

Meeting Notes, August 11, 2015

Gürkan Hekimoğlu, General Manager,

- The third facility, Şanlıurfa Investment, started its operations gradually from the beginning of the year and went into fully operational in May, 2015. With these 3 factories in different locations our company has a wide-range distribution chain throughout Turkey. If we take the third factory into the account, the total raw milk procurement capacity has reached up to 2.000 lt. per day. **[Slide 2]**
- We have a favorable opinion about the new arrivals and investments in the sector. We believe registered and law-abiding firms enhances the competition in the market. The real rival of the company and the market is unpackaged milk segment. We are making efforts to change the consumer preferences with the support of ministry and government. **[Slide 2]**
- We are increasing the capacity of cheese production lines and launching new products in this segment. In terms of the amount of milk used during production of cheese, It is a significant way to take unpackaged milk into the registered area. We may confirm that packaged cheese segment is growing recently. **[Slide 3]**
- The main driver affecting the company is the cost of raw milk. It is one of the most frequently asked questions. When we look at the past 2-3 years we observe an increase which is above the general food inflation. The increases in the raw milk prices were due to the intense meteorological drought all over the world which caused a hike in feed materials. The industry did not reflect this cost increase into the end prices literally. After a lush meteorological year especially in terms of the feed crops the prices have remained stable so far. After the National Milk Council meeting, the emerging expectation in the industry for the raw milk prices is likely to stay at these levels (TL 1.15) which is also quite fair price for farmers. **[Slide 3]**
- We have maintained our leadership in most of the dairy categories. Our company increased its market share from 16.9% to 17.4% in this period. We are one of the leading companies which makes significant contribute to the growth in the sector. We have placed the new launches on the slide and you may see that we are focusing on the small package products like Pınar Et (meat company) did in the past. The market is responding very well on to these products. I may declare that we will have new products especially in cheese segment in the near future. **[Slide 4-5]**
- I would like to emphasize that there is a base effect when you compare the top lines year-on-year. The one-off milk powder export and school milk project made a significant contribution to the net sales in the first half of 2014. If we disregard this effect, we may point out a volume growth in the revenue on the contrary of what you see in the growth analysis slide. I would also like to mention that the milk procurement amount did not contract in this period due to the increasing share of the cheese products. I draw your attention that more milk is used in cheese production. **[Slide 6-7]**
- We are also facing a base effect in the net profit comparison. Tax incentive incomes which we gained from Şanlıurfa Investment brought a substantial increase in the net profit last year. Additionally, with the negative impact of foreign exchange losses of the vendor loan

arising from new production line investments in Şanlıurfa, we observe some narrow in the margin. **[Slide 6]**

- The share of YBP (distribution company) has grown in the total net sales due to the lack of the one-off milk powder export and school milk project revenues which were accounted in the export and direct channels last year. As a result of our strategy focusing on the value-added products the cheese segment turnover has grown by 21% which is well above the average growth of 6.7% in the net sales. The volume growth occurred about %15 in the cheese segment year-on-year in H1 2015. **[Slide 8]**
- Export is one of our key channels. We started to export to new countries such as United Kingdom and Russia in the first half of this year. Speaking on the Russia exports, I should mention that depending on our strategy we have a long term vision in Russia rather than spot sales. Before placing the products on the shelves in export markets we are carrying out accurate researches about traditions in those regions. **[Slide 9]**
- Month of Ramadan usually boosts the sales every year in Turkey. This year, we did not see any increasing in June which coincides with Ramadan. A significant diminish in the demand started in the domestic market in May and It ended up with an awful narrow in June which forced us to decrease the sale prices and make promotions. In any case, June was a weak month in terms of sales and profitability for us. I can say that July has passed beyond our expectations. As you know, recent nationwide developments have impacts on consumer behaviors. **[Slide 10-11]**
- Şanlıurfa Factory procures 80 liter raw milk per day for now however this amount will increase gradually in the future. We produce milk, yoghurt, ayran and juice in that plant and we take logistical advantages of that location. The total investment amount is TL 65 m. **[Slide 12]**

Q&A

Raw milk prices:

- Considering a decline by 15% in Europe in raw milk prices and excessive increases in domestic market in the past few years, our expectation is to be remained stable until the year-end.

Şanlıurfa Investment:

- The plant provides us an additional raw milk procurement capacity of 350 tons per day. I could say, other two facilities of our company have equal share from the remaining procurement capacity. The amount of actual procurement is still low in Şanlıurfa, but It will increase progressively.