

Speaker: Gürkan Hekimoğlu, General Manager

Our company has been active for 41 years. This is a remarkable period of time and we rank 96th within the top 100 on the basis of Istanbul Industrial Site. If you ask me about our capabilities, I would give you the innovative products developed by our R&D, our essential high quality, our brand equity, and our use of advanced production technology; on top of these, we have incorporated all the standards related to food safety as well as various standards along with occupational safety and energy efficiency standards. In our production, we are driven by the power we draw from producers. We work with more than 25 thousand producers; this figure now includes producers in the Urfa region. We have 425 collection hubs and over 210 farms. We are one of the few companies holding EU exportation approval. Our sales value makes up the last link of this chain; every day, we reach 155 thousand points via YBP, our sales company. As mentioned in our previous presentations, we prefer the cities in Eastern Anatolia especially in the school milk project. We have successfully completed the 24-million pack that falls upon our share in terms of the students in these cities. This project was successfully finalized with the schools campaign.

We rank 8th in the world in milk production. We are fine in production but the critical point is to deliver the product to the consumers, to turn them into healthy products and to let them be consumed. We can say that Turkey has still improvement areas when compared with the other countries. Comparing the packaged products with global products, we can suggest that consumers buying healthy products increase by the day, that this is supported with various campaigns, and that there is growth in this aspect. We consume milk not only by drinking but also by eating it. There is an increase in Turkey in fresh products such as cheese and yogurt. The increase in dairy products is driven by increased productivity, and the efforts and activities of the Ministry of Agriculture and all other stakeholders, rather than by the increased number of livestock.

Looking at the market data, at all the geographical regions of Turkey and at the seasonal conditions, let me underline that UHT milk has an important place. The cheese category shows us that the Turkish people prefer the cheese types in this graph. We see that especially spreadable cheese is now preferred for breakfast. We are also working in this respect. This is an important development for our country. In terms of UHT, the school milk as a social project is efficient and it is important for raising future generations of healthy individuals who consume healthy proteins. Apart from that, seasonal changes can be listed among the side effects. It is also beneficial for added value. Flavored milk is also important for us. We are working to increase day by day our products that have real chocolate, banana and strawberry in them, as we all as other milk products.

In terms of market dynamics, when we take a financial point-of-view and look at the inflation rate in food products, the average annual rate of inflation in processed food was higher at the end of the second quarter than it was at the end of the first quarter of the year. This rate is 12.75%. A key factor here is the increased raw input prices in 2014. The importation of inputs is also affected by the exchange rates. We truly see the impact of agricultural drought, of seasonal changes on the world market. We see the impact with respect to productivity and we see the unproductiveness of the milking cows. This surely affects supply and demand. Twice the national council of producers increased prices. Once in February due to the reasons I mentioned earlier. We see somewhat upturn in raw materials. There were increases in packaged milk and cheese products penetration. But I dream of a Turkey where people go to the grocery store or to the supermarket to buy the packaged yogurt and the packaged milk we produce at hygienic conditions; I think Turkey will then have caught up with the USA. We are getting there gradually.

In the meantime, what is Pinar doing in the milk market? We see numerous products on the screen here. The measured retail dairy products market grew 7% in the first half of 2014 as compared with the first half of 2013.

We have new products. And we also have promotional campaigns. We carried out significant campaigns for fruit juices. We captured a serious rise in market share, and this is pleasing for us. You will see many new products from us. Promotions are organized for various products. Our essential product: labaneh. We keep owning and bringing to consumers our labaneh, which is known as Pinar Süt in overseas markets, and our Pinar Beyaz. We keep realizing promotional campaigns for these products. We targeted to back our sales by upgrading our image value with regular communication investments that will add to our brand value. We have used the networks that are closest to our customers.

Having taken 11% share within Pinar Süt sales, export sale went up to 13% this year. Pinar Süt realizes 16% of total milk exports from Turkey; this year, though, many countries saw fluctuations both in raw materials and in seasonal changes. In the light of these effects, there was a rise in powdered milk in general and in Turkey's sales of powdered milk. We sold to Japan, the Philipinnes and Middle East countries, which is a good development for us. When this is repeated in the future and capitalized on, it is an opportunity to create brand awareness for us. With packaged labaneh, Pinar Süt has 27% market share in Saudi Arabia, 53% in Kuwait and 41% in the UAE. I want to talk to you about our neighbors. Syria and Arab countries are important for us. Iraq is important for us in terms of market share. We have many activities and commercials there. Of course, we are trying to overcome security issues. Although war conditions prevail, people continue to consume.

Following İzmir and Eskişehir plants, we decided to build a Pınar Süt plant in Şanlıurfa in Southeast Anatolia. The erection work of the plant is underway. The Şanlıurfa plant will bring us increased capacity, increased turnover, and affect our profitability; when the problems with our exports are overcome, it will also provide a major advantage for exports, as well.

When we look at the sales performance and profitability of Pınar Süt, we see sales grew by 17.1% and reached TL 453.4 million. The growth in quantity, on the other hand, is 5%. Our EBITDA reached 36 million, while our net profit is 37.2 million. I would like to state that our tax advantage and the positive effect from our affiliates were factors in this result.

When we study the income statement, our net sales reached 459.4 million TL as I stated before. Although we have reflected the price increase in raw materials in our products, its conversion into profit for us occurs gradually. Our pretax profit is 36.1 million TL, and our net profit for the period is 37.2 million TL.

As for profit margins, I tried to state it from time to time during my speech. Our standing on the shelves is crucial for not suffering losses in sales because of higher-than-expected rises in raw milk prices, and for keeping our growth unaffected by it. I mean, let's assume, there is an increase in prices today, it is not possible to reflect it on the shelves the next day. Even if we do, the consumers will not take it easy. The market sees many actions including new market entrants, the impact of acquisitions and the market activity. We have taken some measures in order not to sustain any losses in our (production and sales) quantity and to preserve our 17% growth overall. Our gross sales profit margin is 17% and these have some impact on our EBITDA margin, too. We have set it as a target to compensate them in the second half-year. However, the developments in raw materials have not been reset this year due to drought; when we consider the dam water levels with the most recent rainfall, there is a slight hint that the raw milk prices may remain stable for a little longer. But it is too soon to say that there is a positive outlook.

We are focusing on our stocks, debts and receivables and risk management, and we are working to carefully manage effective working capital.

1. A brief assessment of the first half-year

We can say that, as compared with the same period of the prior year, we have increased our sales by 17.1%, arrived at the final stage of our attempt to establish a plant, and we have made use of incentives. We have carried on with our marketing investments within the frame of our strategy of increasing our market share, and we have been working to capture increased market share not only for Pınar Süt products but also for fruit juice, by making use of the

campaigns I mentioned. As you are observing, many acquisitions and company takeovers are taking place in our industry. Also new players are entering the market. I would like to state that there are many companies working in this field especially in the Konya region. But for 41 years, we have made it a target to sustain our leadership in this sector. We are closely following up the developments, but we also stick to our ways. The key here is to reduce our costs, as well as our saving efforts and projects.

Strategy and Goals

Our strategy and goals are to ensure effective price management, extensive distribution, efficient use of the social media, developing and expanding fitting products for the away-from-home channel, and penetrate countries other than Gulf countries in our export sale. To this end, together with our exports team, we have been travelling country by country, trying to capitalize on every opportunity. We fully stick to our goal of continuing with our marketing investments, just like with our plant investments, and of constantly reminding our consumers of Pinar products through healthy and high quality products. In doing those, it is among our targets to grow our company and to grow the relevant segments.

There have not been any changes in the shareholding structure of Pinar Süt. I would also like to note that we have a corporate governance rating of 8.99.

Q&A SESSION

QUESTION 1

How will Pinar be affected by the acquisitions in the sector?

The differentiation of competition will affect the sector, and the sector's leader Pinar. But here is what we think: their acquisition by institutionalized companies will discipline the sector. Such form of competition will always positively affect us. The food business is a thriving and promising business in Turkey; therefore, numerous companies, investors, national and international alike, are seeking to invest in this sector both strategically and financially. But brand equity and distribution capability are crucial in this sector. You see from our presentations and our financials that at Pinar, we have both, and we constantly invest in these fields. We never give up from investing in our brand. We never give up from our

communication because we consider it a major asset. On one side, our distribution capability is crucial. This is a major element that sets us apart from our competition.

QUESTION 2

The margin pressure increased sharply in the retail industry. How will you manage that?

We keep investing in our brand. Plus, we are also turning towards other channels. I mean, we have a distribution system that delivers goods to 155 thousand points every day, which extends from the away-from-home channel to the different segments of the household channel. Therefore, we possess an advantage because we have a very broad distribution network. Surely we are trying to implement new distribution technologies; we will use some advantages introduced by technology, such as online sales. The away-from-home channel is constantly increasing its share; we are trying to increase our share here by developing products fitting for this market. We are introducing new products, thus trying to keep the consumers continuously engaged and active. We are trying to offset the profit pressure by making small-pack, high value-added products constantly available in the market. Our efforts in cost control are also ongoing. The Urfa investment will bring logistic and capacity advantage. We believe that we will be able to manage the profit margin by continuing with these kinds of investments.

We predict that we have come to the end of our investment. We will open (the plant) in the second half of the year; we have completed it substantially. Right now, through some revisions, we are working not to increase our borrowing and to keep it at its present level.

QUESTION 3

The export sales of Pınar Süt are growing faster than its domestic sales. Will this go on like that?

In the exportation of dairy products, Pınar Süt is Turkey's leader. There are some restrictions here, but we will keep growing our exports to countries where no restrictions apply.

Our exports to Iraq decreased because of the events in that country; but we are dealing with the northern part of the country and we do not have any collection risk since it is cash sale. And for the time being, the lively activity continues in the northern part. We can say that our exports will rise in parallel with the domestic market.

This year, the profitability of exports seems higher. There are two specific cases: one is the additional powdered milk export, which will increase our export figure. Our profitability of exports will increase also because of the positive course of exchange rates. Overall, we are

anticipating our profitability on exports and our domestic profitability to be parallel, except for these specific cases.

QUESTION 5

How is the export relationship with Russia?

Dairy product export to Russia is not permitted; the Russian side does not allow it. We build our strategies on the long term rather than on opportunities. We will surely take advantage of an opportunity, should it arise, but we will turn to different exports alternatives thanks to our long-term strategies, if an opportunity does not arise.

QUESTION 6

What is your countermeasure against your declined market shares, except in homogenized yogurt?

We are the number one and leading brand in many products. In segments where we control 50-60 per cent of the market, we are OK with 1-2% market share (loss).

We have the strategy of increasing our market share by improving our portfolio through differentiated products, introduction of high value-added products, and products in different packaging, as well as introducing new and different products. You will see that we will increase our market share in the cheese segments.

QUESTION 7

How much will the events in Iraq affect the investment in Şanlıurfa?

Not at all, because we did not plan it as an investment for Iraq. Our thought was to be close to that part of Turkey, to carry out production in that region, but of course it is an investment we had planned for being close to export destinations in that geography.

Therefore, our real target is not Iraq, but to increase our sales in that region. We have utilized a loan for that investment; you know it is an incentive loan. We are anticipating not to increase the loan amount, and to keep it at its present level.