

PINAR SÜT MAMULLERİ SANAYİİ A.Ş

Meeting Notes – March 1, 2016

Speaker: Mustafa Şahin Dal, Financial Affairs and Budget Control Director

The latest increase in raw milk prices was its hike to 1.15 TL in July 2014 and it has not changed since then. National Milk Council has determined this price to be valid until June 2016. That's why we are not expecting any increase in raw milk prices till then. Penetration of cheese and UHT milk went up. **[Slide 3]**

Our average market share rose to 17.5%. We are preserving our market leadership in UHT milk with a market share of 31.3% and in spreadable cheeses with a market share of 36.2%. **[Slide 4]**

We have launched new products like cottage cheese, white cheese in buckets, cheese for boreks and lactose free half fat milk. We developed new, more convenient and functional packages. **[Slide 5]**

In 2015, we recorded a sales figure of 1.01 bn TL with a rise of 7.5%. Due to the fierce competition in the market, rising costs could not be fully reflected to the product prices and this led to a frustration on the margins. Operating profit is 53.9 mn TL for 2015. EBITDA reached 78 mn TL with a yoy rise of 7.6%. The reason behind the increase in EBITDA, while operating profit remains at 2014 levels, is the depreciation costs incurred due to Şanlıurfa plant and other investments. Our net profit for 2015 is 62.2 mn TL. Due to the base effect of income from land sale and tax incentive incomes of 2014, 2015 net profit is lower than that of 2014. **[Slide 6]**

Our export sales are performed through YDT. Similar to last year, 85% of our domestic sales are realized via YBP. 12% of our total sales is performed as export and 3% of it is direct sales. In 2015, we have achieved a surge of 20% in the sales of cheese segment, which was stemming from the growth of cottage cheese we launched and modern cheeses – especially labne. **[Slide 8]**

We mainly export to Gulf countries and the rise in currencies has positively affected our export sales. **[Slide 9]**

The third plant, Şanlıurfa Factory, has been put into operation and the production volume and diversity at the facility are increasing gradually. It's a factory planned to expand its product variety in accordance with the needs in the future. This plant has augmented our raw milk processing capacity. The total amount of investment we made for Şanlıurfa plant is 65 mn TL up to now. In 2015, the total investment that we have made for cheese lines (cottage, white and fresh) is 36 mn TL, other than those made for Şanlıurfa plant. **[Slide 12]**

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Q&A

Raw milk prices

Actually, considering average yearly prices, raw milk prices rose by 5%. Other than that, energy and maintenance costs also have increased. Energy rose by 10% on average.

Penetration of Packaged Cheese Segment

Packaged cheese segment is continuing to grow. While in 2014 its share in total cheese market was 43%, it has grown to 46%. So the growth is proceeding. Our cheese sales grew by 20%. We are headed towards value added products and aiming growth in investments and sales for both conventional and modern cheeses.

Export

The share of export within our total sales is constantly growing. Our export markets are mainly gulf countries and neighbouring countries. Last year most of our total export of 46 mn \$ was realized to these countries. The market is still growing in these markets. Especially we are market leader with labne etc. in gulf countries. The developments in our sales and brand recognition, led us to make higher export projections for this year.

On the other The one-shot milk powder export of 2014, could not be sustained in 2015 due to the drop of raw milk prices globally and increase in production. So we did not make this export in 2015. It is not an export type that we always perform, but we can do that again if it proves to be feasible and profitable.

Our new plant in Şanlıurfa was established since the volume that we need and total milk consumed is increasing. Our export is projected to surge as geopolitical conditions recover. On the hand, it is not a plant constructed just for export related targets. It is continuing its domestic production. We are projecting capacity usage rates to improve and the factory holds absolute logistical advantages.

School Milk

We won the School Milk Tender as Pınar (45%) and Dimes (55%) partnership. It will reflect its profitability on our accounts after the second quarter.

Pasteurized Milk

Although pasteurized milk market has grown fast until last year, it still is a very small portion of the total milk market. And in 2015 the growth of pasteurized milk market has stopped. We were a part of this market until last year, but we have left it due to several reasons. We do not have any intentions to reenter this market in 2016.

Profit margins

Each sector in Turkey is sensitive in terms of preserving margins. Maintaining our profit margins is our priority and core subject. However in Turkey, for the last 2 years, both milk and meat markets have ceased to grow and this was a bigger threat than keeping margins. Growth of the markets has a higher importance for us. The consumption of packaged milk and meat should continue. Even though the market stayed flat, we kept our market shares and our profitability.

There is a fierce competition in the dairy market, in Turkey as it is in the world. We are accustomed to this competition. Although discount markets have also joined this competition with their products, we

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are preserving our market shares and even increased our shares in some products. We think we have the right attitude and tools for this competition.

Investment Plans

Debottlenecking investments in all our group companies are continuing. Economic stagnation, political and strategic conditions, force us to make more careful decisions and we will behave similarly. We will realize most of the required investments.