

PINAR ENTEGRE ET VE UN SANAYİİ A.Ş.

Meeting Notes – August 9, 2017

Speaker: Tunç Tuncer, General Manager

While delicatessen market grew by 10% compared to the same period of last year, the most growing category was sausages. In the same period, Pinar Et grew by 0.4% on a turnover basis and its net sales were realized as 311.9 m TL. While Annual Consumer Price Index (CPI) was 10.9%, annual unprocessed food inflation occurred as 21.2%. One of the most important facts of the year is increase in red meat prices accelerated in the second quarter of the year. The delicatessen market has grown by around 10% thanks to cheap products. **[slide 1]**

Annual food inflation reached up to 14.34%. When we consider that food inflation constitutes of processed and unprocessed food prices, hence we determine that the increase in unprocessed food prices is not reflected to the processed food prices. **[slide 2]**

Red meat prices, which have become relatively stable in the last quarter of 2016, increased slightly in 2017-Q1. The prices were higher by 8.4% in the second quarter of the year compared to previous quarter. During this period, the Meat and Milk Board made some efforts to keep meat prices within a certain range via importing livestock and butchery animals. The feast of sacrifice is coming nowadays, red meat prices will gradually rise, and then we hope that they will decrease slightly. Import quota was determined for the Meat and Milk Board at the end of July and a duty free importation permission for 90 thousand tons of carcass meat, 500 thousand bovine and 475 thousand ovine, in total 975 thousand livestock was granted to Meat and Milk Board until 2018. The Meat and Milk Board will use these instruments in the coming period to keep price increases within a certain band. **[slide 3]**

We see the growth occurred in total processed meat market mainly realized in low-price product groups that supported through discount store channels. **[slide 4]**

We see that the share of processed meat and frozen products account for 83% and fresh meat is around 13% in Pinar Et's net sales. Domestic sales are made through YBP Company and its share is 75% in total sales. **[slide 6-7]**

Pinar Et made TL 311.9 m net sales which is accounting for a 0.4% rise by the comparison with last year. A slight contraction occurred in the market when we exclude discount stores. Lower profits of subsidiaries compared to previous period and increase in input costs including red meat affected profitability parameters. Increasing costs can be reflected to prices with a certain phase difference. In July, we reflected the cost increases to the prices. EBIT was realized as TL 22.5 m thanks to operational expenses savings. **[slide 8-9]**

The sharp increase in raw material costs in the second quarter of the year had an effect on profitability figures. **[slide 10]**

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Speaker: Hikmet Altan, Yaşar Holding CFO

Q&A

1. Rise in unprocessed food prices has pressured the costs what do you expect about these pressure in the second half of the year?

The increase in food prices was around 27-28%, then the trend seems to move down slightly. Food prices have reached a certain level for this year so we do not expect any more dramatic increase. Raw milk base price are set at 1.30 TL/LT as of August 2017. We have taken all the necessary precautions for Pınar Süt. We adjusted the prices in July to neutralize the raw material price increases. If the conditions do not change, we will see the positive effects on the balance sheet in the second half of the year.

2. How will the profit margins be in the second half of the year?

In the beginning of July, we increased product prices slightly. You will see its impacts in our year ended financial reports. We cannot share a clear margin figure because of the Capital Markets Law. However, we can say the margins will be better than the first six months of the year for each three countries.

3. What is the boycott effect in the figures?

Despite it affected our sales in 10-15 days period then the effect decreased gradually. Economic developments, Turkey's growth, increase in raw material costs are much more dominant on our sales and this should be managed.

4. Do you foresee an increase in advertising expenses rest of the year?

Our brands are the most valuable asset for our companies. Advertising and marketing activities related with brands are not compromised. Timing and types of advertising are determined according to economic developments and market conditions. There is no change in our basic strategy. I think, budgeted advertising expenses will be spent in the second half of the year and the amount of advertising expenses will realize at similar level with the first half of the year.

5. What is the reason behind the pressure on gross profit in the second quarter of 2017?

It is due to the price hikes in raw materials. Rapid price increases affected the second quarter of the year. We were not able to reflect raw material price increase to our sales prices simultaneously, this causes a pressure on the gross profit.