



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report



20 November 2014

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Rating and Executive Summary

PINAR SÜT MAMULLERİ SANAYİİ A.Ş. (PNSUT)

 SAHA
Corporate Governance Rating:

9.09



MAIN SECTIONS: **Avg. 90.93**

Shareholders: 86.28



Public Disclosure & Transparency: 90.58



Stakeholders: 98.19



Board of Directors: 91.40



0 10 20 30 40 50 60 70 80 90 100

EXECUTIVE SUMMARY

This report on rating of Pınar Süt Mamülleri Sanayii A.Ş.'s (Pınar Süt) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the company. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Pınar Süt is rated with **9.09** as a result of the Corporate Governance study done by SAHA. The company's corporate governance rating is revised as above in consideration with the importance given by Pınar Süt to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically, and improvements which had been initiated in this direction.

Additionally, Pınar Süt takes place in the World Corporate Governance Index (WCGI) published by SAHA on July 3, 2014. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

Pınar Süt is rated with **8.62** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. Company carries out the investor relations obligations through the Investor Relations Department. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a publicly disclosed dividend policy of the company. There are no restrictions on transfer of shares. On the other hand, there are areas for improvement like adoption as it is, of the rate of minority rights in the company's articles of association as prescribed for public joint stock companies (%5) and absence of a donation policy. In addition, there are privileges to nominate candidates to the board of directors.

Pınar Süt attained **9.06** under the **Public Disclosure and Transparency** chapter. The company has a comprehensive web site. Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul (BIST) rules and regulations. The annual report complies with the legislation, comprehensive and informative. The agreement and work conducted with the external auditor also complies with the legislation. Nevertheless, non-disclosure to the public the company's shareholding structure; the names, amount and rate of the shares held by the company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners along with the privileges they hold and again non-disclosure of the benefits provided to board members and senior management individually are areas in need of further refinement.

On the topic of **Stakeholders**, Pınar Süt scored **9.82**. In case of violation of stakeholders' rights drawn up in line with the legislation and mutual agreements, Pınar Süt enables an effective and speedy compensation. A written compensation policy for the employees is established and disclosed to the public on the corporate web site. The company has a written and developed a human resources policy. Code of ethics is publicly available through the company's web site. During the rating period, the company was not held liable by any public authority for any sanctions. The company complies with environmental laws. Corporate Social Responsibility and Sustainability work is satisfactory.

From the perspective of the principles regarding the **Board of Directors**, Pınar Süt's tally is **9.14**. The board of directors fulfills all duties regarding company needs. The board of directors consists of 7 members and 3 of them are independent. A Corporate Governance Committee, an Audit Committee, and an Early Detection of Risks Committee are established within the board of directors. The tasks of Nomination and Remuneration Committees are performed by the Corporate Governance Committee. The working principles of the committees are disclosed to the public. Principles of remuneration of board members and senior executives are included on the corporate web site. There are 2 female members on the board of directors. However, remuneration of board members and managers with administrative responsibility as well as benefits provided is mentioned collectively in the annual report. As far as principles are concerned a list on individual basis is essential.

Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's "Corporate Governance Principles" released on January 2014.

The CMB based these principles on the leading work of The World Bank, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul A.Ş. and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose; additionally many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Within the Principles, "comply or explain" approach is valid. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company's governance practices in future should be mentioned in the

annual report and disclosed to the public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders, and board of directors.

Based on these Principles, SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.


SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.24).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

Shareholders: **25%**
Public Disclosure and Transparency: **25%**
Stakeholders: **15%**
Board of Directors: **35%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

Company Overview

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.	
	<p>CHAIRMAN İDİL YİĞİTBAŞI</p> <p>GENERAL MANAGER Gürkan HEKİMOĞLU</p>
<p>Headquarters: Şehit Fethi Bey Cad., No. 120, Alsancak İZMİR www.pinarsut.com.tr</p>	<p>Investor Relations Manager Finance Director Muzaffer BEKAR Tel: (0232) 482 2200 yatirimciiliskileri@pinarsut.com.tr</p>

Pinar Süt was established in İzmir on 1973, as Middle East's largest and Europe's most developed plant. The principal activities of Pinar Süt consist of production and sale of packaged milk, yoghurt, buttermilk, traditional and modern cheeses, fruit juices, butter, cream, puddings, ketchups, mayonnaise, honey, condiments, jams and jellies, desserts, and powdered products. The Company operates out of plants located in İzmir and Eskişehir.

Pinar Süt procures the raw milk it needs from the more than 210 dairy farms with which it works and which are contractually obliged to produce in compliance with European Union food quality and safety standards.

According to Nielsen market research report of 2013, Pinar Süt has kept its leader position with a turnover share of 29.2% in long life plain milk, 61.1% at light milk, 54.5% at enriched infant milk and 41.8% at cheese spread markets. In 2013 the company became the leader in flavored milk market with a 19.5% share.

Company shares are traded under "PNSUT" code at BIST and Pinar Süt is a constituent of -BIST FOOD, BEVERAGE / -BIST İzmir / -BIST CORPORATE GOVERNANCE / -BIST INDUSTRIALS / -BIST DIVIDEND / -BIST DIVIDEND 25 / -BIST ALL SHARES / -BIST ALL SHARES-100 and -BIST NATIONAL indices.

61.41% OF Pinar Süt shares are held by YAŞAR HOLDING. Other major shareholders are FRANKLIN TEMPLETON INVESTMENT FUND (6.83%), TEMPLETON GLOBAL INVESTMENT TRUST TEMPLETON EMERGING MARKETS SMALL CAP FUND (6.23%) AND GOVERNMENT OF NORWAY (5.02%).

The capital structure of the company is as follows:

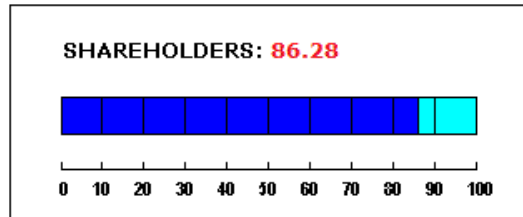
Pınar Süt Mamulleri Sanayii A.Ş. Capital Structure		
Shareholder	Amount (TL)	Percentage %
Yaşar Holding A.Ş.	27,603,901.57	61.41
Franklin Templeton Investment Fund	3,072,335.00	6.83
Templeton Global Investment Trust Templeton Emerging Markets Small Cap Fund	2,800,026.00	6.23
Government of Norway	2,258,036.00	5.02
Other	9,216,752.68	20.50
Total	44,951,051.25	100.00

According to the company's 2013 independent audit carried out in line with International Financial Reporting Standards net distributable profit for the year is calculated as TL 67,442,927 (since this amount has reached the legal limit, no General Legal Reserve was allocated). It has been decided that, out of the distributable profit computed as such and taking into account the donations of TL 846,255 made during the reporting period, TL 13,657,836 corresponding to 20% of the distributable profit be distributed to shareholders as First Dividends as per the CMB arrangements; that, from the balance, Second Dividends in the amount of TL 34,439,788 be distributed to shareholders, which, together with the First Dividends, will amount to 90.95% of the Company's nominal issued capital (TL 44,951,051.00) (total amount of First and Second Dividends being TL 40,882,981); Second Legal Reserves in the amount of TL 4,585,007 be set aside, and the remaining amount be allocated in its entirety as Extraordinary Legal Reserves. Dividend payments have decided to be paid on 30 May 2014.

The board of directors of the company is as follows:

Pınar Süt Mamulleri Sanayii A.Ş. Board of Directors		
Name	Title	Executive/Independent
İdil Yiğitbaşı	Chairman	Non-executive
Mustafa Selim Yaşar	Vice-chairman	Non-executive
Emine Feyhan Yaşar	Member	Non-executive
Turhan Talu	Member / Corporate Governance Committee Chairman / Member of Audit and Early Detection of Risks Committees	Independent Member
Ali Yiğit Tavas	Member / Early Detection of Risks Committee Chairman	Independent Member
Cengiz Erol	Member / Audit Committee Chairman / Corporate Governance Committee Member	Independent Member
Yılmaz Gökoğlu	Member / Early Detection of Risks Committee Member / Corporate Governance Committee Member	Non-executive

SECTION 1: SHAREHOLDERS



SYNOPSIS

+	Equal treatment of shareholders
+	Active investor relations department
+	General shareholders' meetings are conducted in compliance with the legislation
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	Dividend policy exists and disclosed to the public
+	No restrictions on transfer of shares
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	Existence of privileges in the articles of association on nomination of candidates to the board of directors

1.1. Facilitating the Exercise of Shareholders' Statutory Rights:

The company carries out investor relations obligations through the Investor Relations Department. Following the board resolution of 30 June 2014, the name of the Investor Relations Unit was changed as above. It was also decided at the same meeting that the Finance Director, Mr. Muzaffer Bekar to be appointed as department manager and also serve

on the Corporate Governance Committee.

Along with other units of the company the "Investor Relations Department" plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows;

- a) To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- b) To respond to the queries of the shareholders requesting written information on the company.
- c) To ensure the general assembly meeting is held in compliance with the applicable legislation, articles of association and other company by-laws.
- d) To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- e) To supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

Investor Relations Department submits a report to the board of directors at least once a year on its conducted activities.

Information and explanations that may affect use of shareholders' rights is

available up to date on the corporate web site.

The company's Finance chief, Mr. Tolga Bağcı is holder of "Capital Market Activities Advanced Level License" in accordance with Group 3 companies as stated in the Corporate Governance Principles Communiqué.

1.2. Shareholders' Right to Obtain and Evaluate Information:

We did not come across to any hindering process or application within the rating period regarding the appointment of a special auditor at the request of shareholders.

All kinds of information about the company is provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this regard.

The company's disclosure policy is submitted to shareholders at the general shareholders' meeting held on 15 May 2012 and disclosed it to the public on the corporate web site.

1.3 Minority Rights:

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the company has adopted exactly the rate foreseen in the legislation for listed companies.

There is no evidence of any conflict of interest between the majority shareholders and that of the company.

1.4. General Shareholders' Meeting:

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting

held on 27 March 2014 is performed through all means of communication available to the company on 5 March 2014 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

Besides, the company has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting, following documents are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the company, and the electronic media;

- the annual report
- financial statements and reports
- all other related documents pertaining to the agenda items
- dividend distribution proposal

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site;

a. total number of shares and voting rights reflecting the company's shareholding structure as of the date of disclosure, number of shares and voting rights reflecting the privileged share group within the company capital, and the nature of the privileges,

b. grounds for dismissal and replacement of board members,

candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of the relationship of the company and related parties, whether it has the quality of independence and information on similar issues.

Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Chairman of the meeting made preparations for the execution of the general assembly and obtained necessary information in line with the Turkish Commercial Code (TCC), the Law and legislations.

General shareholders' meetings take place at the factory in the city where company headquarters is located.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The chairman made sure that each question is answered directly at the meeting provided that they do not constitute a trade secret.

Authorization of board members within the scope of Article 395 and 396 of the Turkish Commercial Code is included in meeting agenda of the general shareholders' meeting.

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information

and to answer questions at the general shareholders' meeting. However, the absolute majority of the board of directors was not present.

In addition, shareholders are informed, with a separate agenda item, on all donations effectuated during the period and the amount of benefits and beneficiaries.

The company's articles of association carries a clause that donations to associations and foundations are permitted but a general text on a relevant policy is not included and limits are not given.

Even though a provision on attendance of those including stakeholders and media with no voting rights to the general shareholders' meetings is not included in the articles of association of the company, in practice there is no restriction in this direction.

General shareholders' meeting is attended by the representative of the independent auditor.

1.5. Voting Rights:

At Pınar Süt all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately and the company avoids applications that make it difficult to exercise voting rights.

The company's articles of association indicate that there are voting privileges; should the board of directors be constituted of five members, three of them shall be elected from among the nominees indicated by Group A shareholders, one member each shall be elected from among the nominees indicated by Group B and Group C shareholders. In case the board consists of seven members, four of them shall be elected from among the nominees

indicated by Group A shareholders, two members shall be elected from among the nominees indicated by Group B shareholders, and one member shall be elected from among the nominees indicated by Group C shareholders. In case the board consists of nine members, five of them shall be elected from among the nominees indicated by Group A shareholders, three members shall be elected from among the nominees indicated by Group B shareholders, and one member shall be elected among the nominees indicated by Group C shareholders. The rate of Group A and B shares in total capital is 0.07%.

1.6. Dividend Rights:

The dividend policy of the company is clearly defined. It is submitted to the shareholders' approval at the general shareholders' meeting and disclosed to the public on the company's web site. The company's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles.

As mentioned on the dividend policy document, conviction is reached that a balanced policy is followed between the interests of the shareholders and that of the company.

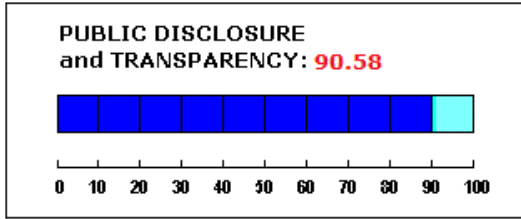
In addition, the articles of association of the company contain a provision on advance dividend payments.

1.7. Transfer of Shares:

No difficulties on free transfer of shares are observed.

The articles of association of the company contain no provisions that impede the transfer of shares.

SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



SYNOPSIS

+	Comprehensive web site, actively used for public disclosure
+	Annual report complies with the legislation, comprehensive and informative
+	Agreement and studies conducted with external auditors comply with the legislation
=	English version content of web site is close to Turkish version
-	Benefits provided to board members and senior management not listed on individual basis
-	List of ultimate controlling individual shareholders are not disclosed to the public

2.1. Corporate Web Site:

Company's corporate website (www.pinarsut.com.tr) is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the company's website includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry gazette on which the changes are published along with the final version of the company's articles of association, publicly disclosed material

information, periodical financial statements, annual reports, prospectuses and other public disclosure documents, agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting, form for proxy voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the company, frequently asked questions including requests for information, questions and notices, and responses thereof.

In this context, information on at least the last five years can be reached on the website.

With the exception of material disclosures and footnotes, in accordance with the Capital Markets legislation, the company also discloses financial statements on the Public Disclosure Platform (KAP) and simultaneously in English.

The information contained on the website exists also in English (close to the Turkish content) for the benefit of international investors.

The company's web site also includes; investor presentations, working principles of the committees, important board decisions under the heading of announcements, the vision/mission of the company established by the board, information on dividend payments and capital increases, disclosure area, general shareholders' meeting internal guidelines, corporate social responsibility activities, information on senior management, financial data, main ratio analysis, timetable on events/developments which considers investments, web site

terms of use and privacy statement and the human resources policy.

However, the company's shareholding structure; the names, amount and rate of the shares held by the company's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners along with the privileges they hold is not disclosed to the public.

2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the company and it covers information such as;

- a. period covered by the report, the title of the company, trade register number, contact information,
- b. the names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates),
- c. the sector in which the entity operates and information on its position in the sector,
- d. qualifications of the production units, capacity utilization rates, general explanations related to sales volume and price, sales conditions and yearly developments, productivity rates and causes of significant changes compared to previous years,
- e. progress on investments, the eligibility status on incentives, and to what extent,
- f. changes and justifications on the articles of association during the period,
- g. Corporate Governance Principles Compliance Report,
- h. information on related party transactions,
- i. other issues not included in the financial statements, but are beneficial for users,
- j. the company's organization, capital and ownership structure and any changes in the related accounting period,
- k. all benefits provided to staff and workers, information on number of personnel, Collective Bargaining activities,
- l. research and development activities,
- m. dividend distribution policy,
- n. basic ratios on the financial position, profitability and solvency,
- o. the company's financing resources and risk management policies,
- p. information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following issues also took place in the annual report:

- a. external duties of board members and executives,
- b. members and working principles of the committees including their activities,
- c. the number of board meetings held during the year and status of participation of the members,
- d. major court cases against the company and possible consequences,
- e. information on conflicts of interest between the company and investment advisory and rating agencies that provide services, and measures taken

- by the company to avoid such conflict of interest,
- f. information on direct contributions to capital ratio with cross shareholding investments in excess of 5%,
 - g. benefits and vocational training of employees, and other company activities that give rise to social and environmental results,
 - h. rating results.

directly or indirectly in management or capital provided any consulting services during the same period.

On the other hand, signed declaration of independence of the independent board members and assessment of the board of directors on the efficiency of the committees is not included in the annual report.

Benefits provided to board members and senior executives are mentioned collectively, but in terms of Corporate Governance Principles it is essential that this information is given on an individual basis.

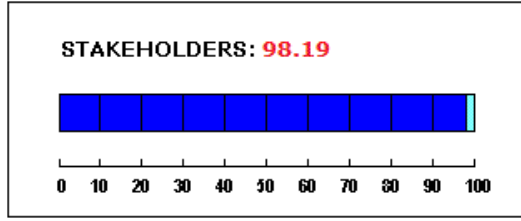
2.3. External Audit:

The external audit of the company is conducted by Yöntem Yeminli Mavi Müşavirlik ve Bağımsız Denetim A.Ş., a member of Nexia International group with a worldwide experience.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion. Also it has been declared that there has been no legal conflict between the company and the external audit firm.

Independent audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period. No consulting company in which the external audit firm is in a dominant position either

SECTION 3: STAKEHOLDERS



SYNOPSIS

+	Compensation is provided in case of violation of the stakeholder rights safeguarded by relevant legislation and mutual agreements
+	Efficient Human Resources policy
+	Strict quality standards for goods and services
+	Code of ethics disclosed to the public
+	A written employee compensation policy established and disclosed to the public on the web site
+	Existence of an active trade union
+	Company complies with environmental laws
+	Corporate Social Responsibility and Sustainability studies are at superior levels

3.1. Company Policy Regarding Stakeholders:

Pinar Süt's ownership is dominated by one of the leading groups of Turkey; the Yaşar Group of Companies. Due to its prominent corporate identity, Pinar Süt possesses consistent and advanced policies regarding the rights of stakeholders as well as relations with the private sector.

We have not come across a significant or repetitive situation in which the rights of stakeholders established by any law or agreement are not recognized. The company's corporate governance practices are in top level and Pinar Süt recognizes the rights of

stakeholders established by law or through any other mutual agreement.

A compensation policy for the employees of the company is constituted and disclosed to the public on the corporate web site.

The web site of the company (www.pinarsüt.com.tr) is actively used to provide adequate information on policies and procedures towards the protection of stakeholders' rights.

Company officials indicated that all customer requests and grievances are filed, monitored and assessed. To this end, consumer satisfaction surveys are conducted and product improvements are realized according to the obtained results.

The corporate governance structure of the company ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions.

Additionally, company officials declared that the company's purchasing policy is carried out by a tender procedure.

3.2. Stakeholders' Participation in the Company Management:

Although no such provisions are incorporated in the articles of association of the company, mechanisms and models supporting the participation of stakeholders, and especially of employees, in the company's management have been developed without impeding the operations of the company.

Stakeholders are encouraged to participate in management through various channels such as proposals or surveys, which do not delay company operations. Pınar Süt consults with and obtains the consent of the labor union with regard to changes in working conditions, the working environment and the rights of workers. Dealers are encouraged to participate in the company's management through sealer meetings.

Relationships with employees working under collective agreements are conducted with union representatives. As an employer, Pınar Süt is a member of Turkish Tobacco, Beverage, and Food Workers Union (Tek Gıda-İş) and its blue-collar workers are member. Company has disclosed on KAP that there is a signed collective agreement between Pınar Süt and Tek Gıda-İş for the period covering 2014–2015.

3.3. Company Policy on Human Resources:

With respect to specific country standards, the company has established a human resources policy which ensures equal opportunity, social rights, and sound career planning. On the job training and personnel promotion schemes, as well as relations with the trade union are at high standards.

Pınar Süt employs a comprehensive and efficient human resources policy of which the fundamentals are:

- a) Pınar Süt's staff is determined according to business economics criterias, and all workers acknowledge that working with dignity is only possible with efficient work.
- b) To achieve staff improvement, in-house and external training programs are applied within all levels of the framework.
- c) Equal opportunity criterias are applied for appointments within the company and, as principal, in-house staff is preferred.
- d) Development plans are implemented to personnel with potency, through a career planning system for advancement and career opprtunities.
- e) Evaluation of performance of the staff is based on reaching targets and the competence level.
- f) From the first echelon untill the last, job descriptions and performance standards are documented to be used on performance evaluation.
- g) Periodic annual implementation of Employee Opinion Survey allows to see employees' views on working conditions, management, social activities, remuneration, training, performance evaluation, career planning, participatory management, and corporate satisfaction. Improvements are applied in accordance with the feedback.
- h) Safe working environment and conditions is of utmost importance for Pınar Süt. In the frame of Employee Health and Safety Regulations, all legal measures are taken on prevention of professional risks, protection of health and safety, and elimination of risk and accident factors. Regular meetings are held to achieve continuous improvements.
- i) Our management style is; "...to maintain our presence, Pınar Süt should adhere to the laws

and ethical codes, believe in total quality, and embrace participative management.”

- j) It is a basic rule of Pınar Süt that employees receive equal treatment without any distinction, regardless of their language, race, color, gender, political and philosophical thoughts, religion, sect, etc.

Pınar Süt has a detailed and comprehensive recruitment policy that defines appropriate criteria. In the recruitment and selection process, equal opportunities are provided for all candidates who have the appropriate training, knowledge, skills, competencies and experience required by the job. All candidates are assessed using defined recruitment procedures.

The company treats all employees fairly in terms of training and career planning and strives to install training policies to improve their knowledge, skills and competencies.

It has been declared that in cases which management reshuffle could cause disruptions, succession planning for determination of new manager appointments is included in in-house "Management Trainee" regulations.

3.4. Relations with Customers and Suppliers:

Pınar Süt has taken necessary precautions to attain customer satisfaction in the sales and marketing of its products and services.

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

We have witnessed no evidence on non-market pricing of goods and services of the company.

In addition, Pınar Communication Center hotline **444 76 27** offers 7/24 call center service.

3.5. Ethical Rules & Social Responsibility:

The ethical rules of Pınar Süt is established and publicly disclosed through the corporate web site.

The company was not held liable by any public authority for any sanctions within the last year.

The company keeps good relations with non-governmental organizations and public social institutions.

Pınar Süt regards its ongoing support for and contributions to art, education, sport, and culture as vital and indispensable in the fulfillment of its principle of giving back to society.

In the course of 26 years, the Pınar Children’s Theater has reached more than three million children, fostering among them a love of theater through performances, to which no admission is charged, with every play being carefully crafted to contribute towards its audiences’ cultural and personal development. As a training ground for many famous performers, the Pınar Children’s Theater even functions as a sort of school of the performing arts.

The Pınar Art Competition has been held for 32 years with the aims of increasing primary school children’s interest in the fine arts and painting and educating the artists of the future.

Pınar demonstrates its support for sports through its sponsorship of the Pınar Karşıyaka Basketball Team (Pınar KSK). A team which has been contending in the Turkish Premier Basketball League since 1998, it aims to inculcate a love of sport among children by encouraging them to play basketball. Every year nearly a

thousand youngsters are given free access to the facilities of the Çiğli Selçuk Yaşar Sports Center under Pınar's support. Pınar KSK also represents Turkey in international meets. During the 2012-2013 season the club hosted the Euro Challenge Cup in İzmir and was also one of the final four contenders. In the 2013-2014 season, it was the championship winner of the Spor Toto Türkiye Cup.

In 2012 the Pınar Institute was founded in order to contribute to the development of a healthy society by engaging in research, supporting such research and education, publishing the results of such activities, and involving itself in similar endeavors. The institute is headquartered on the campus of Yaşar University.

The Pınar Institute's mission is to educate the public on issues related to food, health, and nourishment and to foster a quality-of-life awareness by supporting scientific projects, taking part in information networks, and taking part in educational activities.

Leading events supported and sponsored by Pınar Süt in 2013:

- "Aegean Brands Summit", organized by Ege University
- "14th Pediatrics Days", organized by the Dokuz Eylül University Hospital School of Nursing at the İzmir Sabancı Cultural Center
- "10th Leadership Summit"
- "TRT Kids' Country", organized by the TRT KIDS TV channel
- "International Children's Theater Festival", organized by the Ankara State Theaters
- "28th Grandkids' Athletics Meet", organized at the Atatürk Olympic Stadium by the Karşıyaka Rotary Club
- "4th Food Safety Summit"
- "1st Quality of Life Project and Idea Contest", organized by the İzmir branch of KalDer

- "Foods R & D Project Market", organized by the Aegean Exporters' Association
- "14th In Search Of Excellence Symposium", organized by the İzmir Quality Association
- "49th Turkish Pediatrics Congress"
- "World Food Day", organized by FAO Headquarters
- "Engelsizmir", a project undertaken jointly by the Güzelyalı Rotary Club and İzmir Metropolitan Municipality for the benefit of the physically handicapped
- "22nd Quality Congress"
- "UIP-4 Bosphorus Summit"
- "Marketing in the Age of the Customer Summit"
- "Tire Milk Symposium", organized by Ege University Tire Kutsan Vocational High School
- "Brands Conference"

3.6. Sustainability:

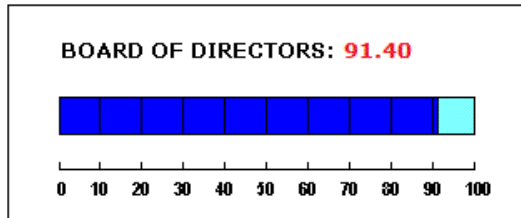
The company has policies, internal regulations, goals, initiatives and campaigns on environment, nature, energy conservation, recycling and education issues.

Pınar Süt has disclosed to the public through the corporate website its sustainability reports covering sustainability efforts for the 2013 reporting period.

In this context, the company has national/ international quality/health standard certificates. It is a member of domestic/overseas organizations carrying out studies in this area.

In addition, Pınar Süt has measured the carbon emission level in 2013 and has set a target to reduce carbon emissions by 15%.

SECTION 4: BOARD OF DIRECTORS



SYNOPSIS

+	3 independent board members, above CMB's compulsory rate
+	The board is staffed with effective and highly qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	Each member has a right to a single vote
+	2 female members on the board
+	Audit, Corporate Governance, and Early Detection of Risks Committees are established
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
=	A liability insurance exists, but not with an amount exceeding 25% of the capital of the company
-	Remuneration and benefits provided to board members and to managers with administrative responsibility is not disclosed to the public on individual basis via the annual report

The board of directors has defined the vision and mission of the company and oversees if company activities are managed in compliance with the legislation, articles of association, internal procedures and established policies.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The company's board of directors is composed of 7 members and none of them are executive. There are 3 independent members, above CMB's compulsory rate. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are 2 female members on the board of directors.

Corporate Governance, Audit, and Early Detection of Risks committees are established from within the board of directors. The tasks of Nomination and Remuneration Committees are performed by the Corporate Governance Committee. Working principles of committees are disclosed to the public.

All members of the Audit Committee and the chairmen of other committees are elected among the independent board members.

The chief executive officer/general manager and the Chairman of the Board of Directors are not on the committees. There are no executive members on the board.

The principles of remuneration of board members and senior executives are included on the corporate web site.

4.1. Functions of the Board of Directors:

Strategic decisions of the board of directors aim to manage the company's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of the company, and the board administers and represents the company within these parameters.

The Board of Directors has defined the company's strategic goals and identified the needs in human and financial resources, and controls management's performance.

4.2. Principles of Activity of the Board of Directors:

We have come to the conclusion that the board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report.

Chairman of the board and chief executive/general manager's executive powers are clearly separated.

The board of directors plays a leading role in maintaining effective communication between the company and the shareholders and settling any disputes which may arise.

Any losses incurred by the company caused by board members are insured, but not with an amount exceeding 25% of the capital. No such information has been provided on the Public Disclosure Platform.

Analyzing the company's organization, it is seen that there is no person in the company who has unlimited authority to make decisions alone and this is considered as positive by us.

4.3. Structure of the Board of Directors:

The company's board of directors is composed of 7 members and none of them are executive. Among the non-executive members there are 3 independent members who have the ability to execute their duties without being influenced under any circumstances. The company's number of independent board members is above the CMB's compulsory rate for Group 3 companies.

The Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are 2 female members on the board. Thus the company has already

met the Corporate Governance Principles' advisory target of minimum 25% female board membership rate.

4.4. Conduct of the Meetings of the Board of Directors:

The board of directors of the company convened 48 times in 2013 operating period.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and the chief executive/general manager.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow of information. Each member is entitled to a single vote.

The meeting and decision quorums have been included in the articles of association of the company. In addition, board meetings can also be held in a remote access system.

Nevertheless, there are no certain rules or limitations for board members taking on additional duties outside the company. Actually only the independent members have external duties. These duties are disclosed at the general shareholders' meeting where their nomination is discussed.

The conduct of the board of directors meetings is documented in internal regulations of the company.

4.5. Committees Established Within the Board of Directors:

Corporate Governance, Audit, and Early Detection of Risks committees are established from within the board of directors in order to fulfill its duties and responsibilities. The tasks of Nomination and Remuneration Committees are performed by the Corporate Governance Committee.

Functions of the committees, their working principles, and its members are designated by the board of directors and disclosed to the public on the company's web site.

All members of the Audit Committee and the chairmen of the other committees are elected among the independent board members. The chief executive officer/general manager and the Chairman of the Board of Directors are not on the committees. There are no executive members on the committees.

All necessary resources and support needed to fulfill the tasks of the committees are provided by the board of directors.

The Corporate Governance Committee is established in order to determine whether or not corporate governance principles are being fully implemented by the company, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of imperfect implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the Investor Relations Department.

In line with the new corporate governance principles issued on 3 January 2014, Investor Relations Department manager is obliged to be a member of the Corporate Governance Committee. Following interviews with company officials it is determined that Investor Relations Department Manager, Mr. Muzaffer Bekar, was appointed to the Corporate Governance Committee by a board decision. This appointment was also disclosed on KAP.

Audit Committee supervises the operation and efficiency of the company's accounting system, public

disclosure, external audit and internal audit systems, reviews complaints that are received by the company regarding company accounting, internal and external independent audit systems, within the framework of the principle of confidentiality and finalizes them, immediately notifies the board in writing on findings related to their duties and responsibilities and the related assessment and recommendations, following taking the opinion of responsible managers of the company and the external auditor notifies the board in writing on whether the annual and interim statements disclosed to the public is in accordance with the company's accounting principles, true and accurate.

In addition, Audit Committee members possess the qualifications mentioned in the Corporate Governance Principles communiqué.

The annual report contains information on working principles of the Audit Committee and number of written notices given to the board of directors in the reporting period. However, meeting resolutions are not included.

The external audit of the company is conducted by Yöntem Yeminli Mali Müşavirlik ve Bağımsız Denetim A.Ş., a member of Nexia International group with a worldwide experience. The nomination and election process of the external audit firm, taking into account its competence and independence, is realized with a proposal from the auditing committee to the board of directors.

The Early Detection of Risks Committee carries out its tasks towards early detection of risks which may jeopardize the company's assets, its development and progression, and measures taken to mitigate and manage those risks.

The tasks of Nomination and Remuneration Committees are performed by the Corporate Governance Committee. It is seen that the corporate governance committee works on determination of independent candidates. Functioning of the committees will continue to be monitored by us.

4.6. Remuneration of the Board of Directors and Senior Management:

The principles of remuneration of board members and senior executives has been documented in writing and submitted to the shareholders as a separate item in the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on the company's web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

Pınar Süt does not lend any funds or extend any credits to a member of the board or to senior executives, or grant any personal loans through a third party, or extend any guarantees.

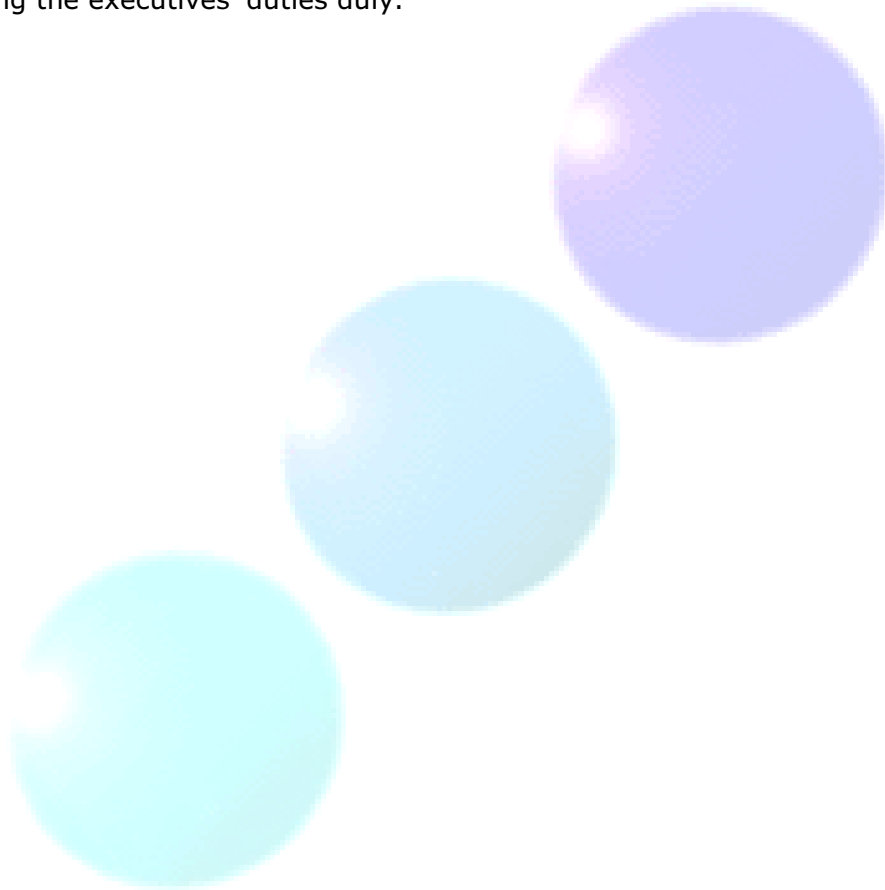
We are convinced that the executives have the required professional qualifications in order to perform the assigned duties.

Executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no cases where the executives used confidential and non-public company information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the company's affairs, and provided unfair advantage.

Remuneration of the executives is based on market conditions and determined according to their qualifications, and proportional to their contributions to the performance of the company.

Company officials declared that there is an insurance policy on compensation for losses incurred by the company, and third parties, as a result of not performing the executives' duties duly.



Rating Definitions

Rating	Definition
9 - 10	The company performs very good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The company performs good in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated. Deserved to be included in the BIST Corporate Governance Index.
6	The company performs fair in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Deserved to be included in the BIST Corporate Governance Index and management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs weakly as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs very weakly and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.

DISCLAIMER

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This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

The contents of this report and the final corporate governance rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

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Contacts:

S. Suhan Seçkin

suhan@saharating.com

Ali Perşembe

apersembe@saharating.com

Oğuzhan Güner

oguner@saharating.com