Earnings Presentation of 2012 H1

Speaker: Mr. Gürkan Hekimoğlu, General Manager

I will now try to present 2012 business results for Pınar Et.

Pınar Et draws its strength from its product portfolio, brand equity, production capability, quality, strong distribution network and its supply chain activities. Pınar Et presents more than 300 products to consumers. The brand updates its product portfolio with its experienced R&D, and is able to introduce new products that cater to needs. According to research, Pınar Et is the first brand recalled and emerges as the most admired company in packaged meat products. In terms of production capability, it has possessed machinery and equipment at European norms from the very first day, a quality that has been maintained ever since. This brings along technical experience and increasing depth in industrial know-how. As quality is an aspect that is given the utmost importance, Pınar Et holds the "first-ever" certifications in the industry, and sustains its efforts in this department. Looking at the distribution network, Yaşar Birleşik Pazarlama commands Turkey's largest refrigerated and frozen distribution chain, and reaches more than 150,000 points of sale. The company also takes advantage of the synergy arising from the joint distribution of milk and meat products. On the supply wing, the business is carried out on the back of strong relations with producers, thanks to experienced purchasing staff across six geographical regions of Turkey.

When we glance at the overall dynamics of the market we are active in, we see that processed meat and milk prices that moved upward from the 2nd half of 2011 began going down in this quarter. We see that the production of food products showed 6.7% decrease in June 2012 on a year-to-year basis. As you all know carcass meat is a key raw material; when we look at carcass meat average prices, which is an important cost factor, we see that following the fluctuating course of prices in 2010, there has been some decline owing to the import policy, and prices tended to stabilize in 2011 and thereafter. The prices moved only slightly in 2012, and remained in the 14-15 TL range. Based on the Turkish Statistical Institute (TurkSTAT) figures for the market, red meat and poultry meat production amounted to nearly 2.4 million tons in 2011. Total meat consumption per person was 36 kg, with 18-20 kg of it being poultry meat, 12-14 kg red meat and about 4 kilos lamb. While these figures match worldwide averages, they show that there is still room to drive consumption. When we look at Pınar's penetration in delicatessen products, we see that the household penetration went up to 38%. We also see that the share of food in the FMCG market slid from 48.7% to 47.3% in the first half of the year.

If we briefly touch upon imports with respect to the supply, as you know, import had started first through the EBK (Meat and Fish Authority) in 2010, which was subsequently expanded to cover the private sector. Currently, 30% customs duty is applied on imported live animals for slaughter. There is 75% tax on carcass meat, whereas no tax is applied on livestock for farming. The import that initially started with carcass and live animals for slaughter recently turned to importation of livestock for farming, resulting in the retention of the value added in Turkey. The Ministry makes regulations to this end.

In terms of our market shares, we maintain our leadership with a 20% share in all delicatessen product categories, holding a 100% margin over our closest competition. April reports show that the market contracted by 3.7% in terms of volume in the first half of 2012, while growing 4.3% in terms of turnover. We see that Pınar Et sustains its market leadership overall.

The trend in earlier years shows the course of market shares in 2009, 2010 and 2011 and the first half of 2012. We maintain our market leadership in all segments.

Our Company continues to work on new products and new concepts. In this context, the Company has introduced single-serve products, products in small portions that can be consumed once open, at prices affordable by all. In addition, the variety of gourmet products is being increased in the upper premium segment to strengthen the "expert" perception in the market and in the sector. Along the same line, a trial package containing all three newly-launched variants (cumin, garlic & cumin, and spicy) of Şölen soudjouk line to enable our customers to taste them. Now let me speak briefly about our advertising campaigns. In 2012, an advertising film was shot and started to be aired on TV channels for soudjouk with cumin and garlic within the frame of the "From Father to Son – Pınar Soudjouk" campaign. In addition, efforts were spent to reach the customers through billboard ads and various product-tasting activities. For our gourmet soudjouk positioned also in the upper premium segment, campaigns were carried out to directly reach the target audiences through tastings and also in the virtual environment, in addition to TV commercials. Another Pınar Soudjouk campaign was the film in the "From Father to Son – Pınar Soudjouk" concept, which was shot in advance and started to be aired on TV channels during the Ramadan. In the same month, emergency iftar team activities were carried out in areas with heavy traffic.

When we look at the breakdown of our net sales on the basis of product groups, we see that our further processed delicatessen products take 51% share and further processed products get 34% share, while fresh meat has 11% share. 74% of our sales is realized by Yaşar Birleşik Pazarlama company, while our direct sales account for nearly 24%.

Growth rates in net sales in product groups reveal the result of our strategy to focus on the sales of products that already have high added value. 14% growth in our delicatessen products points at a 22% increase in sales in further processed products and a 15.2% growth overall on a year-to-year basis.

Looking at our financial results, we see that in the first half of the year, our net sales went up from TL 176.8 million to TL 203.6 million, gross profit from TL 30.5 million to TL 36.2 million, and our EBITDA from TL 16 million to 21.1 million on a year-to-year basis. The stabilized raw material prices, our revised pricing policies and product mix, combined with our improved operating expenses improved our EBITDA margins.

Our income statement also reflected the data we have just mentioned. Our sales were up 15.2% to TL 203.6 million. Our gross profit grew 18.6% and reached TL 36.2 million. Our operating profit is worth TL 16 million and we posted a pretax profit of TL 17.4 million.

When we analyze the drivers of growth, we see that the 15.2% growth was enabled by 8.7% growth in volume, while 6.2% was contributed by price and product mix and there was a slight growth effect of 0.2% arising from exchange difference.

Let's take a look at the actual profit margins. When we compare the second quarters in two years, gross profit margin went up from 15.8 to 18.3, operating profit margin from 3.9% to 8.8%, and EBIT margin from 6.3% to 11.5%, while net profit margin remained flat at its 5.8 figure of last year.

Quarterly results show that EBITDA grew by 97% year-on in the second quarter of 2012 and reached 11.7 million. Moving from Q1 to Q2, we see that there was a 24% increase from TL 9.4 million to TL 11.7 million. Sales grew 13% in terms of volume and 15.2% in terms of turnover in total in the first half of 2012 on an annual basis.

Key ratios and net operating capital figures show that our financial ratios are better than those of our peers in the sector. In this context, there was a 16% increase in net cash, which went up from TL 11.4 million to 13.3 million. These results show the efficiency of our focus on continuity management, effective operating capital management, strong balance sheet and liquidity management, i.e. efficiency in stock, loans and receivables management.

Looking at the first half of 2012, we see the Ministry's import-related arrangements for raw material prices that were introduced from the last quarter of 2010, stabilized prices and a structure striving to be stable in 2011, and slightly higher raw material prices in the second quarter of 2012 as compared with their level in the second quarter of 2011. Our company continued to focus on higher value added products making use of smaller packs of products that better match the purchasing power of our consumers. We also continue with our marketing investments aligned with our strategies.

Let's talk about our strategy and targets; our targets include efficient pricing, inventory management, a product portfolio addressing the needs in different segments, extensive delivery capability, efficient use of the social media, and improving away-from-home consumption channel, and to realize these, we are intending to keep on with our marketing investments. In terms of numeric targets, we aimed to achieve 15-18% growth in net sales and to post an EBITDA margin of 10-11%. We are thinking that our investments will amount approximately to TL 20 million to 30 million.

Our shareholding structure shows that Yaşar Holding holds 54% share in the Company, while our public floatation ratio stands at 33% with Pınar Süt controlling 13.3% share. The Company has equity participations in Yaşar Birleşik Pazarlama, Çamlı Yem, Pınar Foods, and Desa Elektrik companies.

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.

- Pınar Et was also affected by the decreased profitability of Çamlı Yem; this is another factor that lowered Pınar Et's dividend income from participations. Çamlı Yem, as you know, is our agribusiness company; it is engaged in various fields such as fish farming, stock farming, milk animal farming, turkey farming, and feed manufacturing. In fact, like my colleagues explained, the factors that affected Pınar Et and Pınar Süt including the developments in the world and increased costs bore their impact on this company as well. In addition, the fish farming business, which was very profitable last year, was still profitable this year, but not as much as it was last year; therefore, in connection with that company's profit, there was reduction in the first half of the year. This automatically affected Pınar Et since it has a shareholding stake in that company. We are expecting a revision also here at Çamlı for the second half of the year as I said before. Therefore, we are expecting that revision to create a positive impact upon Pınar Et in the second half of the year. I would like to stress once again that the revision arising from the participation is a one-time event. You will not see that again in the future. This was the most frequently asked question both for Pınar Süt and Pınar Et; I suppose we have responded to it.

- 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 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.

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