pazarlama, and 5% is direct sales whereas our exports account for 10% of our sales.

Reviewing the growth in sales, you can see that there has been an upward move in sauces, fruit juices, butters, yoghurt, yoghurt drink, cheese, milk, in all of them. We have achieved growth in the range of 15% to 27% in different product groups. I would like to stress once again that our net sales grew 20.7% year-to-year in the first half of 2012. This was allowed by the extra importance we placed on marketing and sales and distribution.

Let me give you some details about our exports. Pınar Süt is single-handedly accountable for 17% of milk exports out of Turkey. Most of our exports go to Saudi Arabia and Kuwait, where we are the leader with 45% with our labaneh product. We hope that in the years coming we will keep flying our flag in the European Union as the walls between Turkey and the EU are eradicated through the collaboration of the relevant official bodies and the sector, and through programs in which our company takes place. Another point I would like to stress is that our company is part of the Turquality program; it continues to be a part of this program in its second term. This is a program that will help us further advance in the international arena on the back of this fine support that our government extends to the brand. I would like to stress the importance of that once again. Here, you can see that there was a rise from 8% to 10%.

As for our financial results, I had mentioned the contraction in the sector earlier. However, the company achieved 9% increase in volume. There was 20.7% rise in net sales, as I stated before. In keeping with this strategy, we secured increased sales and market share, and special emphasis was placed on these investments. I mentioned earlier, but if we want to go into detail, base price implementations of the National Milk Board and the ups-and-downs in the milk market that have become minimal or even more stable by now impacted our profitability somewhat negatively. In the first half of 2012, we posted TL 26.8 million in net profit. EBITDA was TL 31 million.

When we analyze the income statement, we see that net sales went up from TL 299.5 million to TL 361.4 million. We registered an operating profit of TL 23.2 million, and a pretax profit of TL 31.3 million, as EBITDA amounted to TL 31 million. When we take a closer look at this chart here, you will see an increase in the cost of goods sold, as I mentioned before. The cost structure of milk, our raw material, and the changed market structure provides a return here, which represents a rise that is as high as 22%. In addition, our energy costs went up as high as by 30%, as you know. Gas, electricity and other inputs have an effect. As a result, we booked a gross profit of TL 68.2 million. Despite the contracted sector, we were able to grow our volume thanks to our focus on marketing and sales and to the money we invested in

these areas. These, however, naturally resulted in some distribution costs incurred mostly for marketing. EBITDA amounted to TL 31 million, like I said before.

When we review our growth analysis, of the 20.7% growth, 11.5% was due to quantity. As I said before, 7.8% of it was due to price and product mix, while 1.4% was a result of exchange rates.

Looking at the profit margin percentages, gross profit margin was 17%, profit margin 4.6%, EBITDA margin 6.8%, and net profit margin 5.8% in the second quarter of 2012, as I said before.

On the basis of quarterly results, while net sales were worth TL 155 million in the second quarter of 2011, the same was worth TL 185 million in the second quarter of 2012. This means a 19% growth. The climb from TL 177 million in the first quarter to TL 185 million represents a 5% growth, as well. Let me repeat that the market is scene to significant price competition, due to the new structure in milk prices and the contracted market. In this sense, we consider good price management, maintaining the volume, and upgrading brand equity as investments in the future. Therefore, I am specifically asking you to consider that in this context.

On the basis of key ratios, financial obligations and net operating capital, there was 54% rise in net cash generated on operations. There was an increase from TL 10.6 million in the first half of 2011 to TL 16.4 million in the first half of 2012. I would like to underline some of the key factors, which were a focus on continuity management, effective management of working capital, and strong balance sheet and liquidity management. Some of you may have questions. I would like to state that the slight increase in your inventories was the result of growth, it was a contribution of our growth.

There are a few points I would like to emphasize once again regarding the 2012 1st half review. Raw milk prices maintained the figures for the last quarter of 2011 in the first half of 2012. However, I would like to remind that raw milk base prices will be set by the National Milk Board semiannually, in April and October, in accordance with the base price implementation.

Within the frame of our strategy to achieve increased market share, we continue to put weight on marketing investments and I remind once again that there were rises in our market share in the first half of 2012 as compared with year-end 2011. We continue to support this strategy with our new packaging in the period coming. The key here is increased

productivity of producers, and the support extended to this end, as I mentioned before. Also operational efficiency in plants is one of the key aspects. Our activities related to lean six sigma and our operational costs improvement efforts continue at full speed. Our primary target is to maintain our leadership in all product segments where we are already the leader and to achieve leading position in other segments through active price management, extensive distribution, efficient use of the social media, improvement of away-from-home consumption channels, expansion of our exports destinations beyond Gulf countries, and giving increased weight to marketing investments. As for our 2012 targets for net sales, we achieved 18-20% growth in our net sales by a slight 10% revision of our EBITDA margin. As we continue with our investments at full speed, we suppose that we will close the year with total investments worth TL 35 million to 40 million.

Thank you for your time and attention.

Q&A Session

Speaker: Mr. Hikmet Altan, CFO, Yaşar Holding A.Ş.

- With the effect of the decreased allowance for participations, the profit of the companies lessened, both Pınar Et and Pınar Süt suffered from decreased profit caused by participations. There is a general question regarding the cause. Some people had some comments as to its cause, but in general there are queries about this topic. Let me respond to that briefly. First, there is a one-off valuation difference resulting from the participation of Yaşar Birleşik Pazarlama (YBP). This is a one-off situation. It will not happen again. It affected both Pınar Et and Pınar Süt. On the other hand, as you know, YBP cancelled its distribution contract with Ferrero in the middle of last year. YBP no longer distributes Ferrero products; therefore, YBP no longer earns the profit derived on Ferrero products. So, there is a decline in YBP profit arising from this fact. That had an impact. And that is not a one-time effect. We are trying to counter that by increasing the profitability and volume of our own products. On the other hand, YBP sustains its strategy to distribute such products in line with its own portfolio. In the future, we might consider a different product for the portfolio, if and when we identify one.

- There were some questions regarding the impact of increased prices of feed raw materials and other agricultural commodities upon Turkey, the measures to be taken by the Ministry of Agriculture, and how this would affect our companies. I would like

to answer these briefly. My colleagues are welcome to add anything they wish. You know, the Ministry of Agriculture has been working for some time to minimize this impact, and by a regulation published in the Official Gazette, importation of certain goods has become free as of August 9th. This is something the Ministry of Agriculture does from time to time in case of limited availability in Turkey. Two years ago, there was shortage of livestock; the Ministry also then liberated importation and issued regulations. There are still regulations about the subject. We believe that these actions will make a positive effect both on milk animal and meat animal farming. The products that have become free to import include feed, hay, coarse fodder etc. They can be freely imported since August 9th. We believe these will have a positive effect. Turkey is certainly not isolated from the world; we know that such shortages will also impact us. You read in the papers and hear in the news that there are some factors driving the increase in milk prices, meat prices. There were similar articles in newspapers just yesterday. It is a reality that it will affect us somewhat; it is a reality that it will affect animal farming in Turkey; but we believe that the steps the Ministry of Agriculture has taken in this regard are correct and that they will minimize this effect. When we consider the situation specifically with respect to our companies, we believe we will be the ones to be the least affected, because we have a very extensive purchasing network, and we have very long going relations with our suppliers. We suppose the effect we will sustain will be minimal.

- There is a question about the decreases, increases in growth as at various quarters, stating that the growth was faster especially at Pınar Et in the first quarter but it dropped to 6%-7% in the second quarter. There is a question about whether this will go on like that. We can answer this question like this. There is something we keep telling in our presentations and in our meetings with yourselves: there is a transition period in our pricing policy. We do not, we cannot immediately reflect increased costs in our prices, both because of our policy and our strategy, as well as the market dynamics. We have a transition period. Only after that, we reflect the increases in costs. Both at Pınar Süt and at Pınar Et, we have pursued a policy aimed at increasing our market share in the market that did not really expand much in the first six months of the year, like my colleagues mentioned. We did not directly reflect our costs in our prices from time to time, but slightly adjusted the prices. We had such a policy in the first 6 months of the year. This strategy applies to both Pınar Et and Pınar Süt. If our costs increase more than our expectations, we reflect this in our prices after a transition period of 3 or 4 months. This is a strategy we have always

talked about and implemented. Those of you who regularly attend our meetings already know that. This strategy is still in place; therefore, in the event that price/cost increases continue, there will be price adjustments in the second half of the year, in any case, and we believe this will help us achieve our profitability and sales targets for the year-end. But it should be kept in mind that Pınar Et, Pınar Süt and Pınar Su are all big companies in their respective markets; they have the highest market shares in many segments of their markets. Therefore, we are in a situation to steer the market, but when doing that, we do not want to lose our market share either. Accordingly, we change our price policies but if we look at our companies' past, these are companies that are able to regulate their prices, able to reflect their prices in the market owing to the power of the brand. We will sustain these policies also in the future.

- There is a question about Pınar Süt's targeted investments worth TL 35-40 million. Those of you who had attended previous presentations will recall that when preparing our investment budgets, we tend to make a budget that observes the course of events in the first half of the year and intensifies investments in the second half of the year. I suppose we had told you about that. Therefore, we will certainly make these investments unless there are major events in the economy, in the market, in the business, in the world, unless there are unexpected developments in the second half of the year. Some of these investments have already started, at least on paper. Like I said, these investments will be made for sure provided that the circumstances materialize in line with the targets we have set.

- There is another question whether part of the marketing expenses is being capitalized. Our marketing costs, or rather our marketing expenditures, are recognized as expenses in their entirety. No part of it is capitalized in any one of our companies. There is another question about marketing in the second half again, related to Pınar Süt. But I can say that for all our companies. The question is whether the marketing costs will continue in the same vein in the second half as they did in the first half. My colleagues already told in their presentations, and also I did, too. We are a group that stands out with its brand in Turkey. Our investment in the Pınar brand name will never stop. Therefore, our marketing investments aimed at our brand will always continue. These marketing investments will go on at Pınar Su, at Pınar Süt and at Pınar Et during the second half of the year. I cannot tell now whether the figures in the second half will be equal to the figures in the first half or if they will

be higher or lower – that actually depends somewhat on the developments. But I can tell you that they will not stop; the investments will continue as they do every year.

- There are some questions about profitability of Pınar Et and Pınar Süt. They say the profitabilities were high in the first quarter, but they declined slightly in the second quarter – there are questions about that. I had answered them already but let me answer them again. Our EBITDA targets that we presented as year-end targets are achievable targets for us, for our companies. Both Pınar Et and Pınar Süt regard these as achievable figures, attainable targets. Nothing has changed there. As far as I can see, I think we have answered all questions. There is something about feed prices but we responded to that. About soy costs and price movements across the world; I think we have answered that in general. At the end of the day, these are elements that increase the cost, that increase our costs as well, but there are some steps the Ministry of Agriculture is taking. How much of the decrease in YBP's net profit is one-off? We already covered that. Let me make one thing very clear. If we put aside one-time adjustments, YBP is a profitable company and I can tell you that it will close the year at profit, that I can claim with 99% certainty. YBP is a company that has posted profit for many years.

There is a question whether the National Milk Board will revise base prices. Perhaps Gürkan can give a more detailed answer to this question.

Speaker: Mr. Gürkan Hekimoğlu, General Manager

- This is a question that is raised frequently as the newspapers have been dealing with it. As Hikmet said earlier, there will be an advantage resulting from the elimination of importation particularly in coarse fodder products by the Ministry of Agriculture. First of all, the imported quantity needs to be known. Turkey is also an exporter of coarse fodder. March and April were quite dry across the world this year; the rainfall came only after April. As a result, Russia and other countries taking on large volumes of plant production had difficulty establishing their agricultural proceeds, post-harvest quantities. After that, Russia first halted its exports, and then set them free. This relieved the market to some extent. In the meantime, Turkey's nearby neighbors and Turkey realized significant amounts of plant production as different doors in the world opened and closed. However, as I just mentioned, in an effort to regulate the nutrition regimens of high-yield milk cows and because feed manufacturers are faced with some issues, the governmental authorities are balancing this situation by

liberating imports. Is it right to balance, revise milk prices immediately? You know, milk prices are announced in October. If this is to be revised, there is quite some time until October. The implications of the use of feed plants to be imported until then with respect to the producers are to be seen subsequently. I believe now is too early to say that. It looks like measures have been adopted.