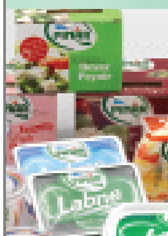
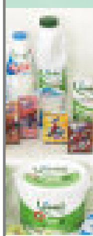
# PINAR SÜT MAMULLERİ SANAYİİ A.Ş.

ANNUAL REPORT 2007



# Contents





**Standing:** (L-R) **İdil YİĞİTBAŞI** (Vice Chairperson),
**Yılmaz GÖKOĞLU** (Member), **B. Safa OCAK** (Member), **Mehmet AKTAŞ** (Member)

**Seated:** (L-R) **Taşkın TUĞLULAR** (Member),
**Feyhan YAŞAR KALPAKLIOĞLU** (Chairperson), **Ata Murat KUDAT** (Member)

# Letter from the Chairperson

Dear Shareholders,

The Turkish economy averaged 7.3% in growth rate in the 2003-2006 period, while the rate of growth of the global economy was 4.7% in the same period. In 2007, however, the national economy failed to grow sufficiently and the growth rate stood at 4.5%. Yet, the growth achieved and the increases captured in operating profits across the entire Yaşar Group in 2007 are highly satisfactory.

The occurrences that will take place in global risk areas in the forthcoming period are crucial. Significant global risk areas are constituted by especially the US housing market, domestic demand conditions of the USA, Europe and Japan along with those of emerging countries, inflationary risks, the increases in the prices of basic foodstuff, the petroleum market, and current deficit imbalances with respect to regions.

It is now more important than ever before to closely monitor and weigh up global developments. Turkey today is in a significant integration process with the international economic and financial markets. Our country's foreign trade volume has 57% share of the national income. In 2007, direct foreign capital inflow reached USD 21.8 billion. Foreign residents have 14% share in government borrowing instruments stock, while they hold 72% share in the ISE. All these figures clearly display the reason why the developments in global economy and financial markets are so critical for Turkey.

2007 has been an interesting year also with regard to commodity prices. The increase in worldwide food and feed prices are striking, a business line in which we operate. Structural changes such as the reduced supply resulting from drought and increased demand for raw materials for biofuel production are expected to keep the global food prices above the historical balance levels in the next decade.

Perceiving the reality of globalization and firmly believing in the need to alleviate the unfavorable burdens globalization will create on the environment and consumers, the Yaşar Group signed the United Nation's "Global Compact" based on volunteerism on 12 November 2007.

The competitive environment of the present day is characterized by the elimination of geographical borders, the incredible speed attained in communication, and the sharing of social and cultural values at greater extents. This environment makes it more critical than ever before for corporations to create strong brands. Being the choice of the consumers, securing sustainable profitability and penetrating international markets are possible only by fulfilling the requirements of being a brand name. PINAR earns the boundless trust of its consumers through its consumer-oriented activities and products while it always remains unwavering from the high quality it offers.

Ranking among Turkey's 500 major industrial enterprises according to survey conducted by İTO (İstanbul Chamber of Commerce), Pınar Süt numbered 114th in this list in 2006.

Based on the annual survey administered by ACNielsen research company, PINAR was named the 5th brand consumers feel closest to them and the most reliable brand with 82% in the consumer research of Synovate research company. In addition, PINAR was the sector's 2007 champion in customer satisfaction in milk and meat categories according to the Turkish Customer Satisfaction Index (TCSI) survey conducted by KALDER, the Turkish Quality Association.

Pınar brand takes place among the 55 brand names that will be extended with support within the frame of the "Turquality" project developed by the Foreign Trade Undersecretariat, Turkish Exporters' Assembly and the Exporters' Association for the purpose of introducing high quality Turkish products to the global market and to establish Turkish product image across the world.

It is known that Turkey's annual milk production volume is about 11 million tons. 40% of the milk produced does not reach the market due to its use at the origin and waste, 25% is processed industrially, and 35% is sold on the streets. For these reasons, a mere 25% of the country's total milk production can be recorded. Pınar Süt contributes to the increase of milk production in Turkey with the constant support it extends to its more than 21,000 producers.

The first milk brand recalled in the milk sector with 30.3% share according to research by ACNielsen, Pınar is the market leader with 26% share on turnover basis in the long-life milk market based on 2007 average figures.

In line with the strategies of achieving differentiation via high value-added products and growing in these product segments in line with one of the key targets of Pınar Süt, our leadership was sustained also in the spreadable cheese category in 2007, with 46% turnover share in total. While aiming to maintain its leadership in long-life milk and spreadable cheese markets in 2008, Pınar Süt also intends to perpetuate with its investments directed towards children who represent our future.

It is predicted that the future world will be characterized by increased tendency towards natural, safe and packaged products as a result of evolving eating patterns and lifestyles. In the near future, expectations from products will cover additional benefits including protection against illnesses, supporting the immune system, lengthening the lifetime and fulfilling daily vitamin intake need in addition to being nutritious and delicious. Yaşar Food Business will keep up its innovative stance so as to best respond to the evolving customer needs.

In trying to reach these targets, it is my heartfelt wish that our Pınar, the source of health, taste, novelties and life, will sustain its leadership in every segment, while remaining always loyal to our human-focused approach that embraces our employees, consumers and all our stakeholders.

Yours sincerely,

**Feyhan YAŞAR KALPAKLIOĞLU**
Chairperson of the Board

# PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
# Agenda for the Ordinary General Meeting dated 15 May 2008

**Place of Meeting:** Kemalpaşa Asfaltı No: 1 Pınarbaşı/İzmir

**Time of Meeting:** 14:30

1. Election of the Presiding Board
2. Authorizing the Presiding Board to sign the minutes
3. Reading and deliberation of the Board of Directors' report; the statutory auditors' report, and the report of the independent audit firm
4. Approval of the company's balance sheet and profit and loss statement for 2007 submitted to the Capital Markets Board of Turkey (CMB) and İstanbul Stock Exchange (ISE); individual acquittal of the members of the Board of Directors and statutory auditors of their fiduciary responsibilities
5. Approval of the independent audit firm chosen by the Board of Directors, and of its term of service
6. Pursuant to section 8 of the company's articles of association, determination of the number of Board members, election to the seats on the Board of Directors for succession of members whose terms of office have expired
7. Deliberation and decision on the determination of the remuneration to be paid to the Board of Directors members
8. Pursuant to section 14 of the company's articles of association, determination of the number of statutory auditors, election for the succession of statutory auditors whose terms of office have expired and determination of terms of office for such individuals
9. Deliberation and decision on the determination of the remuneration to be paid to statutory auditors
10. Presentation of information to the shareholders concerning the grants and donations made in the fiscal year
11. Deliberation and decision on the profit for the year
12. Presentation of information to the shareholders on the company's profit distribution policies for 2008 and subsequent years
13. Deliberation and decision on authorizing the Board of Directors for distribution of interim dividends to the shareholders to be set-off from 2008 dividends, under Article 15 of the Capital Market Law and Article 9 of the CMB Communiqué Serial: IV No: 27, and on setting-off, pursuant to the same article, interim dividends to be distributed from the extraordinary reserves of the prior year's balance sheet, in case there has not been sufficient profit or a loss has been realized, or from such amount which shall be generated by the liquidation of the guarantee obtained for interim dividends, pursuant to Article 10 of the abovementioned Communiqué, and which shall be entered as income, in case the extraordinary legal reserve is not sufficient to cover such loss
14. Authorizing, pursuant to Articles 334-335 of the TCC, the Board of Directors
15. Wishes

# PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
# 2007 ANNUAL REPORT

| | |
|---|---|
| **a. Period of the Report** | : 01.01.2007 - 31.12.2007 |
| **b. Commercial Title of the Company** | : Pınar Süt Mamulleri Sanayii A.Ş. |
| **Issued Capital** | : TRY 44,951,051.25 |
| **Registered Capital** | : TRY 80,000,000 |

**c. Members of the Board of Directors:**

| **Name & Surname** | **Position** | **Term of Office** |
|---|---|---|
| Feyhan KALPAKLIOĞLU | Chairperson | 12.05.2005 - 3 Years |
| İdil YİĞİTBAŞI | Vice Chairperson | 12.05.2005 - 3 Years |
| Ata Murat KUDAT | Member | 12.05.2005 - 3 Years |
| Taşkın TUĞLULAR | Member | 12.05.2005 - 3 Years |
| B. Safa OCAK | Member | 12.05.2005 - 3 Years |
| Yılmaz GÖKOĞLU | Member | 12.05.2005 - 3 Years |
| Mehmet AKTAŞ | Member | 17.01.2006 - 3 Years* |

* Mr. Mehmet AKTAŞ was elected to serve until the completion of the remaining term of office for the seat vacated on the Board of Directors by Mr. Uray ERGUN's resignation dated 17 January 2006. Mr. AKTAŞ's election has been approved at the General Meeting convened on 18 May 2006.

**Scope of Authority**
The chairperson and the members of the Board of Directors possess the respective authorities stipulated by the relevant articles of the Turkish Commercial Code and by sections 11 and 12 of the company's articles of association.

**Members of the Board of Auditors:**

| **Name & Surname** | **Date of Appointment** | **Term of Office** |
|---|---|---|
| Özge ENGİN | 17.05.2007 | 1 year |
| Kamil DEVECİ | 17.05.2007 | 1 year |
| Ebgü Senem DEMİRKAN | 17.05.2007 | 1 year |

**Scope of Authority:**
According to section 15 of the company's articles of association, the duties, authorities and responsibilities of statutory auditors are in conformity with the principles stipulated by the relevant articles of the Turkish Commercial Code.

**d. Changes in the Articles of Association During the Reporting Period:**
No modifications were made to the articles of association during the reporting period.

**e. Issued Capital Market Instruments:**
As at 31 December 2007, the company has 1,728,000 Class A registered, 1,260,000 Class B registered and 44,948,063,250 Class C bearer shares, each with a nominal value of TRL 1,000.

**f. Investments:**
The company's total investments in 2007 were worth TRY 22,157,696. Out of this sum, TRY 8,975,012 was invested in land, buildings and

overground structures, TRY 8,655,047 in machinery and facilities, TRY 4,124,131 in fixtures, TRY 41,392 in rights, and TRY 362,114 in investment in progress.

**g. Production:**

**Capacity utilization rates**

| | 2006 (tons) | 2007 (tons) | % |
|---|---|---|---|
| Milk-Fruit Juice, Cream, Pudding | 153,932 | 187,131 | 21.57 |
| Butter, Sauce, Honey, Jam | 11,252 | 12,337 | 9.60 |
| Yogurt-Cheese | 45,134 | 50,014 | 10.81 |
| Powdered Products | 2,828 | 1,810 | -35.99 |
| **Total** | **213,146** | **251,292** | **17.89** |

Capacity utilization rate for 2007 was 55%.

**h. Sales:**

Pınar Süt maintained its leadership in the dairy products sector in 2007 with 26% share in long-life milk, 67% share in Light Milk, and 46% share in spreadable cheese.

2007 exports were worth USD 24,415,727. Up 25% year-on, 2007 turnover reached TRY 591,094,773.

| | 2006 (TRY) | 2007 (TRY) | % |
|---|---|---|---|
| Milk-Fruit Juice, Cream, Pudding | 228,338,968 | 298,690,183 | 30.81 |
| Butter, Sauce | 47,224,701 | 57,858,331 | 22.52 |
| Yogurt, Cheese | 165,315,237 | 205,779,395 | 24.47 |
| Powdered Products | 12,995,020 | 11,893,323 | -8.47 |
| Others | 19,001,766 | 16,873,541 | -11.20 |
| Total | 472,875,692 | 591,094,773 | 25.00 |

**i. Financial Structure (IFRS Values):**

| | 2007 | 2006 |
|---|---|---|
| TOTAL DEBTS/TOTAL ASSETS (%) | 29.52 | 31.38 |
| TOTAL DEBTS/SHAREHOLDERS' EQUITY (%) | 41.88 | 45.74 |
| AFTER - TAX PROFIT MARGIN (%) | 8.78 | 8.00 |
| CURRENT ASSETS/CURRENT LIABILITIES (%) | 1.67 | 1.53 |
| EQUITY TURNOVER RATIO (%) | 1.57 | 1.49 |
| NET FINANCING COSTS/NET SALES (%) | 1.51 | 3.42 |
| NET FINANCING COSTS/SHAREHOLDERS' EQUITY (%) | 2.36 | 5.10 |

**j. The Company's Finance Sources and Risk Management Policies:**

The finance sources of the establishment consist of the company's shareholders' equity, loans utilized and loans from vendors. Due to the nature of its activities, the company is exposed to various financial risks including the impact of changes in the prices of lending and capital markets, in exchange rates and interest rates. The company's Total Risk Management program focuses on the unpredictability of financial markets and is aimed at minimizing the adverse impacts upon the company's financial performance.

**k. Personnel:**
The company employed 761 people in average in 2007, whereas this figure was 701 in 2006.

**l. Senior Management:**

| **Name & Surname** | **Position/Title** |
|---|---|
| Ergun AKYOL | General Manager |
| Hüseyin DEMİR | Vice President of Supply Chain |
| Coşkun KESKİNER | Financial Affairs Director |
| Gülçin BAYAT | Finance Director |
| Erhan SAVCIGİL | İzmir Plant Director |
| Gürkan HEKİMOĞLU | Eskişehir Plant Director |

**m. Dividend Distribution Proposal**

Dear Shareholders,

At the company's Board of Directors meeting held on 28 April 2008;

The computation of the net distributable profit for the 2007 period was based on the applicable provisions of the Turkish Commercial Code (TCC), Capital Market Legislation, and the Capital Markets Board of Turkey (CMB) arrangements, Corporate Tax, Income Tax and other applicable legislations, as well as on the relevant sections of the articles of association, and the net distributable profit for the period was computed to be TRY 37,565,830 resulting from the consolidated net profit for the 2007 period in the amount of TRY 39,660,157, which was drawn up in accordance with International Financial Reporting Standards and was subjected to independent audit, plus TRY 1,350,000 set aside in the financial statements as provision for personnel dividends and Board of Directors allocation and less the impact in the total amount of TRY 1,006,787, which is the sum of TRY 244,251 reflecting from investments that decided not to distribute dividends at their general meetings and TRY 762,536 from investments whose legal dividend distribution amount remained below the amount that descended to consolidated financial statements despite having decided to distribute dividends at their general meetings; and less first legal reserves in the amount of TRY 2,437,541 set aside pursuant to Article 466/1 of the TCC. It has been decided to lay down at the Ordinary General Meeting for approval that, from the distributable profit computed as detailed above and taking into account the donations of TRY 1,072,943 made during the reporting period, TRY 7,727,755 corresponding to 20% of the distributable profit as per the CMB arrangements be distributed to shareholders as first dividends; that from the balance, Board of Directors allocation and personnel dividends be set aside in an amount that will not exceed the 5% ratio stipulated in the articles of association; and that, from the balance, second dividends in the amount of TRY 23,288,471 be distributed, which will -together with the first dividends (first and second dividends totaling TRY 31,016,225)- correspond to 69% of the nominal issued capital (TRY 44,951,051.25), TRY 3,156,867 be set aside as second legal reserves, and the entirety of the remaining amount be set aside as extraordinary legal reserves. In this context, we hereby submit for your approval our proposal to pay cash dividends of TRY 0.690 gross and TRY 0.5865 net for each share traded at the stock exchange and having a nominal value of TRY 1.

PINAR SÜT MAMULLERİ SANAYİİ A.Ş.
BOARD OF DIRECTORS

## Pınar Süt Mamulleri Sanayii A.Ş. 2007 Profit Distribution Table (TRY)

| | | |
|---|---|---|
| **1. Paid –in / Issued Capital** | | **44.951.051,25** |
| **2. Total Legal Reserves (According to Legal Records)** | | **8,387,003** |
| **If there is dividend privilege in the Articles of Association, information regarding this privilege** | | |
| | According to CMB | According to Legal Records |
| **3. Profit for the Period** | 53.128.181 | 59.945.890 |
| **4. Taxes Payable ( - )** | -13.468.024 | -11.195.079 |
| **5. Net Profit for the Period ( = )** | 39.660.157 | 48.750.811 |
| **6. Retained Losses ( - )** | 0 | 0 |
| **7. Provision for Personnel Dividends and Board of Directors Allocation set aside in the Financial Statements (+)** | 1.350.000 | - |
| **8. First Series of Legal Reserves ( - )** | -2.437.541 | -2.437.541 |
| **9. Distributable Profit of the Participation (*) Subject to Consolidation that has not been decided to be distributed ( - )** | -.1.006.787 | |
| **10. NET DISTRIBUTABLE PROFIT FOR THE PERIOD (=)** | 37.565.830 | 46.313.271 |
| 11. Donations Within the Year ( + ) | 1.072.943 | |
| **12. Net Distributable Profit for the Period including Donations, based on which First Dividend will be Computed** | 38.638.773 | |
| 13. First Dividend to the Shareholders | -7.727.755 | |
| -Cash | -7.727.755 | |
| -Bonus Shares | | |
| - Total | -7.727.755 | |
| 14. Dividends Distributed to Owners of Privileged Shares | - | |
| 15. Dividends to Board of Directors Members, Employees, etc. | -2.800.000 | |
| 16. Dividends Distributed to Owners of Redeemed Shares | - | |
| 17. Second Dividend to the Shareholders | -23.288.471 | |
| 18. Second Series of Legal Reserves | -3.156.867 | |
| 19. Statutory Reserves | - | |
| 20. Special Reserves | - | |
| **21. EXTRAORDINARY RESERVES** | -592.737 | |
| **22. Other Resources to be Distributed** | | |
| - Previous Year Profit | | |
| - Extraordinary Reserves | | |
| - Other Distributable Reserves as per the Law and the Articles of Association | | |

(*) The term “investment” is used so as to refer to the parent company’s associates, subsidiaries and joint ventures.

INFORMATION ON DISTRIBUTED DIVIDEND

DIVIDEND INFORMATION PER SHARE

| | GROUP | TOTAL DIVIDEND (TRY) | DIVIDEND FOR EACH SHARE WITH THE NOMINAL VALUE OF TRY 1 | |
|---|---|---|---|---|
| | | | AMOUNT (TRY) | RATIO (%) |
| GROSS | | 31.016.225 | 0,69 | 69 |
| NET | | 26.363.791 | 0,5865 | 58,65 |

THE RATIO OF THE DISTRIBUTED DIVIDEND TO NET DISTRIBUTABLE PROFIT FOR THE PERIOD INCLUDING DONATIONS

| DIVIDEND DISTRIBUTED TO SHAREHOLDERS (TRY) | THE RATIO OF THE DISTRIBUTED DIVIDEND TO SHAREHOLDERS TO NET DISTRIBUTABLE PROFIT FOR THE PERIOD INCLUDING DONATIONS (%) |
|---|---|
| 31.016.225 | % 80 |

# Company History and Highlights

In keeping with its healthy nutrition mission, Pınar introduced numerous novelties to the Turkish Food sector. With its trusted identity built on a history of 32 years, Pınar takes place among the leading brands that consumers cannot give up.

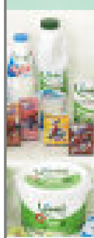
The first to launch long-life milk in special packaging (aseptic boxes) in Turkey in 1975, Pınar Süt operates out of the plants located in İzmir and Eskişehir, and sustains its leadership in the Turkish milk market. Employing cutting-edge technology in the production of milk and dairy products, Pınar Süt contributes to the increase of milk production in Turkey with the constant support it extends to over 21,000 producers. In order to have access to good quality milk, Pınar Süt collaborates with more than 250 farms based on contracted farming model, and spends efforts to propagate the total quality concept in these farms. Pınar Süt collects the best quality and freshest milk, a feature owed to its system of collecting milk twice daily under the supervision of 110 contracted veterinarians.

Executed in the second most comprehensive scope in Turkey following the USA and analyzing the competition in Turkey, 2007 third quarter results of the Turkish Customer Satisfaction Index (TCSI) carried out by KALDER (Turkish Society for Quality) reveal that Pınar headed the milk category in terms of customer satisfaction. Aiming


to rank among the top three brands in terms of target market share in all the product categories in which it is active, Pınar Süt was the first brand recalled in milk category with 30.3% according to the top-of-mind awareness survey of ACNielsen, an independent research company. As per ACNielsen's market research, the company maintains its leadership based on turnover in the long-life milk market with 26% and in the light milk market with 67%. Pınar is the leading brand with a total market share of 46% in the spreadable cheese segment; the breakdown of the segment reveals individual leaderships with Pınar Beyaz spreadable fresh cheese (86%), and Pınar Üçgen triangular processed cheese (32%).

Accountable for 40% of the milk and dairy products exportation from Turkey on its own, Pınar Süt exports predominantly to Saudi Arabia, Kuwait, Bahrain, United Arab Emirates and Qatar. Exported to these countries, Pınar Labaneh is the leading brand with 45% market share in these territories. Furthermore, various cheese variants are exported to these countries. Other destinations receiving regular exports are the USA, Jordan, Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Kosovo, Turkish Republic of Northern Cyprus, Iraq, Libya, Iran and Syria.

Pınar Süt's exports in 2007 were worth USD 24,415,727.



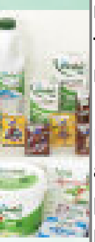
# An Overview of the Sector and Trends

Pınar offers highest quality milk, meat and fish products to consumers with a view to fulfilling all kinds of protein needs necessary for the human body. The number one choice of its consumers since its inception and sustaining its leadership in the milk sector, Pınar is the brand possessing the broadest product range populated by products that satisfy the needs of different customer segments in milk and dairy products.

Having introduced the first long-life milk produced by the private sector 33 years earlier to the Turkish consumers, Pınar since then built its communication with its consumers upon promises it was always certain to keep. The company has reapt the fruits of this attitude by being one of the best, most admired, most frequently recalled and most preferred brands of Turkey, an achievement that was sustained also in 2007.

It is known that about 11 million tons of milk is produced in our country. Only around 25-30% of the total milk production is processed in modern environments and used in the industry. Although its share declining, 40% of the unpackaged milk market is provided from street sellers and 35% is used for making yogurt, cheese and other products at various dairy farms. Milk provided from street sellers is one of the major sectoral issues in Turkey that still remains unsolved. However, the unregistered production in our country is expected to decrease with the impact of the European Union.

The fruit milk that is indispensable for children, Pınar Kido packagings were redesigned with a view to making the brand more **"fun"**, while preserving the **"health, trust, taste"** characteristics in the product groups aimed at children. During 2007, most popular cartoon characters greeted the children on Pınar Kido packagings.



Pınar also expanded its product portfolio by launching new products with fresh milk at the beginning of 2007 under the brand name Yopi, which were developed in keeping with the emphasis the company places on the physical and mental development of children.

While cheese consumption increased 2% in the European countries in the recent years, the growth in Turkey stood in the region of 3%. According to the household panel (in Turkish: HTP) results, there is an increased demand for packaged cheese. 73% in 2006, the household penetration rose to 81% in 2007. Again based on HTP data, at least one cheese product entered 97.1% of the households last year.


In 2007, Pınar also launched "Pınar Traditional Butter", the brand new addition to Pınar's butter line.

Again last year, Pınar expanded its product range and introduced the products "Kırmızı" (red) and "Turuncu" (orange) in the fruit juice category that has been pursuing a rapid growth lately.

The increased number of working ladies, and the spreading of Western lifestyle and eating habits push up the demand for ready-to-eat dishes and ready-to-use sauces. As consumers gain enhanced penchants and seek new tastes, the demand for ketchup, mayonnaise and sauces expands. In 2007, Pınar relaunched its ketchup and mayonnaise products in their new ergonomic packagings, which secured the appreciation of consumers with their easy-to-hold and easy-to-squeeze designs. It is predicted that the demand for packaged products in the milk sector will continue to increase, and the health trend observed in 2007 will be ongoing also in 2008. Aiming to formulate its strategies and actions in line with these anticipations, Pınar Süt targets to grow primarily via value-added products as well as with investments directed towards children, while sustaining its profitability.

**Total Quality**

Total Quality philosophy at Pınar Süt is erected on the axes of fully satisfying the consumers' needs for high quality and safe food, and on making them feel good. Based on this reason, Pınar Süt is committed to being more than just a provider of good quality and reliable products to consumers, and strives to align its products with the social lifestyle of its target audience and to fulfill the different health-related expectations through different stages of life. In keeping with this, Pınar Süt addresses consumers with more than 300 products.

Work processes at Pınar Süt are structured based on the target of achieving absolute customer satisfaction. Customer feedback received through various channels including consumer service hotline, market research and questionnaires are evaluated and reflected in relevant processes, in turn improving those processes. The effectiveness of the processes are measured and enhanced through review and self-assessment activities carried out pursuant to ISO 9001:2000 Quality System Standard and EFQM Excellence Model.

Significant cost advantages have been captured in the OCI (Operational Cost Improvement) system thanks to the committed teamwork carried out at Pınar Süt.

In the execution of production activities, utmost care is paid to protect the environment, ensure effective use of natural resources and achieve compliance with all laws and regulations. Pınar Süt's dedication and success in this department are evidenced in the ISO 14001:2004 Environmental Management System Certification earned.

Significant cost advantages have been secured in the OCI (Operational Cost Improvement) system thanks to the committed work put in by these teams.

The HACCP practices, which have been in place since 1998 to ensure the consumers' reliable food demands, are being carried out within the frame of "ISO 22000 Food Safety Management System" as of 2007.

**Research & Development Activities**

Pursuing its efforts with a customer-focus, and having made it a principle to produce products aligned with consumer demands and needs, Pınar Süt closely monitors the evolving consumer trends. R&D activities are carried out with a keen eye on developing and evolving consumer expectations, sectoral developments worldwide, integration with the EU and legal regulations. These activities are carried out in accord with Pınar's mission of offering "health, taste and novelties".

Pınar Süt R&D undertakes hundreds of alternative formulation and lab tests every year in an effort to fulfill consumers' different expectations through the different stages of life, as well as numerous projects in collaboration with national and international private and public organizations, universities and institutes, and the resulting products are offered to the liking and service of consumers.

On another wing, Pınar Süt Packaging R&D follows up the innovations in packaging materials and technology, wins alternative packagings and suppliers, cooperates with local and foreign suppliers for developing new product packagings and for improvement of existing ones. All these efforts result in the introduction of practical packagings to the liking and use of consumers.

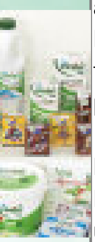

The success of Pınar Süt in research and development activities are proven time and again with new products designed/developed every year. The sectoral developments across the world are followed up and tailored according to the production, and new product development as well as improvement works on existing ones is perpetuated, while the food legislation in force and competitive products are closely monitored.

**New Products**
New launches in 2007 included Pınar Yopi Fresh Cheese varieties with Strawberry, Banana, Apricot, Apple & Biscuits, and Grape-Grape Syrup & Biscuits offered in 45 gram packagings. In addition, 100% Mixed (with Vitamin C) Turuncu (Orange) and 100% Mixed (with Iron and Magnesium) Kıpkırmızı (Crimson) were introduced, both available in 1 liter packagings.

The work on packaging completed, ketchup, mayonnaise and mustard in S-shaped bottles appeared on the shelves in 2007, while Churned Butter was also introduced in 250 and 500 gram packagings.

**Pınar Mutfağı (Pınar's Kitchen)**
Pınar is the first and only company in Turkey and in the world to have opened its production facilities to investigation by its consumers 24/7 at www.pinarmutfagi.com. The consumers can view Pınar Süt, Pınar Et and Pınar Su production facilities live through the cameras, follow the production processes, and inquire the raw material sources of the products.

pinarmutfagi.com
"kalitenin görünen yüzü"



**Human Resources**
Pursuing its operations with the slogan **"health, taste and trust"** while remaining unwavering from quality, Pınar Süt's success is built on the awareness that the true strength lies in the **"people"**. The primary mission of Pınar Süt HR is to attract and retain productive, highly-motivated and high-performing human resource. Believing that improving employee performance also improves corporate performance, Pınar Süt successfully achieved its targets with its 780 employees in 2007.

Pınar Süt's targets in its motto **"People First"** are as follows:

• Pursuing competency-based recruitment process in line with the principles of "placing the right person in the right position" and "giving priority to promotion from within",
• Ensuring alignment of company goals and personal targets through the performance appraisal system. Monitoring the employees' personal development, career planning, remuneration and rewarding processes based on performance results,


• Encouraging employees to improve themselves and also to communicate their criticisms and suggestions directed towards enhancing existing processes through various incentives such as the Productivity Contest and Operational Cost Improvement System,

• Seeking the employees' opinions and ideas through "Employee Opinion Questionnaires" administered annually, and enhancing employee satisfaction by way of action plans devised accordingly,

• Making the employees feel that they are the valued and important members of a big family through collective and supportive HR implementations.

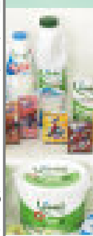
All efforts spent in line with these targets help identify the strengths and improvement areas and in realizing necessary actions in our quest for quality.

**Social and Cultural Activities**

Ever since its inception, Pınar Süt aimed to contribute to the physical and mental development of consumers, and to help raise healthy generations with the products produced and services offered. In keeping with this target, the company continues to extend support to education, sports, culture and the arts. Having completed its second year in operation and sponsored by Pınar Süt, Hürriyet Women's Club carries out various training programs and informative seminars so as to support and encourage women to be more actively involved in social life.

**Pınar Children's Theater**

While supporting the mental development of children with its products, Pınar also attaches importance to cultural and artistic activities. Having undersigned dozens of children's plays with a professional cast and crew from the actors to the directors and stage designers every year since 1987, Pınar Children's Theater continues to conquer the hearts of thousands of children by taking the stage in schools visited in İstanbul, İzmir, Ankara, Bursa, Eskişehir and Yozgat throughout the theater season, and by touring the regions that are deprived of the opportunity to watch theater in the summertime. Pınar Children's Theater also has been influential in the training and development of eminent actors and actresses including Bülent İnal, Vahide Gördüm, Özgür Ozan and many others



**Pınar Painting Contest**

Pınar Painting Contest is being organized for 26 years with the aim of creating an enhanced interest in the art of painting and fine arts among primary school students and to help raise the artists of the future. Attracting the participation of children from every geographical region of Turkey and focusing on a different theme each year since 1981, Pınar Painting Contest continues to improve the artistic skills of numerous young artists. Based on the evaluation of the paintings received from every corner of Turkey by a jury panel consisting of academicians and experts, 21 little artists selected were awarded with a one-week Art Camp at the Pera Museum under the supervision of the famous artist Hüsamettin Koçan.

In its 26th edition organized in 2007, Pınar Painting Contest Art Week saw the emergence of two super heroes by the participant students. Having taken part in painting workshops where professional materials were used, young talents received their certificates during a ceremony held on the final day.

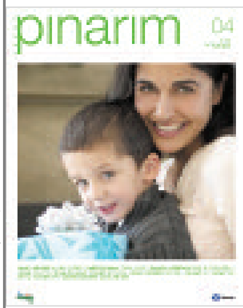
**Pınar KSK**

Pınar sponsors the basketball team competing in the Turkish Premier Basketball League under the name Pınar Karşıyaka since 1998 on the basis of advertising. Every year, nearly one thousand children are provided with the opportunity to engage in sports activities at Çiğli Selçuk Yaşar Facilities. Placing much emphasis on the mental and physical development of youngsters and children, Pınar was the major sponsor of the Oğuz Kaan College and Özel Yıldızlar College teams that represented Turkey in the girls and boys categories respectively at the “ISF Basketball 2007” world championships among high schools held in Pau, France in 2007.

## Publications

### Yaşam Pınarım Magazine

The magazine establishes a bond between Pınar and its consumers, business partners, academic and bureaucratic network with its distinctive style and content since 2004.



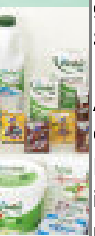


### Pınar Bulletin

Published quarterly and addressing the producers, Pınar Bulletin is a key reference for farmers engaged in milk and meat animal breeding.

### Fair and Congress Participations

Continuing incessantly with its efforts to become a global brand, Pınar in 2007 took part in the Anuga Fair that was held in Cologne, Germany and brought together the world’s giant names in the food business. Pınar Süt also participated in İzmir International Fair as part of the Yaşar Food Business stand where the company’s products were displayed. The company was also a participant at the Middle East Agriculture Fair organized in Diyarbakır with the support of the Ministry of Agriculture. Further, the company was the congress sponsor at the 16th Quality Congress organized by KALDER (Turkish Society for Quality), and the major sponsor of the “In Search of Excellence Symposium” organized by İzmir Society for Quality.





### Awards and Certificates

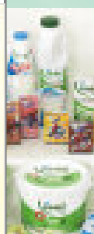
Continuing to be the leading brand in the food sector in Turkey since its foundation, Pınar Süt received awards from respected organizations also in 2007, by virtue of its production standards and advanced technology, as well as of its innovative approach that aims unprecedented initiatives. PINAR is a consumer-focused brand that turns a careful ear to consumers’ demands and needs, and rapidly produces solutions to fulfill the same. According to 2007 third quarter results of the Turkish

Customer Satisfaction Index (TCSI), Pınar is the sector's champion in the milk category in terms of customer satisfaction. Pınar was honored with the 2007 Turkish Patent Golden Brand award in the brand–food category by the Turkish Patent Institute, the only body authorized to issue registration certificates for industrial property rights in Turkey.

Prevailing among 11 nominees, Pınar won the Golden Effie Award 2007 in Basic Food Category at the Effie Advertising Efficacy Contest of Turkey organized biennially by the Turkish Association of Advertising Agencies and Advertisers' Association. At the 20th edition of the contest held by the Turkish Standards Institution (in Turkish: TSE), the Golden Packaging Award was earned with the Traditional Butter and S-shaped sauce bottle packagings.

Last year, İzmir Chamber of Commerce awarded Pınar Süt with golden medal for its contribution to the national economy by declaring high net commercial profit; for its efforts and achievements in services earning foreign currency for the country, and for its taxpaying performance. Again in 2007, EBSO (Aegean Region Chamber of Industry) named Pınar Süt the number one company among highest employment providers in the dairy products industry, as well as among highest exporters. Pınar Ayran (yogurt drink) was given the TDAK Golden Quality Award by the 8th Consumer-Friendly Golden Quality Summit, Tüketici Raporu (Consumer Report) magazine, and Bilinçli Tüketici Temsilcileri, conscious consumers' representatives.





# Corporate Governance Principles Compliance Report

**1) Statement of Compliance with Corporate Governance Principles:**
In the fiscal year ended on 31 December 2007, PINAR SÜT MAMULLERİ SANAYİİ A.Ş. (the company) complied with and implemented the Corporate Governance Principles published by the Capital Markets Board of Turkey (CMB), save for the matters listed hereinbelow.

a) Cumulative voting system
b) Independent members
c) Representation of minority shares in the board of directors

Nature and grounds relating to matters that are not complied with in part or in whole are detailed in the relevant sections of the report.

During the reporting period, training activities on corporate governance were participated in, the company's articles of association, procedures and practices were reviewed with respect to their compliance with the principles, and improvement areas were identified.

**SECTION I – SHAREHOLDERS**

**2) Shareholder Relations Unit:**
Although there is not an investor relations unit at the company, the said function is carried out by the Financial Affairs Department. During the fulfillment of this function, support is sought from the relevant central departments of the Yaşar Group, as do all other Yaşar Group companies. The company's Financial Affairs Department performs the following duties within the scope of investor relations (Contact People: Financial Affairs Director, Financial Affairs Manager - 0232 4361515):

a) Ensuring maintenance of the records about shareholders in a healthy, secure and up-to-date manner;
b) Responding to the shareholders' written information requests about the company, apart from those that are not publicly disclosed, are of a confidential and/or trade secret nature;
c) Ensuring that General Meetings are convened in accordance with the applicable legislation, the articles of association and other internal regulations;
d) Contacting the other units in the company so as to ensure preparation of the documents the shareholders could make use of in general meetings;
e) Observing and complying with all considerations related to public disclosure, including the legislation and the company's disclosure policy.

No written requests were received from the shareholders during the reporting period. On the other hand, a large number of verbal information requests are received from the shareholders; however, no statistical data are available with respect to such queries.

**3) Shareholders' Exercise of their Right to Obtain Information:**
Indiscrimination is the basic principle in the shareholders' exercise of their right to obtain and examine information. All necessary information and documents necessary for healthy exercise of shareholding rights are made equally available to the shareholders through our website. Numeric information regarding the applications for obtaining information in the fiscal year 2007 was provided in article 2 above. These information requests are usually related to such matters as the date of general meeting, capital increases and bonus shares, and profit distribution. All information requests, apart from those falling under the scope of trade secrets or company interest that is worth protecting, are responded to without any discrimination among the shareholders and in parallel with the disclosures previously made to the public within the scope of material event disclosures. De-

velopments that have an impact on the exercise of shareholding rights as required by the Turkish Commercial Code (TCC) and CMB arrangements are disclosed via material event disclosures, newspaper announcements and by post. The company's articles of association contain no provisions stipulating the request for appointment of a special auditor as an individual right. During the reporting period, no such request was received from the shareholders.

**4) Information on General Meetings:**
In 2007, 2006 ordinary general meeting was convened on 17 May 2007. According to section 19 "Meeting Quorum" of the company's articles of association, quorum at ordinary and extraordinary general meetings is subject to the relevant provisions of the Turkish Commercial Code. In the 2006 ordinary general meeting, meeting and decision quorums were 61.31% of the company's share capital.

Save for shareholders, stakeholders and media did not attend the meeting. Invitation to the general meeting was made by the board of directors. In addition to the shareholders, authorized representatives of the independent audit firm are also invited in writing. The announcement for the company's general meeting invitation was promulgated in the Turkish Trade Registry Gazette (TTRG) at least 21 days in advance of the meeting date, excluding the dates of promulgation and meeting, in accordance with section 22 "Announcement" of the articles of association and under article 368 of the TCC. The invitation was also posted on the corporate website and published in a local newspaper, and the shareholders, whose addresses were registered, were also informed on the meeting date, place and agenda by post. No deadlines are set for registration in the shareholders register so as to facilitate participation of the holders of registered shares in the general meeting. Prior to the general meeting, the place, date and agenda of the meeting, dividend distribution proposal of the board of directors to be submitted to the general assembly, as well as the independent audit firm chosen are publicly announced by way of material event disclosures.

The company's annual report is made available for the examination of shareholders at the company's head office and on the corporate website 15 days in advance of the general meeting. At the general meeting, the topics on the agenda are communicated impartially and in detail, in a clear and understandable method, and the shareholders are provided with the chance to voice their opinions and direct their questions under equal conditions, thus creating a healthy discussion climate.

The articles of association contain no provisions with regard to the adoption of material decisions at the general meeting, such as demerger, acquisition, disposal, leasing etc. of substantial assets. In order to assure the company activities to proceed in their normal course, such decisions are adopted by the board of directors, with keen consideration of the CMB arrangements, TCC and tax legislation. Upon adoption, such resolutions are publicly disclosed as material event disclosures. The minutes of the general meetings are made available to shareholders at all times at the company's head office. Furthermore, the minutes of the company's general meetings convened in the past three years are available under the Investor Relations section on our corporate website accessible at www.pinar.com.tr.

**5) Voting Rights and Minority Rights:**
The following privilege exists in relation to nominating members to the seats on the Board of Directors: "The business affairs and administration of the company are managed by a Board of Directors that will consist of 5 to 9 members who will be elected under the provisions of the TCC by the General Assembly from amongst shareholders or non-shareholders. If the Board of Directors is formed by 5 members, 3 members shall be elected from amongst the nominations made by Class A shareholders, 1 member from amongst the no-

minations made by Class B shareholders, and 1 member from amongst the nominations made by Class C shareholders; if the Board of Directors is formed by 7 members, 4 members shall be elected from amongst the nominations made by Class A shareholders, 2 members from amongst the nominations made by Class B shareholders, and 1 member from amongst the nominations made by Class C shareholders. If the Board of Directors is formed by 9 members, 5 members shall be elected from amongst the nominations made by Class A shareholders, 3 members from amongst the nominations made by Class B shareholders, and 1 member from amongst the nominations made by Class C shareholders. If so decided thereby, the Board of Directors may elect a Managing Director. However, the chairperson of the Board and the Managing Director must be elected from amongst the members representing Class A."

There are no privileges other than the above.

In relation to exercise of voting rights, the company's articles of association contain no provisions preventing a non-shareholder from voting in proxy in the capacity of a representative. Section 23 of the company's articles of association setting forth the voting reads as follows: "Votes are cast by raise of hands at general meetings. However, upon demand by holders of one tenth of the capital represented by the attending shareholders at the meeting, secret voting must be carried out. Arrangements of the CMB shall be observed in respect of the votes cast in proxy."

There are no cross-shareholding interests between the company and another company. There are no independent members on the board of directors (Please refer to article 18 on detailed information about the members of the Board of Directors.) Minority rights are not represented in the board of directors. At our company, minority rights and exercise thereof are implemented in parallel with Article 11 of the Capital Market Law that governs all publicly-floated companies. Currently, the company's articles of association do not contain a provision allowing cumulative voting method.

**6) Dividend Distribution Policy and Timing:**
The company's general dividend distribution policy is to make dividend distribution upon consideration of the company's financial position, the investments to be made and other funding needs, the sectoral conditions, economic environment, the capital market legislation and the tax legislation. In consideration of the fact that the dividend distribution ratio is currently 20% under the capital market legislation, it is envisaged to make dividend distribution at this ratio at a minimum in the subsequent years as well. However, determination of the actual dividend ratios shall each year be made based on the considerations mentioned above.

The company's dividend distribution policy for 2007 and subsequent years was presented for the information of the shareholders at the general meeting convened on 17 May 2007, and it is also publicly disclosed on the corporate website.

The company authorized, via the articles of association, the Board of Directors in relation to interim dividends. The Board of Directors evaluates the exercise of the power to grant interim dividends within the framework of applicable legislation and economic environment. Dividend distribution methods and processes are stipulated by the provisions contained in the TCC, CMB arrangements and the company's articles of association. Upon the Board of Directors' relevant decision made in parallel with the set dividend distribution policy in each fiscal year, the public is informed by way of a material event disclosure. The Board of Directors decision relating to the amount of dividends is laid down for approval at the general meeting and the amount of dividends approved as such is distributed to the shareholders within the prescribed period of time as determined at the general meeting within the framework of the CMB Communiqué Serial: IV, No: 27. Distribution of the company's 2006 dividends was commenced on 30 May 2007, and the process was completed within the legally prescribed period of time.

**7) Transfer of Shares:**
The transfer of shares is governed by articles 415 and 416 of the TCC.

## SECTION II – PUBLIC DISCLOSURE AND TRANSPARENCY

**8) Company Disclosure Policy:**
Although there is no disclosure policy that has been formed and publicly disclosed as defined in Section II, Article 1.2 of the Corporate Governance Principles, the company keeps all the shareholders and stakeholders informed within the framework of the CMB Communiqué Serial: VIII, No: 39 concerning the Principles Relating to Disclosure of Material Events. Disclosures are coordinated by the company's Board of Directors, General Manager Ergun Akyol, Financial Affairs Director Coşkun Keskiner and Financial Affairs Manager Mustafa Şahin Dal in a timely, accurate, complete, intelligible, interpretable manner, and equally available to all at low-cost so as to assist the individuals and institutions that will benefit from such disclosures in their decision-making. Drawn up in accordance with the CMB Communiqué Serial: XI, No: 25, as well as the applicable capital market legislation and International Financial Reporting Standards (IFRS), the company's annual and interim financial statements and complementary notes are disclosed to the public upon being independently audited pursuant to the CMB arrangements.

**9) Disclosure of Material Events:**
The company made 12 material event disclosures in 2007 fiscal year. No additional information was required for these disclosures either by the CMB and/or the ISE. The company was not in breach of any matter with regard to public disclosure. The company has no capital market instruments quoted on any overseas stock exchange, hence is not subject to additional public disclosure obligations.

**10) Company Internet Site and its Content:**
Accessible at www.pinar.com.tr, the company website is structured in the format, and provides the content in Turkish and English languages, as required in Section II "Principles and Means of Public Disclosure", Article 1.11.5 of the Corporate Governance Principles. The website is actively used. Improvement efforts will be ongoing to enhance the services offered by the website.

**11) Disclosure of Non-corporate Ultimate Shareholder(s) Who Have a Controlling Interest:**
The company's shareholding structure as at 31 December 2007 is as follows:

| Shareholders | TRY | Share (%) |
|---|---:|---:|
| Yaşar Holding A.Ş. | 27,503,257.79 | 61.18 |
| Others | 17,447,793.46 | 38.82 |
| **Total** | **44,951,051.25** | **100.00** |

As seen in the table above, Yaşar Holding A.Ş. holds 61.18% of the company's share capital. Yaşar Holding A.Ş. is controlled, directly or indirectly, by the Yaşar family.

**12) Public Disclosure of Those Who May Have Access to Insider Information:**
Individuals who are in a position to have access to insider information as of this writing

are named below. Such individuals are publicly disclosed each year through the annual reports and also posted on our website.

All Board of Directors members and statutory auditors

| | |
|---|---|
| Ergun Akyol | General Manager |
| Kazım Coşkun Keskiner | Financial Affairs Director |
| Gülçin Bayat | Finance Director |
| Adnan Akan | Partner of Independent Audit Firm |

Relevant employees of the independent audit firm

## SECTION III – STAKEHOLDERS

**13) Keeping Stakeholders Informed:**
On matters apart from trade secrets, stakeholders are kept informed through the CMB's material event disclosures, within the framework of CMB arrangements, the TCC, Competition Law, tax laws, and the Turkish Code of Obligations.

**14) Stakeholder Participation in Management:**
Stakeholder participation in management is ensured through systematic meetings and suggestion systems which are based on process-focused management system and Total Quality philosophy, which aim at enhancing improvement and productivity, and during which the demands and opinions of the employees are taken into due consideration. Customers are also enabled to participate in the management through dealer meetings, customer satisfaction system and suggestion system.

In parallel with our business volume growing within the framework of cooperation established with our suppliers, the suppliers also expand their business volumes, and through regular audits, it is ensured that new materials conforming to quality management and food safety that make up the key prerequisites in the food sector are jointly developed, thus allowing for the suppliers to venture into new lines of business.

**15) Human Resources Policy:**
The primary mission of the Human Resources is to maintain at Pınar Süt an innovative HR management that makes total quality concept a principle, that is able to easily align with change and development, and that provides global competitive advantage. The company's key HR policies are clearly covered in the Personnel Regulation distributed to all white collar employees against signature. Personnel Regulation contains information on basic policies, work durations, recruitment process and principles, termination of employment contracts and discipline regulation. HR policies and practices related to blue collar workers are addressed in the Collective Bargaining Agreement.

Our basic policies are as follows:
a) The staff cadres at the company are determined based on the business economics criteria and all employees acknowledge that dignified work is possible only through productive work.
b) In-house and external training programs are implemented within the scope of the plan determined at each level so as to develop the personnel.
c) Equality of opportunity is observed in promotions and appointments in the organization, and in principle, appointments are made from within.
d) Development plans are implemented so as to offer promotion opportunities at the broadest extent to the employees possessing the potential through the career planning system.

e) The employees' performance appraisals are based on achievement of targets, as well as on competencies.
f) Job descriptions and performance standards are documented for each position from the top to the lowest level and this system is made the basis of employee assessment.
g) Employee Opinion Survey is administered every year periodically, seeking the employees' ideas on working conditions, management, social activities, remuneration, training, performance appraisal, career planning, participative management and company satisfaction. Improvement efforts are taken on in line with the feedbacks received.
h) Our company gives utmost importance to providing a safe working environment and conditions. All legally required actions are taken within the framework of Occupational Health and Safety Regulation to prevent occupational risks, to maintain safety and health, and to eliminate the risk and accident factors. Improvement works are carried on constantly through regular meetings.
i) Our management philosophy is "to sustain our existence as a company that acts in compliance with laws and ethical rules, and that adopts total quality philosophy and participative management approach."
j) It is the basic principle at the company to treat all employees equally without any discrimination on the basis of language, race, color, sex, political affiliation, philosophical belief, religion, sect and similar reasons. Necessary actions are taken to protect the said constitutional right of the employees.

The company has 3 employee representatives in total, 2 at Pınarbaşı Plant and 1 at Eskişehir Plant. These representatives are assigned with the following tasks:
a) Hearing out the workers' wishes and resolving their complaints, on condition to keep them confidential and exclusive to the work place
b) Maintaining the collaboration and working harmony between the employees and the employer, as well as the peaceful working environment.
c) Observing the workers' rights and interests, and assisting implementation of the working conditions as stipulated by the labor laws and collective bargaining agreements.

All employees are informed on various topics including company procedures, organizational changes, modifications in benefits and rights, and practices and decisions concerning the employees through the regulation and announcements posted on the intranet and bulletin boards, which are prepared within the framework of the Announcement Regulation put into writing. To date, no complaints about discrimination were received by the company management or the HR department from the employees.

**16) Relations with Customers and Suppliers:**
Its mission defined as presenting the consumers with products that are sources of health, taste and novelties, Pınar makes available its products' production processes and all kinds of details about the products to the customers on the website www.pinarmutfagi.com.

Customer demands and complaints are received through the toll-free consumer hotline serving at 0800 415 51 17 that can be reached from anywhere in Turkey, upon which necessary actions are taken to respond to the demands received and to resolve the complaints. The company constantly makes use of various research and surveys carried out by the company and various independent organizations with a view to ensuring customer satisfaction. According to the results of such research and customer demands, actions are taken to enhance product and service quality. The company's 35 years of history enables establishment of good relations with suppliers, resulting in the provision of needed materials at the required quality, on the required times and in the required quantities, and at optimum commercial terms. The degree of satisfaction of these targets is measured by way of supplier assessment methods and the outcomes are shared with our suppliers, in turn employed in providing them with necessary training and development. Through a constant information network established with our suppliers, potential developments and innovations in the sector are monitored, quality and innovation circles are organized, collaboration is carried out and efforts are spent to implement such innovations as a matter of priority.

**17) Social Responsibility:**
Committed to fulfill its responsibilities towards public health and the environment, the company made it a principle to collaborate closely with its producers, suppliers and employees in the execution of its production activities, and to continually monitor and improve its environmental performance. The company holds an Environmental Impact Assessment Report and TS EN ISO 14001 Environmental Management System certification. Pınar Kido painting contests, Pınar Kido children's theater, Pınar Karşıyaka basketball team sponsorship, farmer training programs, Pınar bulletin and Yaşam Pınarım magazine signify the company's efforts aimed at contributing to the employees and the society in the fields of culture, the arts, sport and education. Support is extended to education through collaborations with such institutions and organizations as Yaşar University and Yaşar Education Foundation. No lawsuits were lodged against the company during the reporting period on account of any harm to the environment.

## SECTION IV – THE BOARD OF DIRECTORS

18) Structure and Formation of the Board of Directors and Independent Board Members:
The Board of Directors exercises its authorities, fulfills its responsibilities and represents the company in line with the powers granted thereto by the shareholders at the general meeting and within the scope of applicable legislation, the articles of association, internal regulations and policies. The Board members are listed below.

| | |
|---|---|
| Feyhan Yaşar Kalpaklıoğlu | Chairperson of the Board |
| İdil Yiğitbaşı | Vice Chairperson of the Board |
| Ata Murat Kudat | Board Member |
| Taşkın Tuğlular | Board Member |
| B. Safa Ocak | Board Member |
| Yılmaz Gökoğlu | Board Member |
| Mehmet Aktaş | Board Member |

• Ergun Akyol serves as the General Manager of the company.
• There are no independent members on the company's Board of Directors.
• Board members' performance of the activities mentioned in Articles 334 and 335 of the TCC is subject to the approval of the general assembly. Save for the activities mentioned therein, there are no restrictions regarding the activities of the Board members.

**19) Qualifications of Board Members:**
In the election of Board members, care is paid to organize the Board in the manner that will guarantee maximum efficiency and effect. For this purpose, care is given to elect, in principle, members possessing the qualifications stated in articles 3.1.1, 3.1.2 and 3.1.3 of Section IV of the CMB's Corporate Governance Principles. A Corporate Governance Committee was set up at the company's Board of Directors meeting of 13 March 2006, and training and orientation programs are implemented for the Board members in line with current developments and changes.

**20) Mission, Vision and Strategic Goals of the Company:**
The company's mission is "to present our consumers with products that are sources of health, taste and innovation". The company's primary goal is defined as to "grow together with its producers and suppliers, to become a recognized world brand through integrating with its consumers, and to improve its profitability and productivity together with its staff". To realize this mission, our strategic goals are regularly monitored and reviewed by the Board of Directors.

**21) Risk Management and Internal Control Mechanism:**
In essence, the Board of Directors oversees the risk management-related activities via the Audit Committee. In fulfilling this function, the Audit Committee utilizes the findings of the Audit Unit reporting to the Financial Affairs Department, and of establishments carrying out certification within the scope of independent audit and certified counsellorship.

**22) Authority and Responsibilities of the Board Members and Executives:**
The Board of Directors and executives carry out their activities on the principles of egalitarianism, transparency, accountability and responsibility. While the mandatory provisions of the TCC are applicable in achieving this, the authority and responsibilities of the Board of Directors are spelled out as follows in section 12 of the company's articles of association:

Section 12: "The Board of Directors shall represent the company before governmental agencies, courts of law and third parties; carry out, on behalf of the company, any and all kinds of transactions and dispositions within its scope and field of activity; acquire, sell, create and/or release mortgage and other real rights on immovables within the company's scope; enter into amicable settlement and appoint arbitrators; prepare the annual report and yearly accounts to be presented to the general assembly and propose the amount of dividends to be distributed at the general meeting, and perform other duties imposed thereupon by the law and the articles of association."

**23) Operating Principles of the Board of Directors:**
The operating principles of the board of directors are stipulated as follows in section 10 of the company's articles of association:

"The Board of Directors shall convene as and when necessitated by the business affairs and transactions of the company. However, the Board must hold at least monthly meetings."

The operating principles of, and the works carried out by, the Board of Directors in 2007 fiscal year are detailed below:

The agenda of the Board meetings are determined by the Chairperson, upon conferring with other Board members and the general manager. The Board of Directors met 28 times during the reporting period. Invitation to the meeting is made by the Chairperson of the Board, or upon written request by any Board member. The meeting agendas are sent to the members by registered mail at least two weeks in advance of the meeting date. Usually all members participate in the meetings. In 2007 fiscal year, there were no topics upon which agreement was not secured.

In meetings related to matters contained in article IV.2.17.4 of the Corporate Governance Principles, the Board secured personal attendance. Questions posed during the course of the meetings are not recorded. No weighted voting and/or vetoing rights are granted to the Board members.

**24) Prohibition on Doing Business or Competing with the Company:**
Although the Board of Directors was authorized in the matters related to Articles 334 and 335 of the Turkish Commercial Code at the 2006 general meeting convened in 2007, no member of the Board of Directors carried out, directly or indirectly, any commercial transaction that falls under the company's scope with the company, either on his own or others' behalf.

**25) Code of Ethics:**
The company pursues its operations within the framework of the core values, which have been espoused by all Yaşar Group companies; these core values are carrying out production of services and goods on the basis of an approach requiring compliance with the laws and ethical rules, not neglecting the country's issues but refraining from being involved in active politics, and caring for the environment and the nature. These core values are known to all employees. In addition, necessary work is underway to spell out the company's code of ethics within the scope of its approach to Corporate Governance.

**26) Number, Structures and Independence of the Committees under the Board of Directors:**
Two committees have been set up at the company: the Audit Committee and the Corporate Governance Committee. In 2007 fiscal year, the Audit Committee met four times and obtained quarterly information on the activities and internal control systems from the company executives and on the audit findings from the independent auditors. The Committee oversees the operation and effectiveness of the company's accounting system, public disclosure of financial data, independent audit and internal control system. It also supervises the selection of the independent audit firm, initiation of the independent audit process, and the work carried out by the independent audit firm. The Committee reports to the Board of Directors as to the accuracy and truthfulness of the annual and interim financial statements that will be publicly disclosed. Members of the Audit Committee are Mr. Taşkın Tuğlular and Mr. Ata Murat Kudat. Because there are no independent members on the company's Board of Directors, the Audit Committee consists of non-executive members. No member of the Board of Directors serves on more than one committee. The company's Corporate Governance Committee was set up with the Board of Directors resolution dated 13 March 2006. Mr. B. Safa Ocak and Mr. Mehmet Aktaş have been elected to serve as the head and member on the Corporate Governance Committee, respectively. The Corporate Governance Committee establishes whether the Corporate Governance Principles are implemented at the company, and determines the adversities stemming from failure to fully comply with these principles, and proposes improvement actions to the Board of Directors. The Committee coordinates the investor relations efforts, works to create a transparent system, and to devise the relevant policies and strategies regarding the identification of appropriate nominees for the Board of Directors, as well as their assessment, training and rewarding. The Corporate Governance Committee also formulates recommendations regarding the number of Board members and executives.

**27) Remuneration of the Board of Directors:**
As stated in section 13 of the company's articles of association, the members of the company's Board of Directors receive the attendance fee set by the General Assembly. The gross monthly attendance fee determined for 2007 is TRY 650. Financial benefits to be granted to the members of the Board of Directors are determined at the Shareholders' Meetings and publicly disclosed via the minutes of these meetings. There is no other performance-based rewarding system for the Board members at the company. The company does not lend money or extend loans to any Board member or executive.

# Statutory Auditors' Report

**TO THE GENERAL ASSEMBLY OF PINAR SÜT MAMULLERİ SANAYİİ A.Ş.**

| | |
|---|---|
| **Commercial Name:** | Pınar Süt Mamulleri Sanayii A.Ş. |
| **Head Office:** | Şehit Fethi Bey Caddesi No: 120 İZMİR |
| **Capital:** | TRY 44,951,051.25 |
| **Fields of Activity:** | Milk and dairy products production |
| **Statutory auditors' names, surnames, terms of office and whether they have a shareholding interest in the company:** | Özge Engin (17.05.2007 - one year) has no shareholding interest<br>Kamil Deveci (17.05.2007 - one year) has no shareholding interest<br>Ebgü Senem Demirkan (17.05.2007 - one year) has no shareholding interest |
| **Number of Board of Directors Meetings Participated in and of Board of Auditors Meetings Held:** | Board of Directors Meetings 28<br>Board of Auditors Meetings 12 |
| **Scope, dates and conclusion of the examination made on the accounts, books and documents of the company:** | At the end of each month, cash, cheques, bonds and receipts were counted, and the records and documents were screened on the basis of sampling met hod and no irregularities were established. |
| **Number and results of the cash counts held in the Company's pay desk pursuant to Article 353, paragraph 1, subparagraph 3 of the Turkish Commercial Code:** | The pay desk was checked and counted 12 times and no irregularities were established. |
| **Dates and results of the examinations made pursuant to Article 353, paragraph 1, subparagraph 4 of the Turkish Commercial Code:** | Examination was performed at the end of each month, comments were pro vided for matters of uncertainty, and no irregularities were established. |
| **Complaints and irregularities received and the actions taken in relation thereto:** | None were received. |

We have examined the accounts and transactions of Pınar Süt Mamulleri Sanayii A.Ş. for the period 01 January 2007 – 31 December 2007 with respect to their compliance with the Turkish Commercial Code, the company's articles of association, and other applicable legislation, as well as generally accepted accounting principles and standards. In our opinion, the attached balance sheet drawn up on 31 December 2007, the contents of which we acknowledge, fairly and accurately presents the company's financial status on the date, and the income statement for the period 01 January 2007 – 31 December 2007 fairly and accurately presents the operating results for the period.

We hereby submit the balance sheet and income statement for your approval and the acquittal of the Board of Directors for your voting.

| | | |
|---|---|---|
| Statutory Auditor | Statutory Auditor | Statutory Auditor |
| Özge ENGİN | Kamil DEVECİ | Ebgü Senem DEMİRKAN |

PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.

FINANCIAL STATEMENTS
AT 31 DECEMBER 2007
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

(CONVENIENCE TRANSLATION -
THE TURKISH TEXT IS AUTHORITATIVE)

PRICEWATERHOUSECOOPERS

**Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.**
**a member of PricewaterhouseCoopers**
BJK Plaza, Süleyman Seba Caddesi
No: 48 B Blok Kat 9 Akaretler
Beşiktaş 34357 İstanbul-Turkey
www.pwc.com/tr
**Telephone:** +90 (212) 326 6060
**Facsimile:** +90 (212) 326 6050

## INDEPENDENT AUDITOR'S REPORT

## (Convenience translation - the Turkish text is authoritative)

To the Board of Directors of
Pınar Süt Mamülleri Sanayii A.Ş.

1. We have audited the accompanying financial statements of Pınar Süt Mamülleri Sanayii A.Ş. (the "Company") which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the financial statements**

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards issued by the Turkish Capital Market Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards issued by the Turkish Capital Market Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

4.In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pınar Süt Mamülleri Sanayii A.Ş. as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with the financial reporting standards issued by the Turkish Capital Market Board (Note 2).

**Emphasis of Matter**

5. As explained in Notes 1 and 9 to the financial statements, the Company sells a substantial portion of its products to its related party and associate, Yaşar Birleşik Pazarlama Dağıtım Turizm ve Ticaret A.Ş. ("YBP"), which performs sales and distribution of the Company's products in the domestic market.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

ORIGINAL COPY ISSUED AND SIGNED IN TURKISH

Adnan Akan, SMMM
Partner

İstanbul, 10 April 2008

# CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
FINANCIAL STATEMENTS AT 31 DECEMBER 2007

CONTENTS PAGE

# CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
## BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

| | Notes | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | **109.057.852** | **96.472.998** |
| Cash and cash equivalents | 4 | 10.596.668 | 7.199.963 |
| Marketable securities- net | 5 | - | - |
| Trade receivables- net | 7 | 4.834.027 | 9.232.673 |
| Leasing receivables- net | 8 | - | - |
| Due from related parties- net | 9 | 47.605.640 | 50.169.071 |
| Other receivables- net | 10 | 2.445.223 | 35.944 |
| Biological assets- net | 11 | - | - |
| Inventories- net | 12 | 42.899.338 | 29.257.962 |
| Construction contract receivables | 13 | - | - |
| Deferred income tax assets | 14 | - | - |
| Other current assets | 15 | 676.956 | 577.385 |
| **Non- current assets** | | **299.714.865** | **253.059.127** |
| Trade receivables- net | 7 | 2.587 | 2.639 |
| Leasing receivables- net | 8 | - | - |
| Due from related parties- net | 9 | 15.786.921 | 13.467.837 |
| Other receivables- net | 10 | - | - |
| Financial assets- net | 16 | 65.832.997 | 51.294.233 |
| Positive/ negative goodwill- net | 17 | - | - |
| Investment property- net | 18 | 960.026 | 1.058.751 |
| Property, plant and equipment- net | 19 | 214.111.599 | 183.115.085 |
| Intangible assets- net | 20 | 2.975.128 | 4.074.975 |
| Deferred income tax assets | 14 | - | - |
| Other non-current assets | 15 | 45.607 | 45.607 |
| **TOTAL ASSETS** | | **408.772.717** | **349.532.125** |

These financial statements at 31 December 2007 and for the year then ended have been approved for issue by the Board of Directors of the Company on 10 April 2008.

# CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
## BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

| | Notes | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | 65.349.706 | 63.194.528 |
| Financial liabilities- net | 6 | 607.291 | 3.970.935 |
| Short-term portion of long-term financial liabilities- net | 6 | 4.986.635 | 9.520.330 |
| Leasing obligations- net | 8 | 138.878 | 139.328 |
| Other financial liabilities- net | 10 | - | - |
| Trade payables- net | 7 | 44.071.340 | 38.757.706 |
| Due to related parties- net | 9 | 10.518.556 | 8.741.706 |
| Advances received | 21 | - | 19.349 |
| Billing for construction contracts in progress- net | 13 | - | - |
| Provisions | 23 | 4.053.596 | 824.017 |
| Deferred income tax liabilities | 14 | - | - |
| Other current liabilities | 15 | 973.410 | 1.221.157 |
| **Non - current liabilities** | | **55.314.788** | **46.498.775** |
| Financial liabilities- net | 6 | 12.446.891 | 14.631.488 |
| Leasing obligations- net | 8 | 136.003 | 296.430 |
| Other financial liabilities- net | 10 | - | - |
| Trade payables- net | 7 | 10.074.457 | 10.557.943 |
| Due to related parties- net | 9 | 8.175.000 | - |
| Advances received | 21 | - | - |
| Provisions | 23 | 3.201.538 | 2.889.504 |
| Deferred income tax liabilities | 14 | 21.280.899 | 18.123.410 |
| Other non-current liabilities | 15 | - | - |
| **MINORITY INTEREST** | **24** | **-** | **-** |
| **SHAREHOLDERS' EQUITY** | | **288.108.223** | **239.838.822** |
| **Share capital** | **25** | **44.951.051** | **44.951.051** |
| **Treasury Shares** | | **-** | **-** |
| **Reserves** | **26-28** | **124.290.520** | **91.444.563** |
| Share premiums | | - | - |
| Profit from share cancellations | | - | - |
| Revaluation reserve | 19 | 80.225.122 | 58.126.400 |
| Revaluation reserve of associates | | 349.823 | 175.848 |
| Fair value reserves of available-for-sale investments | 16 | 14.562.340 | 3.584.770 |
| Fair value reserves of associates | | 2.257.830 | 2.662.140 |
| Inflation adjustment to shareholders' equity | 26-28 | 26.895.405 | 26.895.405 |
| **Profit reserves** | | **11.126.984** | **4.140.076** |
| Legal reserves | 26-28 | 8.387.003 | 5.169.966 |
| Statutory reserves | | - | - |
| Extraordinary reserves | 26-28 | 8.290.574 | 4.500.149 |
| Special reserves | | - | - |
| Gain on investment and property sales, to be added to the capital | | - | - |
| Currency translation reserve | 2.3 | (12.716) | 7.838 |
| Distribution to shareholders | 32 | (5.537.877) | (5.537.877) |
| **Net profit for the year** | | **39.660.157** | **28.585.922** |
| **Retained earnings** | **26-28** | **68.079.511** | **70.717.210** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **408.772.717** | **349.532.125** |
| Commitments and contingent assets and liabilities | 31 | | |

The accompanying explanatory notes are an integral part of these financial statements.

# CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

| | Notes | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|---|
| **OPERATING REVENUE** | | | |
| Net sales | 36 | 451.620.647 | 358.180.154 |
| Cost of sales | 36 | (360.856.274) | (288.573.653) |
| Service income- net | | - | - |
| Other income | | - | - |
| **GROSS PROFIT** | | **90.764.373** | **69.606.501** |
| Operating expenses | 37 | (47.016.472) | (50.897.010) |
| **NET OPERATING PROFIT** | | **43.747.901** | **18.709.491** |
| Other income | 38 | 23.401.901 | 24.679.428 |
| Other expenses | 38 | (7.222.594) | (5.873.166) |
| Finance expenses | 39 | (6.799.027) | (12.230.248) |
| **OPERATING PROFIT** | | **53.128.181** | **25.285.505** |
| Gain/ (loss) on net monetary position | 40 | - | - |
| Profit/ (loss) attributable to minority interest | 24 | - | - |
| **PROFIT BEFORE TAXATION ON INCOME** | | **53.128.181** | **25.285.505** |
| Taxes on income | 41 | (13.468.024) | 3.300.417 |
| **NET PROFIT FOR THE YEAR** | | **39.660.157** | **28.585.922** |
| **EARNINGS PER SHARE (YTL)** | **42** | **0,8823** | **0,6359** |

The accompanying explanatory notes are an integral part of these financial statements.

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEARS ENDED 31 DECEMBER 2007

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

| | Share capital | Revaluation reserve | Revaluation reserve of associates | Fair value reserves of available for-sale investements | Fair value reserve of associates | Inflation adjustment to shareholders' equity | Legal reserves | Extraordinary reserves | Currency translation reserves | Distribution to shareholders | Net profit for the year | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1 January 2007- previously reported** | 44.951.051 | 58.126.400 | 175.848 | 3.584.770 | 2.662.140 | 26.895.405 | 5.169.966 | 4.500.149 | 7.838 | (5.537.877) | 28.585.922 | 70.717.210 | 239.838.822 |
| Bonus paid to senior management relating to 2006 (Note 2.4) | - | - | - | - | - | - | - | - | - | - | (1.800.000) | - | (1.800.000) |
| **1 January 2007- as restated** | 44.951.051 | 58.126.400 | 175.848 | 3.584.770 | 2.662.140 | 26.895.405 | 5.169.966 | 4.500.149 | 7.838 | (5.537.877) | 26.785.922 | 70.717.210 | 238.038.822 |
| Impairment of the investment property previously classified as owner occupied property- net (Note 2.4) | - | 5.055.719 | - | - | - | - | - | - | - | - | - | (5.055.719) | - |
| Transfer of prior year income to retained earnings | - | - | - | - | - | - | 3.217.037 | 3.790.425 | - | - | (26.785.922) | 19.778.460 | - |
| Dividends paid (Note 9.ii.i) | - | - | - | - | - | - | - | - | - | - | - | (19.778.460) | (19.778.460) |
| Increase in revaluation reserve- net (Notes 18 and 19) | - | 20.970.399 | - | - | - | - | - | - | - | - | - | - | 20.970.399 |
| Increase in revaluation reserve of associates - net (Note 16) | - | - | 173.975 | - | - | - | - | - | - | - | - | - | 173.975 |
| Fair value gain on available for-sale investments- net (Note 16) | - | - | - | 11.634.884 | - | - | - | - | - | - | - | - | 11.634.884 |
| Deferred income tax effect on fair value gain on available-for-sale financial assets (Note 14) | - | - | - | (657.314) | - | - | - | - | - | - | - | - | (657.314) |
| Fair value decrease of associates - net (Note 16) | - | - | - | - | (404.310) | - | - | - | - | - | - | - | (404.310) |
| Currency translation difference (Notes 2 and 16) | - | - | - | - | - | - | - | - | (20.554) | - | - | - | (20.554) |
| Net profit for the year | - | - | - | - | - | - | - | - | - | - | 39.660.157 | - | 39.660.157 |
| Depreciation transfer (Note 19) | - | (2.418.020) | - | - | - | - | - | - | - | - | - | 2.418.020 | - |
| Deferred income tax on revaluation reserve - net (Note 14) | - | (1.509.376) | - | - | - | - | - | - | - | - | - | - | (1.509.376) |
| **31 December 2007** | 44.951.051 | 80.225.122 | 349.823 | 14.562.340 | 2.257.830 | 26.895.405 | 8.387.003 | 8.290.574 | (12.716) | (5.537.877) | 39.660.157 | 68.079.511 | 288.108.223 |

The accompanying explanatory notes are an integral part of these financial statements.

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH**

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEARS ENDED 31 DECEMBER 2006

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

| | Share capital | Revaluation reserve | Revaluation reserve of associates | Fair value reserves of available for-sale investments | Fair value reserve of associates | Inflation adjustment to shareholders' equity | Legal reserves | Extraordinary reserves | Currency translation reserves | Distribution to shareholders | Net profit for the year | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1 January 2006** | **44.951.051** | **58.019.844** | **207.986** | **(420.907)** | **1.461.766** | **26.895.405** | **2.619.087** | **594.131** | **(8.630)** | **(5.537.877)** | **22.189.767** | **68.239.576** | **219.211.199** |
| Transfer of prior year income to retained earnings | - | - | - | - | - | - | 2.550.879 | 3.906.018 | - | - | (22.189.767) | 15.732.870 | - |
| Dividends paid (Note 9) | - | - | - | - | - | - | - | - | - | - | - | (15.732.870) | (15.732.870) |
| Decrease in revaluation reserve of associates (Note 16) | - | - | (32.138) | - | - | - | - | - | - | - | - | - | (32.138) |
| Fair value gain on available for-sale investments- net (Note 16) | - | - | - | 4.353.373 | - | - | - | - | - | - | - | - | 4.353.373 |
| Fair value increase of associates - net (Note 16) | - | - | - | - | 1.200.374 | - | - | - | - | - | - | - | 1.200.374 |
| Currency translation difference (Notes 2 and 16) | - | - | - | - | - | - | - | - | 16.468 | - | - | - | 16.468 |
| Net profit for the year | - | - | - | - | - | - | - | - | - | - | 28.585.922 | - | 28.585.922 |
| Effect of tax rate and regulation change | - | 2.088.663 | - | (347.696) | - | - | - | - | - | - | - | - | 1.740.967 |
| Depreciation transfer (Note 19) | - | (2.477.634) | - | - | - | - | - | - | - | - | - | 2.477.634 | - |
| Deferred income tax on depreciation transfer (Note 19) | - | 495.527 | - | - | - | - | - | - | - | - | - | - | 495.527 |
| **31 December 2006** | **44.951.051** | **58.126.400** | **175.848** | **3.584.770** | **2.662.140** | **26.895.405** | **5.169.966** | **4.500.149** | **7.838** | **(5.537.877)** | **28.585.922** | **70.717.210** | **239.838.822** |

## CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
FOR THE YEARS ENDED AT 31 DECEMBER 2007 AND 2006

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

| | Notes | 1 January- 31 December 2007 | 1 January- 31 December 2006 |
|---|---|---|---|
| **Operating activities:** | | | |
| Profit before taxation on income | | 53.128.181 | 25.285.505 |
| **Adjustments to reconcile net cash generated from operating activities to profit before taxation on income:** | | | |
| Depreciation and amortisation | 19-20 | 12.638.640 | 11.470.461 |
| Interest income | 38 | (7.525.176) | (7.697.058) |
| Interest expense | 39 | 4.655.147 | 4.332.998 |
| Provision for employment termination benefits | 23 | 759.917 | 675.607 |
| Reversal of impairment on property, plant and equipment | 38 | (376.294) | - |
| Impairment on intangible assets | 20 | - | 1.000.000 |
| Impairment on available-for-sale investments | 16 | 39.400 | 2.139.858 |
| Management bonus provision relating to 2007 | 37-ii | 1.350.000 | - |
| Share of results of associates - net | 16 | (1.130.781) | (4.216.260) |
| Inventory profit elimination | 16 | 165.204 | 135.312 |
| Gain on sales of property, plant and equipment | 38 | (121.632) | (82.344) |
| Scrap loss on property, plant and equipment | 38 | - | 2.068.113 |
| Taxes paid | | (9.226.619) | (6.771.754) |
| | | 54.355.987 | 28.340.438 |
| **Changes in assets and liabilities:** | | | |
| Decrease in trade receivables | 7 | 4.398.698 | 2.601.924 |
| Increase in inventory | 12 | (13.641.376) | (5.830.625) |
| Increase in due from related parties | 9 | (14.406.809) | (2.901.734) |
| (Increase)/ decrease in other receivables and current assets | 10-15 | (2.508.850) | 2.577.898 |
| Increase in trade payables | 7 | 4.830.148 | 8.772.665 |
| Increase/ (decrease) in due to related parties | 9 | 1.776.850 | (323.797) |
| Decrease in other liabilities and advances received | 15-21-23 | (355.977) | (31.170) |
| Employment termination benefits paid | 23 | (447.883) | (475.780) |
| **Net cash generated from operating activities** | | **34.000.788** | **32.729.819** |
| **Investing activities:** | | | |
| Interest received | | 7.687.719 | 8.131.888 |
| Decrease in non-trade due from related parties | 9 | 14.488.613 | 31.913.625 |
| Purchases of property, plant and equipment and intangible assests | 19-20 | (21.581.574) | (21.495.808) |
| Capital increase in available- for-sales investments | 16 | (5.800.000) | (399.741) |
| Proceeds from sales of property, plant and equipment | | 613.317 | 1.347.790 |
| **Net cash (used in)/ generated from investing activities** | | **(4.591.925)** | **19.497.754** |
| **Financing activities:** | | | |
| Redemption of bank borrowings | | (9.914.701) | (26.537.056) |
| Redemption of leasing obligations | 8 | (160.877) | (262.209) |
| Increase in non-trade due to related parties | 9 | 8.175.000 | - |
| Dividends and benefits paid to senior management | 9.ii-h,i | (21.578.460) | (15.732.870) |
| Interest paid | | (4.802.382) | (4.770.842) |
| Dividends received | 16 | 2.289.262 | 267.853 |
| **Net cash used in financing activities** | | **(25.992.158)** | **(47.035.124)** |
| **Net increase in cash and cash equivalent - net** | | **3.416.705** | **5.192.449** |
| Cash and cash equivalents at 1 January | | 7.179.963 | 1.987.514 |
| **Cash and cash equivalents at 31 December** | 4 | **10.596.668** | **7.179.963** |

The accompanying explanatory notes are an integral part of these financial statements.

## NOTE 1 - ORGANISATION AND NATURE OF OPERATIONS

The main operations of Pınar Süt Mamulleri Sanayi A.Ş. ("the Company") are the processing, production and sales of milk, dairy products, fruit juice, sauces and powder products. The Company's production facilities are located at İzmir - Pınarbaşı and Eskişehir - Organize Sanayi Bölgesi. The company headquarters is located in İzmir.

97% (2006: 96%) of sales and distribution of the Company's products in the domestic market are performed by its associate, Yaşar Birleşik Pazarlama Dağıtım Turizm ve Ticaret A.Ş. ("YBP"), and its exports are performed by Yaşar Dış Ticaret A.Ş., ("Yataş") which are both Yaşar Group Companies (Note 9).

The Company is subject to the regulations of Capital Market Board ("CMB") and 37,95% (2006: 37,95%) of its shares are quoted on the Istanbul Stock Exchange ("ISE"). The ultimate parent of the Company is Yaşar Holding A.Ş. ("Yaşar Holding") with %61,19 (2006: %61,19) shares of the Company. (Note 25).

The Company is registered in Turkey and the address of the registered office is as follows;

Şehit Fethi Bey Caddesi No: 120
Alsancak/ İzmir

## NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 2.1 Accounting standarts

The Company prepares its financial statements, in accordance with the financial reporting standards issued by the Turkish Capital Market Board ("CMB Accounting Standards"). The Turkish Capital Market Board ("CMB") has issued a comprehensive set of accounting principles in CMB Communiqué XI/25 "Communiqué Regarding Accounting Standards in Capital Market" ("Communiqué"). It has been stated in the Communiqué that, applying International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") in preparation of financial statements, would be an accepted alternative which complies with the CMB Accounting Standards.

Based on the CMB announcement dated 17 March 2005, it is not required for the companies operating in Turkey and preparing financial statements in accordance with the financial reporting standards issued by the CMB, to restate for the effects of inflation for the periods beginning after 1 January 2005. Accordingly, IAS 29 "Financial Reporting in Hyperinflationary Economies" issued by IASB has not been applied, since 1 January 2005.

The financial statements and notes to financial statements are prepared in compliance with the alternative application and formats required by the CMB announcement dated 10 December 2004.

The financial statements have been prepared in terms of New Turkish Lira ("YTL") under the historical cost convention as modified by the revaluation of land, buildings, land improvements, machinery and equipment, investment property, financial assets and financial liabilities which are all stated at fair values. The investment in associate registered in Germany keeps its records in accordance with the applicable standards and laws and regulations in Germany, and certain adjustments and reclassifications including the application of consistent accounting policies for the purpose of fair presentation in accordance with CMB Accounting Standards are recognised.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)**

**2.2 Financial reporting in hyperinflationary periods**

The financial statements are not adjusted for the effects of the inflation for the years ended 31 December 2007 and 2006.

**2.3 Basis of Consolidation**

The Company does not have any financial assets to be consolidated in the financial statements. The investments in associates are accounted for using the equity method. These are undertakings over which the Company has between 20% and 50% of the voting rights, or over which the Company has significant influence. The unrealised gains on transactions between the Company and its associated undertakings are eliminated to the extent of the Company's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Company has incurred obligations or guaranteed obligations in respect of the associates or significant influence of the company ceases. The carrying amount of the investment at the date when significant influence ceases is regarded as cost thereafter.
The table below sets out the associates and the proportion of ownership interest as of 31 December 2007 and 2006 (Note 16):

| | Shareholding (%) | |
|---|---|---|
| Associates | 2007 | 2006 |
| YBP | 31,95 | 31,95 |
| Pınar Foods GmbH (“Pınar Foods”) | 44,94 | 44,94 |
| Pınar Anadolu Gıda San. ve Tic. A.Ş. (“Pınar Anadolu”) | 20,00 | 20,00 |
| Desa Enerji Elektrik Üretimi Otoprodüktör Grubu (“Desa Enerji”) | 30,52 | - |

**Foreign currency translation**

***i) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

***ii) Translation of financial statements of foreign associate***

Financial statements of associate operating in Germany (Pınar Foods) are prepared according to the legislation of the country in which they operate, and adjusted to the CMB Accounting Standards to reflect the proper presentation and content. The assets and liabilities of foreign associate are translated into YTL from the foreign exchange rate at the balance sheet date. The income and expenses of foreign associate are translated into YTL at the average foreign exchange rate. Exchange differences arising from the differences between the average and year-end rates are included in the “currency translation reserve” as a separate component of shareholders’ equity.

**NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)**

**2.4 Comparatives and Restatement of Prior Year Financial Statements**

The Company prepared its financial statements on a comparative basis with the preceding financial period, which enables determination of trends in financial position and performance. The Company prepared its balance sheet as at 31 December 2007 on a comparative basis with balance sheet as at
31 December 2006; and statements of income, cash flows and changes in shareholders' equity for the period of 1 January 2007 - 31 December 2007 on a comparative basis with financial statements for the period 1 January 2006 - 31 December 2006.

Prior year adjustments are as follows:

a) According to International Accounting Standard 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), the management bonus paid to the management of the Company, should be recognised as a provision within the period in which such liability arises. Based on the General Assembly on 17 May 2007, it was decided to pay management bonus relating to the profit of 2006 to the senior management. In this respect, as the bonus accrual was not recognised in the financial statements at 31 December 2006, the accrual was reported as an adjustment to the opening balance of retained earnings as of 1 January 2007, without restating prior year financial statements on the grounds of materiality (see "the Statements of Changes in Shareholders' Equity").

b) The Company was identified that deferred income tax liability amounting to YTL1.321.047 with respect to the investment property was not recognised in previous years, and the impairment, amounting to YTL6.319.649, incurred in the subsequent years regarding to this investment property was recognised in the revaluation reserve instead of the income statement within the year in which such impairment incurred. Deferred income tax liability amounting to YTL1.321.047, was accounted for in the income statement for the period ended 31 December 2007, and the impairment loss after tax, amounting to YTL5.055.719 that was previously recognised in revaluation reserve, was charged against the retained earnings through crediting revaluation reserve and debiting retained earnings by YTL5.055.719 at 31 December 2007, without restating prior year financial statements on the grounds of materiality limits based the income statements and the shareholders equity (see "the Statements of Changes in Shareholders' Equity").

**2.5 Offsetting**

All items with significant amounts and nature, even with similar characteristics, are presented separately in the financial statements. Insignificant amounts are grouped and presented by means of items having similar substance and function. When the nature of transactions and events necessitate offsetting, presentation of these transactions and events over their net amounts or recognition of the assets after deducting the related impairment are not considered as a violation of the rule of non-offsetting. As a result of the transactions in the normal course of business, revenue other than sales described in "Revenue Recognition", are presented as net if the nature of the transaction or the event qualify for offsetting.

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are summarised below:

### i. Revenue Recognation

Revenues are recognised on an accrual basis at the time deliveries are made, services are given and significant risks and rewards are transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company at the fair value of considerations received or receivable. Net sales represent the invoiced value of goods shipped less sales returns, sales discounts and commissions given (Note 36).

Rent income is recognised on an accrual basis. Dividend income is recognised when the right to receive payment is established.

Interest income is recognised using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

### ii. Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories comprise total purchase costs and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The cost of inventories is determined on the monthly weighted average basis (Note 12).

### iii. Property, plant and equipment

The Company's land, land improvements, buildings, machinery and equipment are stated at their fair values based on the valuations performed by the independent professional valuation companies Elit Gayrimenkul Değerleme A.Ş. and Vakıf Gayrimenkul Ekspertiz ve Değerleme A.Ş. as of 31 December 2007. All other items of property, plant and equipment acquired before 1 January 2005 are carried at cost in the equivalent purchasing power of YTL as at 31 December 2004 and items acquired after 1 January 2005 are carried at cost, less the subsequent depreciation and impairment loss, if any, as of 31 December 2007 (Note 19).

Increases in the carrying amount arising on the revaluation of property, plant and equipment are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against that reserve; all other decreases are charged to the statement of income.

Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of income) and the depreciation based on the asset's original cost stated in terms of purchasing power of YTL at the prior years is transferred from retained earnings to the revaluation reserves.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**iii. Property, plant and equipment (Continued)**

Property, plant and equipment are capitalised and depreciated when they are fully commissioned and in a physical state to meet their designated production capacity. Residual values of property, plant and equipment are deemed as negligible.

Depreciation is provided on the restated or revalued amounts of property, plant and equipment on a straight-line basis (Note 19). Land is not depreciated as it is deemed to have an indefinite life. The economic useful lives of property, plant and equipments are as follows:

| | Ratio (%) |
|---|---|
| Buildings and land improvements | 2-6 |
| Machinery and equipment | 3-10 |
| Motor vehicles (including leased motor vehicles) | 20 |
| Furniture and fixtures | 10-20 |

Where the carrying amount of an asset is greater than its recoverable amount, an impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Gains or losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are included in the related income and expense accounts, as appropriate. On the disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Repairs and maintenance are charged to the statements of income during the financial period in which they are incurred. In case of a property, plant and equipment is expected to provide a better performance and economic benefit compared to the condition prior to the renovation, the expenses incurred after capitalisation are included the cost of the related asset. The Company derocognises the carrying amounts of the replaced parts based on expenses incurred after capitalisation regardless of whether the replaced parts had been depreciated separately. The expenses incurred after capitalisation which are included to the cost of the related assets are depreciated based on their useful lives.

**iv. Intangible assets**

Intangible assets comprise acquired rights, information systems and software. Intangible assets acquired before 1 January 2005 are carried at cost in the equivalent purchasing power of YTL as at 31 December 2004 and items acquired after 1 January 2005 are carried at cost, less accumulated amortisation and impairment losses if any. Residual values of intangible assets are deemed as negligible. They are recorded at acquisition cost and amortised on a straight-line basis over their estimated useful lives for a period of five years from the date of acquisition. Where impairment indicator exists, the carrying amount of any intangible asset is assessed and an impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less cost to sell or value in use (Note 3.v and 20).

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**v. Impairment of assets**

At each reporting date, the Company assesses whether there is an impairment indication for the assets, except for the deferred income tax asset (Note 14) and property, plant and equipment that are stated at revalued amounts. When an indication of impairment exists, the Company estimates the recoverable amounts of such assets. Recoverable amounts of intangible assets that are not available for use, are estimated at each reporting date. An impairment loss is recognised for the amount by which the carrying amount of the asset or any cash-generating unit of that asset exceeds its recoverable amount, which is the higher of an asset's net selling price or value in use. Impairment losses are accounted for in the statement of income.

Impairment losses on assets can be reversed to the extent that increased carrying amount of an asset shall not exceed the carrying amount that would have been determined had no impairment loss has been recognised for the asset in prior years provided that increases in the recoverable amount of the asset can be associated with events that occur subsequent to the period in which the impairment losses were recognised.

**vi. Borrowings and borrowings costs**

Borrowings are recognised initially at the proceeds received, net of any transaction costs incurred (Note 6). In subsequent periods, borrowings are measured at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings. Borrowing costs are expensed as incurred (Note 39). If the maturity of these instruments is less than 12 months, these loans and receivables are classified in current assets and if more than 12 months, classified in non-current assets. In addition, in case of breach of loan agreement conditions as of or before the balance sheet date, which might cause recall of the loan by the financial institution, the long-term portion of such loans is reclassified as the short-term loan (Note 6).

**vii. Financial assets**

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The Company classifies its financial instruments in the following categories:

a) Loans and receivables

Loans and receivables constitute non-derivative financial instruments, which are not quoted in active markets and have fixed or scheduled payments. Loans and receivables arise, without held-for-sale intention, from the Company's supply of goods, service or direct fund to any debtor. If the maturity of these instruments are less than 12 months, these loans and receivables are classified in current assets and if more than 12 months, classified in non-current assets. The loans and receivables are included in "Trade receivables" (Note 3.xxviii) and "Other receivables" in the balance sheet. Loans are recognised initially at the proceeds received, net of any transaction costs incurred. In subsequent periods, loans are stated at amortised cost using the effective yield method.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**vii. Financial assets (Continued)**

b) Available-for-sale financial assets

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless management has expressed the intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All financial investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments. Available-for-sale investments are carried at fair value and where there is no quoted market price and where a reasonable estimate of fair value could not be determined since other methods are inappropriate and unworkable, available-for-sale investments acquired before 1 January 2005 are carried at cost expressed in purchasing power of YTL as at 31 December 2004 and available-for-sale investments acquired after 1 January 2005 are carried at cost, less impairment losses, if any. Unrealized gains and losses arising from changes in fair value of securities classified as available-for-sale are recognised in the equity, rather than statement of income until the related financial asset is derecognised (Note 16).

Change in fair value of available-for-sale investments is calculated as the difference between the discounted acquisition cost and the current fair value. As the financial asset is derecognised, the gain and loss on that financial asset is removed from equity and recognised in statements of income. If there is objective evidence that available for sale investments are impaired, such impairments arising from the difference between the acquisition costs and fair values, is directly recognised in the statement of income.

**viii. Derivative financial instruments**

Derivatives are initially recognised at acquisition cost on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The derivative financial instruments of the Company consist of foreign currency derivative swap transactions (Note 6).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Foreign currency and interest expenses arising from the difference between the fair value of such instrument and the initial recognition is recognized in other income and expenses (Note 38) and finance expense (Note 39).

**ix. Business combinations**

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combinations are accounted for using the purchase method in the scope of IFRS 3, “Business Combinations”. However, if the parties involved for the transaction are the entities under common control, the provisions stated in IFRS 3 are not applicable for the transaction, and accordingly goodwill or negative goodwill are not be accounted for. The difference between the purchase consideration and the fair value of the net asset acquired was accounted for under equity as “Distribution to shareholders” (Note 32).

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**x. Earning per share**

Earnings per share disclosed in the statements of income are determined by dividing net income for the year by the weighted average number of shares that have been outstanding during the year concerned (Note 42).

Companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and for each earlier year.

**xi. Subsequent events**

Subsequent events, announcements related to net profit or even declared after other selective financial information has been publicly announced, include all events that take place between the balance sheet date and the date when balance sheet was authorised for issue (Note 34).

In the case that events require a correction to be made occur subsequent to the balance sheet date, the Company makes the necessary corrections to the financial statements. Moreover, the events that occur subsequent to the balance sheet date and not require a correction to be made are disclosed in accompanying notes, where the decisions of the users of financial statements are affected.

**xii. Provisions, contingent assets and contingent liabilities**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources will be required to settle the obligation; and when a reliable estimate of the amount can be made.

In cases where the time value of money is material, provisions are determined as the present value of expenses required to be made to settle the liability. The rate used to discount provisions to their present values is determined considering the interest rate in the related markets and the risk associated with the liability. The discount rate must be pre-tax and does not consider risks associated with future cash flow estimates.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are treated as contingent assets or liabilities. The Company does not recognise contingent assets and liabilities (Note 31).

**xiii. Accounting policies, errors and changes in accounting estimates**

Material changes in accounting policies and accounting errors are applied on a retrospective basis as if a prior period error had never occurred or the policy had always been applied (Note 2.4). The effect of change in accounting estimate shall be recognised prospectively by including it in the statement of income within the period of the change, if the change affects that period only; or period of the change and future periods, if the change affects both.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**xiv. Leases**

*(1) The Company as the lessee*

Finance leases

Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments (Note 8). Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the statement of income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the estimated useful life of the asset (Note 19)

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

*(2) The Company as the lessor*

Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their estimated useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised in the income statement on a straight-line basis over the lease term.

**xv. Related parties**

For the purpose of these financial statements, Company's personnel, shareholders, Yaşar Group Companies, key management personnel and Board members, in each case together with their families and companies controlled, jointly controlled or significantly influenced by them are considered and referred to as related parties (Note 9).

**xvi. Segment reporting**

The Company operates in milk and dairy products sector and total gross sales from these operations constitutes the 97% (2006: 97%) of total gross sales. Furthermore domestic sales constitutes the 93% (2006: 90%) of total gross sales, and 93% (2006: 91%) of sales and distribution of the Company's products in the domestic market are performed by its associate, YBP (Note 9) and operations other than in Turkey are not material enough to be reported separately (Note 33). In these respects, segment reporting is not applicable.

**xvii. Construction contracts**

None (2006: None).

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**xviii. Discountinued operations**

None (2006: None).

**xix. Government grants and incentives**

None (2006: None).

**xx. Investment property**

Land and buildings that are held to earn rent or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as investment property and carried at fair value under the fair value method. The Company continues to depreciate the property and to recognise any impairment losses that have occurred up to the date of change in use when an owner-occupied property becomes an investment property that will be carried at fair value. The Company treats any difference at that date between the carrying amount of the property under IAS 16 and its fair value in the same way as a revaluation under IAS 16. The investment properties are stated at fair values determined by the Elit Gayrimenkul Değerleme A.Ş. at 31 December 2007 (Note 18).

Land and buildings that are occupied by and leased to investment in associates, do not qualify as investment property in the financial statements since the related investments in associates are accounted for using equity method to the extent of the Company's intent in these associates.

**xxi. Taxes on income**

Taxation on income includes current period tax liability and deferred income taxes. Current period tax liability includes the taxes payable calculated on the taxable portion of period income with tax rates enacted on the balance sheet date (Note 41). The adjustments related to prior period tax liabilities are recognised in other expenses.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes with the enacted tax rates as of the balance sheet date (Note 14).

Deferred income tax assets or liabilities are reflected to the financial statements to the extent that they will provide an increase or decrease in the taxes payable for the future periods where the temporary differences will reverse. Deferred income tax liabilities are recognised for all taxable temporary differences, where deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. To the extent that deferred income tax assets will not be utilised, the related amounts have been deducted accordingly.

**xxii. Provision for employment termination benefits**

In accordance with existing social legislation and Turkish Labor Law in Turkey, the Company is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. All actuarial gains and losses are recognised in the statements of income (Note 23).

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**xxiii. Pension plans**

None (2006: None).

**xxiv. Agricultural operations**

None (2006: None).

**xxv. Goodwill and negative goodwill**

None (2006: None) (Note 3.ix).

**xxvi. Cash flow statement**

In the statement of cash flows, cash flows are classified into three categories as operating, investment and financing activities (Note 43). Cash flows from operating activities are those resulting from the Company's production and sales activities. Cash flows from investment activities indicate cash inflows and outflows resulting from property, plant and equipments, and financial investments. Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources. For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand accounts, bank deposits, mutual funds and loans originated by the Company by providing money directly to a bank under reverse repurchase agreements with a predetermined sale price at fixed future dates of less than or equal to 3 months (Note 4).

**xxvii. Purchase and repurchase agreements ("Reverse repurchase agreements")**

Securities sold under repurchase agreements ("repo") are recognised in the financial statements as a liability. Securities purchased under agreements to resell ("reverse repurchase agreements") are recorded as loans to banks in the financial statements.Where the original maturity of such loans are within three months, they are recognised in cash and cash equivalents. The difference between the purchase and resale price of these repurchase agreements is treated as interest income and accrued over the life of the reverse repurchase agreement (Note 4).

**xxviii. Trade receivables and provision for impairment of receivables**

Trade receivables that are created by the Company by way of providing goods or services directly to a debtor are carried at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

A credit risk provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is recognised to other income in the statement of income.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**xxix. Share capital and dividends**

Ordinary shares are classified as equity. Dividends payable on shares are recognised as an appropriation of the profit in the period in which they are declared.

**xxx. Financial instruments and financial risk management**

The Company's activities expose it to a variety of financial risks, including the effects of changes in debt and equity instrument market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out under policies approved by Board of Directors.

***Market risk***

*i. Interest rate risk*

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets (Note 6). The interest rate risk is managed through the balancing of assets and liabilities that are responsive to the fluctuations in interest rates.

*ii. Foreign currency risk*

The Company is exposed to foreign exchange risks through the impact of rate changes on translation into YTL of foreign currency denominated assets and liabilities. The Company minimizes the risk through balancing foreign currency denominated assets and liabilities. These risks are monitored by Board of Directors and Audit Committee via analysis of the foreign currency position. When necessary derivative financial instruments are used as a tool to hedge the foreign exchange risk (Notes 6 and 29).

*iii. Price risk*

The operational profitability of the Company and the cash flows provided from the operations are affected by the rare milk prices which are changing according to the competition in the relevant market and the changes in the raw material prices. These relevant prices are followed up by the Company management and to averse the pressure of the costs on milk prices, precautions for cost amendment are taken. Price risk is monitored by Board of Directors and Audit Committee via regular meetings.

***Liquidity risk***

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Due to the dynamic nature of the underlying businesses, existing and prospective debt requirements, the Company treasury aims to maintain flexibility in funding by keeping committed credit lines available. The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**xxx. Financial instruments and financial risk management (Continued)**

***Liquidity risk (Continued)***

At 31 December 2007, the Company has long-term financial liabilities amounting to YTL30.832.351 (2006: YTL25.485.861) (Notes 6, 7, 8 and 9). At 31 December 2007, the Company has long-term financial assets including trade receivables, due from related parties and available-for-sale investments amounting to YTL54.609.032 (2006: YTL40.694.516) (Notes 7, 9 and 16).

***Credit risk***

Ownership of financial assets involves the risk that counterparties may be unable to meet the terms of their agreements. The Company sells majority of the goods produced for the domestic market to its related party and associate, YBP, which performs sales and distribution of the Company's products in the domestic market. In this respect, these risks are monitored by the Company through YBP with credit ratings, limiting the aggregate risk from any individual counterparty and receiving guarantees when required. YBP manages those risks arising from sales to dealers and direct customers by limiting the aggregate risk from any individual counterparty and receiving guarantees when required (Note 9). Also the Company's exports are performed by another related party, Yataş, and those receivables are followed by the Company through Yataş. Trade receivables are evaluated by the Company management considering its past experiences and current economic conditions, and are recognized in the balance sheet, less the provision for impairment (Note 7).

***Capital risk management***

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total liability (including borrowings, trade, due to related parties and other payables, as shown in the balance sheet) less cash and cash equivalents.

| | **31 December 2007** | **31 December 2006** |
|---|---|---|
| Total liabilities | 92.128.461 | 87.856.372 |
| Less: Cash and cash equilavents (Note 4) | (10.596.668) | (7.199.963) |
| Net debt | 81.531.793 | 80.656.409 |
| Total shareholders' equity | 288.108.223 | 239.838.822 |
| **Gearing ratio** | **%28** | **%34** |

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**xxxi. Fair value of financial instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

*Financial assets*

The fair value of the foreign currency denominated amounts, which are translated by using the exchange rates prevailing at period-end, is considered to approximate their fair value. The fair values of certain financial assets carried at cost, including cash and due from banks, receivables and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

The carrying values of trade receivables along with the related allowances for impairment and short-term receivables from related parties are considered to approximate their fair values. The fair values of long term receivables from related parties are disclosed in Note 9-i.b.

The fair values of available-for-sale investments which do not have quoted market prices in active markets, are determined by using general accepted valuation techniques or stated at cost, less a provision for impairment, if any, by assuming the carrying values do not differ materially from their fair values.

*Financial liabilities*

Fair values of bank borrowings are disclosed in Note 6.

The fair values of discounted short-term trade payables are considered to approximate their carrying values. Long-term borrowings denominated in foreign exchange are translated using year-end exchange rates and their fair values considered to be approximate to their respective carrying values. The fair values of due-to non-current related parties are disclosed in Note 9-i.d.

**xxxii. Significant accounting estimates and decisions**

Preparation of financial statements requires disclosure of assets and liabilities, contingent assets and liabilities as at balance sheet date and utilisation of estimates and assumptions that can affect income and expense amounts. The results of these estimations and assumptions can differ from the actual results even these estimations and assumptions are based on the management's best estimate. Significant accounting estimates are as follows:

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### xxxii. Significant accounting estimates and decisions (Continued)

***Income taxes***

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and significant judgment is required in determining the provision for income taxes. The Company recognises tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

***Fair value determination of available-for-sale investments:***

The generally accepted valuation techniques used in fair value determination of available-for-sale investments for which there is no quoted market price exists, consist of several assumptions, which are based on the management's best estimates (Note 16).

## NOTE 4 - CASH AND CASH EQUIVALENTS

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Cash in hand | 20.496 | 17.056 |
| Banks | | |
| - Demand deposits | 526.172 | 582.907 |
| - YTL | 460.225 | 449.669 |
| - Foreign currency | 65.947 | 133.238 |
| Loans to bank | 10.050.000 | 6.600.000 |
| | **10.596.668** | **7.199.963** |

As of 31 December 2007, foreign currency demand deposits consist of USD 38.720, EUR 11.457 and GBP 540, equivalent of YTL 65.947 (2006: USD 65.193 and EUR 22.470, equivalent of YTL 133.238) and cash in hand include foreign currency denominated balances, mainly USD 2.860 and EUR 4.640, equivalent of YTL 11.266 (2006: None). Effective weighted average interest rate of repurchase agreement maturing on 3 January 2008 (2006: 4 January 2007) is 16,60% per annum ("p.a.") (31 December 2006: 19,00% p.a.).

Cash and cash equivalents for purposes of cash flow statement are as follows:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Cash and cash equivalents | 10.596.668 | 7.199.963 |
| Blocked deposits | - | (20.000) |
| **Cash and cash equivalents** | **10.596.668** | **7.179.963** |

## NOTE 5 - MARKETABLE SECURITIES

None (2006: None).

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 6 - FINANCIAL LIABILITIES

| | Effective weighted average interest rate p.a. % | | Original currency | | YTL equivalent | |
|---|---|---|---|---|---|---|
| | 31 December 2007 | 31 December 2006 | 31 December 2007 | 31 December 2006 | 31 December 2007 | 31 December 2006 |
| **Short-term bank borrowings:** | | | | | | |
| YTL borrowings (*) | - | 12,50 | 607.291 | 1.291.561 | 607.291 | 1.291.561 |
| USD borrowings | - | 7,17 | - | 1.906.214 | - | 2.679.374 |
| | | | | | **607.291** | **3.970.935** |
| **Short –term portion of long-term bank borrowings:** | | | | | | |
| USD borrowings (**) | 9,13 | 9,03 | 2.761.292 | 5.295.265 | 3.216.077 | 7.443.024 |
| EUR borrowings (***) | 8,24 | 6,23 | 742.289 | 785.831 | 1.269.463 | 1.454.966 |
| **Short-term derivative financial liabilities:** | | | | | | |
| Cross currency swaps | - | - | | | 501.095 | 622.340 |
| | | | | | **4.986.635** | **9.520.330** |
| **Total short-term borrowings** | | | | | **5.593.926** | **13.491.265** |
| **Long –term borrowings:** | | | | | | |
| EUR borrowings (***) | 9,96 | 8,44 | 6.440.236 | 6.944.896 | 11.014.091 | 12.858.475 |
| USD borrowings (**) | - | 10,37 | - | 845.200 | - | 1.188.013 |
| **Long-term derivative financial liabilities:** | | | | | | |
| Cross currency swaps | - | - | | - | 1.432.800 | 585.000 |
| **Total long–term financial liabilities** | | | | | **12.446.891** | **14.631.488** |

(*) YTL denominated short-term bank borrowings are comprised of spot borrowings without interest charge as of 31 December 2007.

(**) USD denominated bank borrowings mainly consist of quarterly and semi-annually floating interest rates between Libor+%3,5 - %5 (2006: quarterly and semi-annually floating interest rates between Libor+%3,5 - %5).

(***) EUR denominated bank borrowings mainly consist of quarterly and semi-annually floating interest rates between Euribor+%0,75 - %5,60 (2006: quarterly and semi-annually floating interest rates Euribor+%0,75 - %5).

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 6 - FINANCIAL LIABILITIES (Continued)**

In relation to the loan with an amount of USD 1.875.000 totally equivalent to YTL 2.183.813 obtained from an international financial institution as of 31 December 2007, and with respect to scope of the general loan agreement signed; there are particular financial ratios which the Company and other group companies obtained loan has to comply with jointly. As the other group companies have breached some conditions of related loan agreement on or before the balance sheet date at 31 December 2007, the Company classified its long-term financial liabilities amounting USD 625.000 (equivalent to YTL 727.938) as current. The Company makes principal and interest payments of the related borrowing in accordance with the current redemption schedule as of 31 December 2007.

With respect to a loan agreement undersigned on 27 September 2006 between the Group and Morgan Stanley International Limited, the Company received a borrowing amounting to EUR6.000.000 with a maturity date of 27 September 2013 between Morgan Stanley Bank International Limited, Morgan Stanley & Co.International Limited and other guarantor Yaşar group companies (Yaşar Holding A.Ş., Yaşar Birleşik Pazarlama Dağıtım Turizm ve Ticaret A.Ş., Çamlı Yem Besicilik Sanayi ve Ticaret A.Ş., Viking Kağıt ve Selüloz A.Ş., Pınar Entegre Et ve Un Sanayi A.Ş., Pınar Su Sanayi ve Ticaret A.Ş., DYO Boya Fabrikaları Sanayi ve Ticaret A.Ş.), the Group signed a cross currency swap agreement with Morgan Stanley & Co. International Limited together with the undersigned International Swaps and Derivatives Association (“ISDA”) master agreements, related appendices and corresponding swap confirmation documents. In line with this agreement, the Company swapped the borrowing amounting to EUR 6.000.000 with the interest rate of Euribor +5,60% p.a., with a currency swap amounting to YTL 11.694.000, using the interest rate of YTL swap curve +8,50% p.a.. The gain or loss relating to the cross currency swaps is recognised in the income statement under other income/ (expenses) (Note 38) and finance expenses (Note 39). The notional principal amount of the cross currency swap amounts to YTL 21.955.200 (2006: YTL 22.803.000) as at 31 December 2007.

With respect to the scope of the loan agreement signed with Morgan Stanley International Limited regarding borrowing amounting to EUR6.000.000; there are particular financial ratios which the main shareholder, Yaşar Holding A.Ş., has to comply. Based on the unaudited consolidated financial statements of Yaşar Holding A.Ş. as of 31 December 2007, the Company management expects to meet those financial ratios.

Guarantees given related with the bank borrowings and financial liabilities are stated in Note 19 and 31.

The redemption schedules plan of principal amounts of long-term bank borrowings at 31 December 2007 are as follows:

| | |
|---|---|
| 1-2 years | 215.112 |
| 2 years and over (last payment in 2013) | 12.231.779 |
| | **12.446.891** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 6 - FINANCIAL LIABILITIES (Continued)**

The carrying amounts of the bank borrowings with floating and fixed rates which were classified in terms of periods remaining to contractual repricing dates as at 31 December 2007 and 2006 are as follows:

| | Up to 3 months | 3 months to 1 year | Total |
|---|---|---|---|
| - 31 December 2007: | | | |
| Bank borrowings with floating rates | 14.021.461 | 2.441.070 | 16.462.531 |
| Bank borrowings with fixed rates | - | - | 1.578.286 |
| **Total** | | | **18.040.817** |
| - 31 December 2006: | | | |
| Bank borrowings with floating rates | 17.536.333 | 5.452.548 | 22.988.881 |
| Bank borrowings with fixed rates | - | - | 5.133.872 |
| **Total** | | | **28.122.753** |

According to the interest rate sensitivity analysis performed as at 31 December 2007, if interest rates on bank borrowings had been 1% higher while all other variables being constant, net income for the current year would be YTL156.199 lower (2006: YTL219.797 lower), as a result of additional interest expense that would be incurred on bank borrowings with floating rates.

The carrying amounts and fair values of borrowings are as follows:

| | Carrying Amounts | | Fair Values | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Bank borrowings | 18.040.817 | 28.122.753 | 18.209.140 | 29.482.100 |

The fair values are based on cash flows discounted using weighted average interest rates of 4,80% p.a., 4,53% p.a. and 16,74% p.a. for EUR, USD and YTL denominated bank borrowings as of 31 December 2007, respectively (2006: 3,91% p.a., 5,16% p.a. and 16,17% p.a. for EUR, USD and YTL denominated bank borrowings, respectively).

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 7 - TRADE RECEIVABLES AND PAYABLES

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **a) Short-term trade receivables:** | | |
| Customer current accounts | 1.110.007 | 1.985.268 |
| Cheques and notes receivable | 3.797.308 | 7.203.720 |
| Other | 42.773 | 191.229 |
| | 4.950.088 | 9.380.217 |
| Less: Unearned finance income | (78.631) | (110.114) |
| Provision for impairment of receivables | (37.430) | (37.430) |
| | **4.834.027** | **9.232.673** |

Trade receivables are mainly resulted from sales of milk and dairy products.

The effective weighted average interest rate on short-term trade receivables is 16,10% p.a. as of 31 December 2007 (2006: 18,86% p.a.). Customer current accounts and notes receivable mature within one and two months (2006: one and two months), respectively.

The Company's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company's trade receivables.

The agings of notes receivables are as follows:

| | | |
|---|---|---|
| 0-30 days | 2.269.242 | 4.723.244 |
| 31-60 days | 845.339 | 2.244.404 |
| 61-90 days | - | 236.072 |
| 91 days and over | 682.727 | - |
| | **3.797.308** | **7.203.720** |

The aging analysis of trade receivables

The aging of trade receivables as of 31 December 2007 and 2006 are as follows;

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Overdue | 339.034 | 517.364 |
| 0-30 days | 2.859.575 | 5.622.590 |
| 31-60 days | 996.228 | 2.864.952 |
| 61-90 days | - | 227.767 |
| 91days and over | 639.190 | - |
| | **4.834.027** | **9.232.673** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)**

**a) Short-term trade receivables (Continued):**

The aging analysis of trade receivables (Continued)

As of 31 December 2007, trade receivables of YTL339.034 (2006: YTL517.364), over which no provision for impairment is provided, were past due and the Group holds collateral of YTL170.280 (2006: YTL85.000) as security for such receivables. The excess of trade receivables over guarantees received amounted to YTL168.754 as of 31 December 2007 (2006: YTL432.364). The Company management does not expect any collection risk regarding those receivables considering its past experience.

The aging analysis of trade receivables past due as of 31 December 2007 is as follows:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| 0-3 months | 309.704 | 360.364 |
| 3-6 months | 29.330 | 138.873 |
| 6 months and over | - | 18.127 |
| | **339.034** | **517.364** |

The movements in the provision for impairment of receivables for the years ended 31 December 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| **1 January** | **37.430** | **39.469** |
| Collections (Note 38-i) | - | (2.039) |
| **31 December** | **37.430** | **37.430** |

**b) Long term trade receivables:**

| | | |
|---|---|---|
| Deposits and guarantees given | 2.587 | 2.639 |
| | **2.587** | **2.639** |

## CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

**PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.**
NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007
(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

### NOTE 7 - TRADE RECEIVABLES AND PAYABLES (Continued)

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **c) Short term trade payables:** | | |
| Supplier current accounts | 44.428.796 | 39.152.356 |
| Cheques in collection | - | 25.001 |
| | 44.428.796 | 39.177.357 |
| Less: Unincurred finance cost | (357.456) | (419.651) |
| | **44.071.340** | **38.757.706** |

At 31 December 2007, the effective weighted average interest rate for short term trade payables is 15,67 % p.a. (2006: 18,88% p.a.) and maturities are less than 4 months (2006: less than 4 months).

| | | |
|---|---|---|
| **d) Long term trade payables:** | | |
| Supplier current accounts | 9.772.296 | 10.292.094 |
| Deposits and guarantees received | 302.161 | 265.849 |
| | **10.074.457** | **10.557.943** |

Long term trade payables amounting to YTL 5.714.124 (2006: Euro 5.558.787) consist of the tangible and intangible asset purchases and the effective weighted average interest rate is 5,65% p.a. (2006: 5,15 % p.a.).

The redemption schedule of long-term trade payables as of 31 December 2007 and 2006 is as follows:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| 1-2 years | 3.343.199 | 3.090.857 |
| 2 years and over (last payment in 2013) | 6.429.097 | 7.201.237 |
| | **9.772.296** | **10.292.094** |

### NOTE 8 - LEASING RECEIVABLES AND OBLIGATIONS

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Short term financial leasing | 138.878 | 139.328 |
| Long term financial leasing | 136.003 | 296.430 |
| | **274.881** | **435.758** |

At 31 December 2007, financial leasing consist of EUR 160.702 and USD 44 (2006: EUR 235.317, USD 44 and YTL 8). The average weighted interest rate for leasing obligations is 8,64% p.a. (2006: 8,64 p.a.), assuming the carrying values approximate their fair values.

The redemption schedule of long-term leasing obligations at 31 December 2007 is as follows:

| | |
|---|---|
| 2009 | 135.607 |
| 2010 | 396 |
| | **136.003** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Due from related parties and due to related parties balances and the transactions with related parties as of and for the years ended 31 December 2007 and 2006 are as follows:

**i) Related parties balances:**

a) **Due from related parties - current**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| YBP | 39.857.710 | 46.551.208 |
| Yataş | 6.374.974 | 3.972.399 |
| DYO Matbaa Mürekkepleri San. Ve Tic. A.Ş. (“DYO Matbaa”) | 1.004.313 | - |
| Yaşar Bilgi İşlem ve Ticaret A.Ş. (“Yabim”) | 591.170 | - |
| Other | 240.186 | 51.226 |
| | 48.068.353 | 50.574.833 |
| Less: Unearned finance income | (275.839) | (218.888) |
| Provision for doubtful receivables | (186.874) | (186.874) |
| | **47.605.640** | **50.169.071** |

At 31 December 2007, the effective weighted average interest rate of the short term YTL denominated trade receivables from due from related parties is 15,38% p.a. (2006: 19,01% p.a.) and the maturities are less than 2 months (2006: less than 2 months).

YTL 4.572.087 of the Company's short-term receivables (2006: YTL10.641.283) and YTL15.786.921 of long-term receivables (2006: YTL 13.467.837), in total, YTL20.359.008 (2006: YTL24.109.120) from related parties consist of loans obtained from various banks and financial institutions by the Company, and were transferred to related parties with the same conditions. Effective weighted average interest rates applied to USD, EUR and YTL denominated due from related parties are 9,13% p.a., 9,79% p.a. and 25,32% p.a. respectively (2006: USD, EUR and YTL is 8,80% p.a., 6,98% p.a. and 12,50% p.a. respectively) (Note 29).

The Company sells a substantial portion of its products to its related party and associate, YBP, which is the general distributor of the Company in Turkey.

YTL3.270.789, YTL781.357 and YTL519.941 of short term receivables from Yataş, Dyo Matbaa and Yabim, respectively, consist of the principals and interest accruals of borrowings obtained by the Company and transferred to these companies with the same conditions. (2006: YTL10.641.283 of the current receivable from YBP is related to principals and interest accruals of borrowings obtained by the Company and transferred to YBP with the same conditions. The Company has another non-trade receivable of YTL10.738.501 from YBP). YTL3.104.185 (2006: YTL3.972.399) of short-term trade receivables from Yataş are originated from exports.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

**i) Related parties balances (Continued):**

**a) Due from related parties - current (Continued):**

The aging analysis of trade receivables from related parties

The aging of trade receivables from related parties as of 31 December 2007 and 2006 are as follows:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Overdue | 1.001.923 | 1.930.481 |
| 0-30 days | 38.953.399 | 24.179.282 |
| 31-60 days | 3.078.231 | 2.679.524 |
| | **43.033.553** | **28.789.287** |

The aging of overdue trade receivables from related parties as of 31 December 2007 and 2006 are as follows:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| 0-3 months | 930.695 | 1.911.294 |
| 3-6 months | 71.228 | 165 |
| 6 months and over | - | 19.022 |
| | **1.001.923** | **1.930.481** |

Movements in the provision for impairment of receivables from related parties for the years ended 31 December 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| **1 January** | **186.874** | **445.222** |
| Collections during the year (Note 38-i) | - | (258.348) |
| **31 December** | **186.874** | **186.874** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

**i) Related parties balances (Continued):**

**b) Due from related parties - non-current:**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| DYO Matbaa | 11.694.000 | - |
| Yataş | 3.815.716 | - |
| Yabim | 277.205 | - |
| YBP | - | 13.467.837 |
| | **15.786.921** | **13.467.837** |

The Company's long-term receivables from related parties consist of loans obtained from various banks and financial institutions by the Company, and were transferred to related parties with the same conditions. Effective weighted average interest rate is 25,32% p.a. (2006: USD, EUR and YTL denominated balances are 10,37% p.a., 8,42% p.a. and 28,75% p.a., respectively). The fair value of these long-term receivables is YTL15.867.119 (2006: YTL14.583.969) and interest rate used in the fair value calculation is 16,74% p.a. (2006: 4,61% p.a., 3,99% p.a. and 15,88% p.a. for USD, EUR and YTL denominated long-term receivables, respectively).

Redemption schedule of non-current receivables from related parties is as follows:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| 1-2 years | - | 1.773.837 |
| 2 years and over (last payment in 2013) | 15.786.921 | 11.694.000 |
| | **15.786.921** | **13.467.837** |

**c) Due to related parties -current:**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Yadex Export-Import und Spedition GmbH ("Yadex") | 4.955.491 | 6.161.475 |
| Çamlı Yem Besicilik San. ve Tic. A.Ş. ("Çamlı Yem") | 1.648.619 | 184.148 |
| Yaşar Üniversitesi (Dipnot 9.ii.k) | 1.004.248 | 4.248 |
| Yaşar Holding A.Ş. | 922.021 | - |
| Desa Enerji | 661.411 | 718.616 |
| Hdf FZ Co. ("Hdf") | 536.658 | 890.887 |
| Debt to employees | 156.004 | 89.102 |
| Other | 652.304 | 702.710 |
| | 10.536.756 | 8.751.186 |
| Less: Unearned finance cost | (18.200) | (9.480) |
| | **10.518.556** | **8.741.706** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

**i) Related parties balances (Continued):**

**c) <u>Due to related parties -current (Continued):</u>**

YTL5.492.149 (2006: YTL7.052.362) of due to related parties is the payable to Yadex and Hdf arising from import transactions conducted by these companies on behalf of the Company.

The effective weighted average interest rate on short-term due to related parties is 15,25% p.a. as of 31 December 2007 (2006: 19,02% p.a.) and the terms are two months (2006: two months).

**d) <u>Due to related parties - non-current:</u>**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Çamlı Yem | 8.175.000 | - |
| | **8.175.000** | **-** |

Due to current related parties includes the principals and interest accruals of borrowing obtained from a financial institution borrowed by Çamlı Yem (2006: None) and transferred to the Company with the same conditions, amounting to YTL8.175.000. The maturity of such borrowing is in 2013, and the effective interest rate is 25,32% p.a.. Fair value of this loan is YTL 8.216.529 and interest rate used in the fair value calculation is 16,74% p.a..

**ii) Transactions with related parties:**

**a) <u>Product sales:</u>**

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| YBP | 392.255.118 | 294.716.311 |
| Yataş | 31.778.753 | 35.214.212 |
| Pınar Et | 476.936 | 879.052 |
| Other | 416.368 | 400.584 |
| | **424.927.175** | **331.210.159** |

A substantial portion of the sales and distribution of the Company's products in the domestic market are performed by its associate, YBP, and its exports are performed by Yataş.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

**ii) Transactions with related parties (Continued):**

**b) Service sales:**

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| Çamlı Yem | 285.657 | 202.698 |
| Pınar Et | 229.503 | 112.416 |
| YBP | 197.262 | |
| 112.630 | | |
| Yaşar Holding A.Ş. | 156.539 | 116.518 |
| Pınar Anadolu | 3.362 | 36.852 |
| Other | 76.955 | 188.759 |
| | **949.278** | **769.873** |

**c) Product purchases:**

| | | |
|---|---|---|
| Çamlı Yem | 15.138.622 | 15.939.263 |
| Desa Enerji | 7.185.099 | 6.769.150 |
| Yadex | 6.218.209 | 9.432.612 |
| Hdf | 3.963.839 | - |
| Hedef Ziraat | 1.397.351 | 1.001.454 |
| Pınar Anadolu | 407.982 | 528.427 |
| Other | 72.178 | 24.340 |
| | **34.383.280** | **33.695.246** |

The Company imports raw materials through its related parties, Yadex and HDF, purchases steam and electricity from Desa Enerji, and purchases seeds from Çamlı Yem to sell its milk suppliers.

**d) Service purchases:**

| | | |
|---|---|---|
| Yaşar Holding A.Ş. | 3.819.125 | 2.660.927 |
| YBP | 2.453.994 | 2.664.411 |
| Yataş | 952.056 | 1.040.201 |
| Hdf | 616.989 | 965.590 |
| Bintur Turizm ve Catering Hizmetleri A.Ş. (“Bintur Turizm”) | 237.401 | 2.306.235 |
| Other | 130.398 | 136.982 |
| | **8.209.963** | **9.774.346** |

The Company’s service purchases from YBP are related to transportation, promotion and advertisement. Service purchases from Yaşar Holding are consultancy, research and development services.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

**ii) Transactions with related parties (Continued):**

**e) <u>Financial expenses:</u>**

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| Yaşar Holding A.Ş. | 329.444 | 470.338 |
| Çamlı Yem | 52.052 | - |
| Other | 125.758 | 399 |
| | **507.254** | **470.737** |

The finance expense of mainly consists of bail commission charges, which is related with the transferred loans and borrowings obtained by the Company from international capital markets and various financial institutions with the guarantee of the Yaşar Group companies as explained in Note 31. The bail commission rate used in the calculation of bail expenses is 0,75% p.a. (2006: %0,75 p.a.).

**f) <u>Financial income:</u>**

| | | |
|---|---|---|
| YBP | 1.372.504 | 5.658.837 |
| Yaşar Holding A.Ş. | 964.173 | 815.643 |
| Yataş | 724.810 | - |
| DYO Matbaa | 305.573 | - |
| DYO Boya Fabrikaları Sanayi ve Ticaret A.Ş. (“DYO Boya”) | 235.745 | - |
| Yabim | 59.461 | - |
| Çamlı Yem | 48.184 | 233.254 |
| Other | 155.932 | 298.329 |
| | **3.866.382** | **7.006.063** |

The finance income is composed of bail commission charges amounting to YTL 1.412.710 (Note 38), for the borrowings obtained by the Yaşar Group companies from international capital markets and various financial institutions with the guarantee of the Company as explained in Note 31. The bail commission rate (Note 39) used in the calculation of bail income is 0,75% p.a. (2006: %0,75 p.a.).

Based on the examination performed by the CMB during 2006 related to the previous years, on 22 January 2007, the CMB announced that the Company has to calculate the amount of uncharged bail expenses regarding the transfer loans in the prior years previously invoiced to the Company by Yaşar Holding and then issue invoices amounting to YTL 4.000.302 in 2006 for the principal and the overdue interest on the uncharged bail expenses, to the related group companies (Note 38-i).

Some portion of financial income consist of interest income from borrowings taken by the Company and transferred to related parties and interest cost income from trade and non-trade receivables.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

**ii) Transactions with related parties (Continued):**

**g) Other income:**

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| YBP | 642.906 | 457.845 |
| Other | 119.524 | 56.576 |
| | **762.430** | **514.421** |

Other income resulting from YBP are related to the car rent.

**h) Key management compensation:**

| | | |
|---|---|---|
| Salaries and other short-term benefits | 1.716.366 | 1.358.336 |
| Bonus paid to senior management (Note 2.4) | - | 1.800.000 |
| | **1.716.366** | **3.158.336** |

Based on the decision of General Assembly dated 17 May 2007, the Company paid dividends to the senior management amounting to YTL1.800.000 from the profit of 2006.

**i) Dividends paid:**

| | | |
|---|---|---|
| Yaşar Holding A.Ş. | 12.102.440 | 3.629.815 |
| Yapaş A.Ş. | - | 5.996.325 |
| Other | 7.676.020 | 6.106.730 |
| | **19.778.460** | **15.732.870** |

**j) Dividends received:**

| | | |
|---|---|---|
| Pınar Et | 1.799.078 | 1.362.938 |
| YBP | 1.732.393 | - |
| Pınar Anadolu | 556.869 | 267.853 |
| Pınar Su Sanayi ve Ticaret A.Ş. (“Pınar Su”) | 380.666 | - |
| Çamlı Yem | 178.783 | - |
| Bintur | 8.871 | - |
| | **4.656.660** | **1.630.791** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

**ii) Transactions with related parties (Continued):**

**k) Donations:**

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| Yaşar Üniversitesi (Dipnot 38-ii) | 1.000.000 | - |
| | **1.000.000** | **-** |

**l) Purchase of property, plant and equipment:**

| | | |
|---|---|---|
| Çamlı Yem | 8.175.000 | - |
| Desa Otak | - | 377.334 |
| Yaşar Holding A.Ş. | - | 131.536 |
| Other | 53.970 | 11.263 |
| | **8.228.970** | **520.133** |

Purchase of property, plant and equipment from Çamlı Yem is composed of land and building purchase.

**m) Guarantees given:**

The Company jointly guarantees with Yaşar Holding A.Ş., Çamlı Yem Besicilik Sanayi ve Ticaret A.Ş., Dyo Boya Fabrikaları Sanayi ve Ticaret A.Ş., Viking Kağıt ve Selüloz A.Ş., Pınar Su Sanayi ve Ticaret A.Ş., Pınar Entegre Et ve Un Sanayi A.Ş. and Yaşar Birleşik Pazarlama Dağıtım Turizm ve Ticaret A.Ş. the repayment of loans obtained by Yaşar Group companies from international markets and financial institutions amounting to EUR 313 millions equivalent of YTL 535.292.600 as of 31 December 2007 (2006: YTL 579.519.500) (Note 31).

**NOTE 10 - OTHER RECEIVABLES AND PAYABLES**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **Other short term receivables:** | | |
| Value Added Tax ("VAT") receivables | 2.219.219 | 10.000 |
| Other | 226.004 | 25.944 |
| | **2.445.223** | **35.944** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 11 - BIOLOGICAL ASSETS**

None (2006: None).

**NOTE 12 - INVENTORIES**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Raw materials | 15.346.553 | 11.255.873 |
| Raw materials in-transit | 1.716.206 | - |
| Work-in-progress | 5.092.692 | 5.433.398 |
| Finished goods | 11.441.074 | 8.233.738 |
| Merchandise stocks | 892.326 | 954.445 |
| Promotion stocks | 95.399 | 705.667 |
| Order advances given | 5.993.895 | 712.704 |
| Spare parts | 2.321.193 | 1.962.137 |
| | **42.899.338** | **29.257.962** |

The cost of materials recognised as expense and included in cost of goods sold amounted to YTL303.902.640 (2006: YTL233.100.617).

**NOTE 13 - CONSTRUCTION CONTRACT RECEIVABLES AND PROGRESS BILLINGS**

None (2006: None).

**NOTE 14 - DEFERRED INCOME TAX ASSETS AND LIABILITIES**

The Company calculates deferred income tax assets and liabilities based upon temporary differences arising between their financial statements prepared in accordance with CMB Accounting Standards and their statutory financial statements. Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in the following periods under the liability method using the enacted tax rate of 20% (2006: 20%).

The breakdown of cumulative temporary differences and the resulting deferred income tax assets/ (liabilities) provided at 31 December 2007 and 2006 using the enacted tax rates is as follows:

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 14 - DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)**

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Cumulative temporary differences** | **Deferred income tax assets/ (liabilities)** | **Cumulative temporary differences** | **Deferred income tax assets/ (liabilities)** |
| Restatement difference on property, plant and equipment | 32.978.019 | (6.595.604) | 39.361.293 | (7.872.259) |
| Revaluation of buildings | 31.881.023 | (6.376.205) | 23.729.495 | (4.745.899) |
| Depreciation difference calculated on the new economic useful lives | 21.537.848 | (4.307.570) | 17.710.669 | (3.542.134) |
| Revaluation of property, plant and equipment | 12.957.731 | (2.591.546) | 10.625.645 | (2.125.129) |
| Revaluation on lands | 46.566.280 | (2.328.314) | 31.892.280 | (1.594.614) |
| Fair value reserves of available-for-sale investments | 18.085.007 | (904.250) | 6.953.924 | (347.696) |
| Restatement difference on intangible assets | 1.774.445 | (354.889) | 2.011.968 | (402.394) |
| Restatement difference on inventories | 243.168 | (48.634) | 321.903 | (64.381) |
| Impairment on machinery and equipment | (3.926.023) | 785.205 | (4.523.640) | 904.728 |
| Provision for employment termination benefits (Note 23) | (3.201.538) | 640.308 | (2.889.504) | 577.901 |
| Provision for bonus accruals (Note 23-a) | (1.350.000) | 270.000 | - | - |
| Deferred income tax calculated on available-for-sale investments | (1.179.147) | 235.829 | (3.996.471) | 799.294 |
| Impairment on intangible assets (Note 20) | (1.000.000) | 200.000 | (1.000.000) | 200.000 |
| Provision for litigations (Note 23) | (193.530) | 38.706 | (358.032) | 71.606 |
| Provision for doubtful receivables (Note 9) | (186.874) | 37.375 | (186.874) | 37.375 |
| Other | (93.448) | 18.690 | 99.041 | (19.808) |
| Deferred tax assets | | 2.226.113 | | 2.590.904 |
| Deferred tax liabilities | | (23.507.012) | | (20.714.314) |
| **Deferred tax liabilities- net** | | **(21.280.899)** | | **(18.123.410)** |

Movements in deferred income tax liabilities can be analysed as follows:

| | **2007** | **2006** |
|---|---|---|
| **1 January** | **(18.123.410)** | **(28.342.133)** |
| Charged to fair value reserve of available-for-sale investments (Note16) | (657.314) | (347.696) |
| (Charged)/ credited to revaluation reserve (Note 19) | (1.509.376) | 2.584.190 |
| (Charged)/ credited to statement of income (Note 41) | (990.799) | 7.982.229 |
| **31 December** | **(21.280.899)** | **(18.123.410)** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 15 - OTHER CURRENT/ NON-CURRENT ASSETS AND CURRENT/ NON-CURRENT LIABILITIES

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **a) Other current assets:** | | |
| Prepaid expenses | 673.071 | 568.502 |
| Other | 3.885 | 8.883 |
| | **676.956** | **577.385** |
| **b) Other non-current assets:** | | |
| Prepaid expenses | 45.607 | 45.607 |
| | **45.607** | **45.607** |
| **c) Other short term liabilities:** | | |
| Taxes and funds payable | 965.818 | 1.113.799 |
| Payables arising from the sponsorship agreement | - | 100.000 |
| Other | 7.592 | 7.358 |
| | **973.410** | **1.221.157** |

## NOTE 16 - FINANCIAL ASSETS

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Available-for-sale investments | 38.819.524 | 27.224.040 |
| Investments in associates | 27.013.473 | 24.070.193 |
| | **65.832.997** | **51.294.233** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 16 - FINANCIAL ASSETS (Continued)**

**a) Available-for-sale investments:**

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Shareholding YTL** | **%** | **YTL** | **Shareholding %** |
| Pınar Et | 23.987.708 | 12,58 | 14.719.730 | 12,58 |
| Çamlı Yem | 6.310.194 | 5,47 | 8.441.943 | 5,59 |
| Pınar Su | 7.630.620 | 8,81 | 3.635.766 | 8,81 |
| Yataş | 797.711 | 1,96 | 293.910 | 1,96 |
| Bintur Turizm | 73.930 | 1,33 | 113.330 | 1,33 |
| Desa Enerji | - | - | - | 15 |
| Other | 19.361 | - | 19.361 | - |
| | **38.819.524** | | **27.224.040** | |

Pınar Et and Pınar Su were stated at quoted market prices as they are listed on ISE; Yataş, Bintur Turizm and Çamlı Yem, were stated at their fair values which are determined based on the discounted cash flows.

Movements of available-for-sale investments during the year are as follows:

| | **2007** | **2006** |
|---|---|---|
| **1 January** | **27.224.040** | **24.610.784** |
| **Additions:** | | |
| Desa Enerji- capital increase | 5.800.000 | - |
| Yataş- capital increase | - | 399.741 |
| **Reclassification to associates:** | | |
| Desa Enerji | (5.800.000) | - |
| **Fair value gain/ (loss):** | **11.634.884** | **4.353.373** |
| Pınar Et | 9.267.978 | 2.180.700 |
| Pınar Su | 3.994.854 | 673.290 |
| Yataş | 503.801 | - |
| Çamlı Yem | (2.131.749) | 1.499.383 |
| **Impairment loss (Note 38):** | **(39.400)** | **(2.139.858)** |
| Bintur | (39.400) | (20.877) |
| Desa Enerji | - | (2.013.150) |
| Yataş | - | (105.831) |
| **31 December** | **38.819.524** | **27.224.040** |

(**) The Company has participated into the capital increase of Desa Enerji in accordance with the decision of the board of directors, dated 4 and 5 September 2007. Accordingly, as the participation rate of the Company in Desa Enerji is increased to 30,52%, Desa Enerji is accounted for as an associate as of 31 December 2007.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 16 - FINANCIAL ASSETS (Continued)**

**a) Available-for-sale investments (Continued):**

Movements of fair value reserves of available-for-sale investments during the year are as follows:

| | 2007 | 2006 |
|---|---|---|
| **1 January** | **3.584.770** | **(420.907)** |
| Change in fair value of Pınar Et | 9.267.978 | 2.180.700 |
| Change in fair value of Pınar Su | 3.994.854 | 673.290 |
| Change in fair value of Yataş | 503.801 | - |
| Change in fair value of Çamlı | (2.131.749) | 1.499.383 |
| Deferred income tax on fair value reserves of available-for-sale investments (Note 14) | (657.314) | (347.696) |
| **31 December** | **14.562.340** | **3.584.770** |

**b) Investments in associates:**

| | 31 December 2007 31 | | December 2006 | |
|---|---|---|---|---|
| | YTL | Shareholding % | YTL | Shareholding % |
| YBP | 24.516.968 | 31,95 | 22.002.745 | 31,95 |
| Pınar Foods | 1.418.000 | 44,94 | 1.194.305 | 44,94 |
| Pınar Anadolu | 975.900 | 20,00 | 873.143 | 20,00 |
| Desa Enerji | 102.605 | 30,52 | - | - |
| **Total** | **27.013.473** | | **24.070.193** | |

Movements in associates balances during the year are as follows:

| | 2007 | 2006 |
|---|---|---|
| **1 January** | **24.070.193** | **17.460.357** |
| Share of results of associates - before tax (Note 38-i) | 6.828.176 | 4.216.260 |
| Reclassification from available-for-sale investments - Desa Enerji | 5.800.000 | - |
| Share of loss of associate – before tax (Note 38-ii) | (5.697.395) | - |
| Share of taxation (Note 41) | (1.282.146) | 1.612.037 |
| (Decrease)/ increase in fair value reserves of associates - net | (404.310) | 1.200.374 |
| Currency translation reserve | (20.554) | 16.468 |
| Dividend income | (2.289.262) | (267.853) |
| Increase/ (decrease) in revaluation reserve of associates - net | 173.975 | (32.138) |
| Inventory profit elemination | (165.204) | (135.312) |
| **31 December** | **27.013.473** | **24.070.193** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 16 - FINANCIAL ASSETS (Continued)**

**b) Investments in associates (Continued):**

Movements in revaluation reserve of associates are as follows:

| | 2007 | 2006 |
|---|---|---|
| **1 January** | **175.848** | **207.986** |
| Revaluation reserve change - net (YBP) | 173.975 | (32.138) |
| **31 December** | **349.823** | **175.848** |

The financial information of the investments-in-associates are as follows:

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Profit for the year | Assets | Liabilities | Profit for the year |
| - YBP | 201.112.170 | 123.436.163 | 14.528.182 | 216.271.088 | 146.981.395 | 14.905.957 |
| - Pınar Foods | 7.167.448 | 4.012.129 | 744.937 | 4.795.385 | 2.137.834 | 612.069 |
| - Pınar Anadolu | 7.451.583 | 2.572.085 | 3.298.118 | 7.078.743 | 2.713.016 | 3.105.887 |
| - Desa Enerji | 13.253.039 | 12.916.849 | (5.738.715) | - | - | - |

**NOTE 17 - POSITIVE/ NEGATIVE GOODWILL**

None (2006: None).

**NOTE 18 - INVESTMENT PROPERTY**

| | 1 January 2007 | Additions | Disposals | Fair value loss charged to revaluation fund (Note 19) | 31 December 2007 |
|---|---|---|---|---|---|
| Fair Value: | | | | | |
| Buildings | 1.058.751 | - | - | (98.725) | 960.026 |
| **Net book value** | **1.058.751** | | | | **960.026** |

| | 1 January 2006 | Additions | Disposals | 31 December 2006 |
|---|---|---|---|---|
| Fair value: | | | | |
| Buildings | 1.058.751 | - | - | 1.058.751 |
| **Net book value** | **1.058.751** | | | **1.058.751** |

Investment properties are stated at fair values determined by Elit Gayrimenkul Değerleme A.Ş at 31 December 2007.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 19 - PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment and accumulated depreciation for the period 1 January- 31 December 2007 are as follows:

| | 1 January 2007 | Additions | Disposals | Revaluation | Reversal of impairment (Note 38-i) | Transfers | 31 December 2007 |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| Land | 36.244.000 | 3.988.950 | - | 14.674.000 | - | - | 54.906.950 |
| Buildings and land improvement | 77.917.554 | 4.769.613 | - | 2.980.534 | - | 1.442.747 | 87.110.448 |
| Machinery and equipment | 177.535.987 | 7.976.411 | (945.132) | 3.414.590 | 376.294 | 302.487 | 188.660.637 |
| Motor vehicles | 6.644.318 | 2.292 | (834.862) | - | - | - | 5.811.748 |
| Leased motor vehicles | 2.223.121 | - | - | - | - | - | 2.223.121 |
| Furnitures and fixtures | 28.872.889 | 4.021.447 | (271.885) | - | - | 147.744 | 32.770.195 |
| Construction in progress and advances given | 1.676.269 | 781.469 | - | - | - | (1.892.978) | 564.760 |
| **Total Cost** | **331.114.138** | **21.540.182** | **(2.051.879)** | **21.069.124** | **376.294** | **-** | **372.047.859** |
| **Accumulated depreciation:** | | | | | | | |
| Buildings and land improvement | (25.024.115) | (2.132.675) | - | - | - | - | (27.156.790) |
| Machinery and equipment | (96.478.115) | (6.681.937) | 548.115 | - | - | - | (102.611.937) |
| Motor vehicles | (6.154.563) | (160.285) | 813.272 | - | - | - | (5.501.576) |
| Leased motor vehicles | (534.174) | (286.575) | - | - | - | - | (820.749) |
| Furnitures and fixtures | (19.808.086) | (2.235.929) | 198.807 | - | - | - | (21.845.208) |
| | **(147.999.053)** | **(11.497.401)** | **1.560.194** | | | | **(157.936.260)** |
| **Net book value** | **183.115.085** | | | | | | **214.111.599** |

The Company has given mortgages amounting to YTL 33.186.893 as of 31 December 2007 (2006: YTL 52.460.684) for loans obtained from several financial institutions (Note 31). The major additions to property, plant and equipment in 2007 related to the modernisation of production line and the land and building purchase from Çamlı Yem. (Not 9.ii-l)

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOT 19 - PROPERTY, PLANT AND EQUIPMENT (Continued)

| | 1 January 2006 | Additions | Disposals | Transfers | 31 December 2006 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| Land | 36.244.000 | - | - | - | 36.244.000 |
| Buildings and land improvement | 77.201.391 | 527.443 | - | 188.720 | 77.917.554 |
| Machinery and equipment | 162.685.444 | 14.381.195 | (1.094.128) | 1.563.476 | 177.535.987 |
| Motor vehicles | 8.930.923 | 207.028 | (2.493.633) | - | 6.644.318 |
| Leased motor vehicles | 2.223.121 | - | - | - | 2.223.121 |
| Furnitures and fixtures | 32.351.777 | 4.180.836 | (7.868.485) | 208.761 | 28.872.889 |
| Construction in progress and advances given | 1.660.435 | 1.976.791 | - | (1.960.957) | 1.676.269 |
| **Total Cost** | **321.297.091** | **21.273.293** | **(11.456.246)** | **-** | **331.114.138** |
| **Accumulated depreciation:** | | | | | |
| Buildings and land improvement | (22.958.957) | (2.065.158) | - | - | (25.024.115) |
| Machinery and equipment | (92.111.875) | (5.266.406) | 900.166 | - | (96.478.115) |
| Motor vehicles | (8.511.740) | (136.381) | 2.493.558 | - | (6.154.563) |
| Leased motor vehicles | (270.288) | (263.886) | - | - | (534.174) |
| Furnitures and fixtures | (21.892.601) | (2.644.448) | 4.728.963 | - | (19.808.086) |
| | **(145.745.461)** | **(10.376.279)** | **8.122.687** | **-** | **(147.999.053)** |
| **Net book value** | **175.551.630** | | | | **183.115.085** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOT 19 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

YTL 8.456.881 (2006: YTL 7.269.465) of depreciation and amortisation expenses were charged to costs of production, YTL 2.676.375 (2006: YTL 2.716.579) to selling and marketing costs (Note 37), YTL 1.368.701 (2006: YTL 1.369.493) to general administrative expenses (Note 37) and YTL 136.683 (2006: YTL 114.924) to research and development expenses.

**Market Valuation**

The Company's land, land improvements and buildings previously revalued as at 31 December 2004, was updated as of 31 December 2007 by the independent professional valuation company. Additionally, valuation of machinery and equipment previously performed as at 31 December 2005, were updated as of 31 December 2007 by the independent professional valuation company. Revaluations of land were based on comparisons with similar buying/selling transactions nearby whereas revaluations of land improvements and buildings were derived from the present situations of the construction investments and market values. The market values of the machinery and equipment are determined based on depreciated replacement costs.

Movements in revaluation reserve related to land, land improvements, buildings, machinery and equipment in 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| **1 January** | **58.126.400** | **58.019.844** |
| Transfer of impairment of the investment property previously classified as owner occupied property - net (Note 2.4) | 5.055.719 | - |
| Increase in revaluation reserve arising from revaluation of land, land improvements and buildings | 19.145.745 | - |
| Decrease in revaluation reserve arising from revaluation of land, land improvements and buildings | (1.491.211) | - |
| Increase in revaluation reserve arising from revaluation of machinery, plant and equipment | 3.540.407 | - |
| Decrease in revaluation reserve arising from revaluation of machinery, plant and equipment | (125.817) | - |
| Deferred income tax calculated on depreciation transfer | 483.604 | 495.527 |
| Depreciation on revaluation reserves transfered from retained earnings | (2.418.020) | (2.477.634) |
| Deferred income tax calculated on increase in revaluation reserve | (1.992.980) | - |
| Decrease in revaluation reserve arising from revaluation of investment property (Note 18) | (98.725) | - |
| Effect of the tax rate and regulations change (Note 14) | - | 2.088.663 |
| **31 December** | **80.225.122** | **58.126.400** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 20 - INTANGIBLE ASSETS

Movements of intangible assets in 2007 were as follows:

| | 1 January 2007 | Additions | 31 December 2007 |
|---|---|---|---|
| **Cost:** | | | |
| Rights | 10.155.520 | 41.392 | 10.196.912 |
| Less: Accumulated amortisation | (6.080.545) | (1.141.239) | (7.221.784) |
| **Net book value** | **4.074.975** | | **2.975.128** |

The movements of intangible assets in 2006 were as follows:

| | 1 January 2006 | Additions | Impairment of Intangible assets (Note 38-ii) | 31 December 2006 |
|---|---|---|---|---|
| **Cost:** | | | | |
| Rights | 10.933.005 | 222.515 | (1.000.000) | 10.155.520 |
| Less: Accumulated amortisation | (4.986.363) | (1.094.182) | - | (6.080.545) |
| **Net book value** | **5.946.642** | | | **4.074.975** |

## NOTE 21 - ADVANCES RECEIVED

None (2006: YTL 19.349).

## NOTE 22 - PENSION PLANS

There are no pension plans of the company (2006: None).

## NOTE 23 - PROVISONS

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **a) Short-term provisions** | | |
| Current income tax liabilities (Note 41) | 2.409.603 | 441.143 |
| Management bonus accruals from profit of 2007 | 1.350.000 | - |
| Provision for litigations | 193.530 | 358.032 |
| Other | 100.463 | 24.842 |
| | **4.053.596** | **824.017** |
| **b) Long-term provisions** | | |
| Provision for employment termination benefits | 3.201.538 | 2.889.504 |
| | **3.201.538** | **2.889.504** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 23 - PROVISIONS (Continued)**

Provision for employment termination benefits has been calculated in accordance with the legal requirements as explained below.

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of YTL 2.030,19 for each year of service as of 31 December 2007 (2006: YTL 1.857,44).

The liability is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees with certain actuarial assumptions.

The Communiqué requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability.

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Discount rate (%) | 5,71 | 5,71 |
| Probability of retirement (%) | 96,29 | 96,25 |

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The maximum amount of YTL 2.087,92 which is effective from 1 January 2008 (1 January 2007: YTL 1.960,69) has been taken into consideration in calculating the provision for employment termination benefits of the Company which is calculated once in every six months.

Movements of the provision for employment termination benefits during the year are as follows:

| | 2007 | 2006 |
|---|---|---|
| **1 January** | **2.889.504** | **2.689.677** |
| Interest cost | 164.991 | 153.581 |
| Actuarial losses/ (gains) | 98.869 | (41.967) |
| Paid during the year | (447.883) | (475.780) |
| Increase during the year | 496.057 | 563.993 |
| **31 December** | **3.201.538** | **2.889.504** |

YTL 759.917 (2006: YTL 675.607) of the interest cost, actuarial gains and losses and the increase during the year have been charged to general and administrative expenses (Note 37-ii).

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 24 - MINORITY INTEREST**

None (2006: none).

**NOTE 25 - SHARE CAPITAL/ TREASURY SHARES**

The Company adopted the registered share capital system available to companies registered with the CMB and set a limit on its registered share capital representing registered type shares with a nominal value of YTL1. The Company's historical authorised registered share capital at 31 December 2007 is YTL 80.000.000.

The shareholders of the Company and their shareholdings to capital with historical figures as at
31 December 2007 and 2006 are stated below:

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | **Share (%)** | **YTL** | **Share (%)** | **YTL** |
| Yaşar Holding A.Ş. | 61,19 | 27.503.258 | 61,19 | 27.503.258 |
| Public quotation | 37,95 | 17.060.367 | 37,95 | 17.060.367 |
| Other | 0,86 | 387.426 | 0,86 | 387.426 |
| Capital | | **44.951.051** | | **44.951.051** |
| Inflation adjustment to share capital (Note 26-27-28) | | 16.513.550 | | 16.513.550 |
| **Total paid-in capital** | | **61.464.601** | | **61.464.601** |

There are 44.951.051 (2006: 44.951.051) shares with a face value of 1 YTL each as of 31 December 2007. Inflation adjustment to share capital represents the restatement effect of cash nature contribution to share capital at 31 December 2004 purchasing power of YTL.

The Company's capital is composed of A and B type registered share and C type bearer share, and the C type bearer shares are traded on the Istanbul Stock Exchange (ISE).

In accordance with the articles of association, the shareholders of A and B type registered shares are granted a privilege to nominate a candidate to the board of directors. Moreover, the chairman of the board and the executive director are selected among the shareholders of A type shares.

**NOTE 26 - 27 - 28 - CAPITAL RESERVES, PROFIT RESERVES, RETAINED EARNINGS**

Retained earnings according to the statutory financial statements other than legal reserves, are available for distribution subject to the legal reserve requirement referred to below:

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in capital.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

**NOTE 26 - 27 - 28 - CAPITAL RESERVES, PROFIT RESERVES, RETAINED EARNINGS (Continued)**

Quoted companies are subject to dividend requirements regulated by the CMB as follows:

Effective from 1 January 2008, the minimum profit distribution ratio for public companies shares of which are publicly traded on the Stock Exchange is 20% (2006: 20%), as described in the announcement of CMB based on the decision numbered 4/138 dated 8 Janaury 2008. Accordingly, depending on the decisions made by the general assemblies, the distribution of the relevant amount may be realized by cash or by pro-rata shares or partly as cash and pro-rata shares; and in the event that the first dividend amount identified is less than 5% of the paid-up capital, the relevant amount can be retained within the company. However, companies that increased capital rather than distributing dividends in the prior period and whose shares are therefore classified under "old" and "new" categories and who will distribute dividends from the profit for the current year operations are required to distribute the first dividend in cash.

In accordance with the Communiqué, the companies recognised the differences arising from the restatement of the financial statements for the effects of hyperinflation for the first time, under “inflation adjustment to shareholders’ equity”, of where, equity, share premium, extraordinary reserves, legal reserves and statutory reserves are recognized at book value.

Inflation adjustment of shareholders’ equity can only be net-off against prior years’ losses and used as bonus shares where extraordinary reserves can be net-off against prior years’ losses, used as bonus shares or dividend distribution.

In accordance with the above explanation, the historic and inflation adjusted values and inflation adjustment differences of the components of the equity at 31 December 2007 and 2006 are as follows:

| | 31 December 2007 | | | 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | **Nominal values** | **Restated values** | **Inflation adjustment to shareholder’s equity** | **Nominal values** | **Restated values** | **Inflation adjustment to shareholder’s equity** |
| Capital | 44.951.051 | 61.464.601 | 16.513.550 | 44.951.051 | 61.464.601 | 16.513.550 |
| Legal Reserves | 8.387.003 | 18.768.858 | 10.381.855 | 5.169.966 | 15.551.821 | 10.381.855 |
| Extraordinary reserves | 8.290.574 | 8.290.574 | - | 4.500.149 | 4.500.149 | - |
| | **61.628.628** | **88.524.033** | **26.895.405** | **54.621.166** | **81.516.571** | **26.895.405** |

## CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007
(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

### NOTE 26 - 27 - 28 - CAPITAL RESERVES, PROFIT RESERVES, RETAINED EARNINGS (Continued)

The Company's shareholders' equity table as of 31 December 2007 and 2006; is as follows:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Share capital (Note 25) | 44.951.051 | 44.951.051 |
| Revaluation reserve (Note 19) | 80.225.122 | 58.126.400 |
| Revaluation reserve of associates | 349.823 | 175.848 |
| Fair value reserves of available-for-sale investment | 14.562.340 | 3.584.770 |
| Fair value reserve of associates | 2.257.830 | 2.662.140 |
| Inflation adjustment to shareholders' equity | 26.895.405 | 26.895.405 |
| Legal reserves | 8.387.003 | 5.169.966 |
| Extraordinary reserves | 8.290.574 | 4.500.149 |
| Currency translation reserve | (12.716) | 7.838 |
| Distribution to shareholders | (5.537.877) | (5.537.877) |
| Net profit for the year | 39.660.157 | 28.585.922 |
| Retained earnings | 68.079.511 | 70.717.210 |
| **Total shareholders' equity** | **288.108.223** | **239.838.822** |

### NOTE 29 - FOREIGN CURRENCY POSITION

| | 31 December 2007 | | | |
|---|---|---|---|---|
| | USD | EUR | Other | YTL |
| **Assets:** | | | | |
| Cash and cash equivalents | 41.580 | 16.097 | 540 | 77.213 |
| Due from related parties | 5.111.976 | 364.995 | - | 6.578.133 |
| | **5.153.556** | **381.092** | **540** | **6.655.346** |
| **Liabilities:** | | | | |
| Borrowings- short-term | (2.761.292) | (742.289) | - | (4.485.540) |
| Lease obligations - short-term | - | (81.206) | - | (138.878) |
| Trade payables- short-term | (72.635) | (4.913.393) | (41.297) | (8.532.701) |
| Due to related parties | (1.851.670) | (1.950.362) | - | (5.492.149) |
| Borrowings- long-term | - | (6.440.236) | - | (11.014.091) |
| Lease obligations - long-term | (44) | (79.496) | - | (136.003) |
| Trade payables- long -term | - | (5.714.124) | - | (9.772.296) |
| | **(4.685.641)** | **(19.921.106)** | **(41.297)** | **(39.571.658)** |
| **Net foreign currency asset/ (liability) position** | **467.915** | **(19.540.014)** | **(40.757)** | **(32.916.312)** |
| **Off balance sheet items** | | | | |
| Derivative financial instruments | - | 6.163.875 | - | 10.541.459 |
| **Net foreign currency asset/ (liability) position** | **467.915** | **(13.376.139)** | **(40.757)** | **(22.374.853)** |

**NOTE 29 - FOREIGN CURRENCY POSITION (Continued)**

| | 31 December 2006 | | | |
|---|---|---|---|---|
| | **USD** | **EUR** | **Other** | **YTL** |
| **Assets:** | | | | |
| Cash and cash equivalents | 65.193 | 22.470 | - | 133.238 |
| Due from related parties | 8.210.297 | 758.517 | - | 12.944.788 |
| | **8.275.490** | **780.987** | **-** | **13.078.026** |
| **Liabilities:** | | | | |
| Borrowings- short-term | (7.201.479) | (785.831) | - | (11.577.364) |
| Lease obligations- short-term | - | (75.247) | - | (139.320) |
| Trade payables- short-term | (618.132) | (2.305.744) | (84.878) | (4.964.755) |
| Due to related parties | (1.055.963) | (2.952.483) | - | (6.950.784) |
| Borrowings- long-term | (845.200) | (6.944.896) | - | (14.046.488) |
| Lease obligations- long-term | (44) | (160.070) | - | (296.430) |
| Trade payables- long-term | - | (5.558.787) | - | (10.292.094) |
| | **(9.720.818)** | **(18.783.058)** | **(84.878)** | **(48.267.235)** |
| **Net foreign currency liability position** | **(1.445.328)** | **(18.002.071)** | **(84.878)** | **(35.189.209)** |
| **Off balance sheet items** | | | | |
| Derivative financial instruments | - | 6.143.052 | - | 11.373.861 |
| **Net foreign currency liability position** | **(1.445.328)** | **(11.859.019)** | **(84.878)** | **(23.815.348)** |

The Company's foreign exchange rate sensitivity analysis regarding its foreign currency position is as follows:

The Company's net income for the year ended 2007 would be YTL2.237.485 less in the case of the depreciation of YTL against USD, EUR, GBP and DKK by 10% and the constancy of other variables, with respect to its assets and liabilities denominated in these foreign currencies (2006: YTL2.381.535).

The Company's net income for the year ended 2007 would be YTL54.498 higher in the case of the depreciation of YTL against USD by 10% and the constancy of other variables, with respect to its assets and liabilities denominated in USD (2006: YTL203.155 less).

The Company's net income for the year ended 2007 would be YTL2.287.587 less in the case of the depreciation of YTL against EUR by 10% and the constancy of other variables, with respect to its assets and liabilities denominated in EUR (2006: YTL2.195.697).

**NOTE 30 - GOVERNMENT GRANTS**

None (2006: None).

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 31 - PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **a) Guarantees Given** | | |
| Bails given | 535.292.600 | 579.519.500 |
| Mortgages (Note 19) | 33.186.983 | 52.460.684 |
| Guarantee letters | 3.480.963 | 3.325.025 |
| Guarantee notes | 1.800.000 | - |
| | **573.760.546** | **635.305.209** |

As of 31 December 2007, guarantees given are mainly related with joint guarantees provided by the Company along with Yaşar Holding A.Ş., Çamlı Yem Besicilik Sanayi ve Ticaret A.Ş., Dyo Boya Fabrikaları Sanayi ve Ticaret A.Ş., Viking Kağıt ve Selüloz A.Ş., Pınar Su Sanayi ve Ticaret A.Ş., Pınar Entegre Et ve Un Sanayi A.Ş. and Yaşar Birleşik Pazarlama Dağıtım Turizm ve Ticaret A.Ş. for repayment of borrowings obtained by Yaşar Group companies from international capital markets amounting to EUR 313.000.000 (equivalent of YTL YTL535.292.600) (2006: YTL 579.519.500).

**b) Guarantees received**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Bails given | 10.261.200 | 11.109.000 |
| Mortgages | 6.144.182 | 2.096.755 |
| Guarantee cheques | 1.293.615 | 1.187.770 |
| Guarantee notes | 495.095 | 481.516 |
| | **18.194.092** | **14.875.041** |

Foreign currency amounts of guaranties and mortgages are as follows:

| | | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| **Guarantees given** | EUR | 313.000.000 | 313.000.000 |
| **Guarantees received** | EUR | 7.402.193 | 6.471.731 |
| | USD | 122.717 | 105.717 |
| **Mortgages given** | USD | 17.500.000 | 17.500.000 |
| | EUR | 7.487.272 | 7.487.272 |

**c) Purchase commitments:**

The Company has purchase commitments of rare milk purchases and concentrated fruit juice amounting to 8.990 tons, equivalent of YTL6.443.808 (2006: 6.000 tons, equivalent of YTL3.046.366) and 3.833 tons, equivalent of YTL11.450.071 (2006: None), respectively.

**d) Other commitments:**

As a result of the agreement made with one of the suppliers of the Company's associate, YBP, the Company has guaranteed the redemption of YBP's debts amounting to YTL 12.701.941 as of 31 December 2007 (2006: YTL 16.570.374) to the supplier.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 32 - BUSINESS COMBINATIONS

On 5 August 2005, the Company acquired 4.801.800.000 shares of YBP corresponding to 6% of its share capital for a cash consideration of YTL 8.167.862 based on the fair value determined by an independent valuer from Çamlı Yem Besicilik ve San. Tic. A.Ş., which is the related party and available-for-sales investment of the Company. Together with this acquisition the shares of the Company in YBP increased from 25,95% to 31,95%. The difference between purchase consideration and the carrying amount of the net asset acquired, has been accounted for under the shareholder's equity as "Distribution to shareholders", since this transaction took place among entities under common control.

Assets as a result of the purchases are as follows:

**Purchase consideration**

| | |
|---|---|
| Cash paid | 8.167.862 |
| Carrying amount of net assets acquired | (2.629.985) |
| Distribution to shareholders | **5.537.877** |

## NOTE 33 - SEGMENT REPORTING

The Company operates in milk and dairy products sector and total gross sales from these operations constitutes the 97% (2006: 97%) of total gross sales. Furthermore domestic sales constitutes the 93% (2006: 90%) of total gross sales, and 93% (2006: 91%) of sales and distribution of the Company's products in the domestic market are performed by its associate, YBP (Note 9) and operations other than in Turkey are not material enough to be reported separately (Note 33). In these respects, segment reporting is not applicable.

## NOTE 34 - SUBSEQUENT EVENTS

None (2006: None).

## NOTE 35 - DISCONTINUED OPERATIONS

None (2006: None).

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 36 - OPERATING REVENUE

The breakdown of sales income for the periods 1 January- 31 December is as follows

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| Domestic sales | 541.666.006 | 417.221.612 |
| Export sales | 31.752.168 | 36.019.398 |
| Commercial good sales | 15.336.490 | 16.375.367 |
| Others | 1.108.895 | 1.155.976 |
| Gross Sales | 589.863.559 | 470.772.353 |
| Less: Discounts | (124.211.400) | (99.537.170) |
| Returns | (14.031.512) | (13.055.029) |
| **Net sales** | **451.620.647** | **358.180.154** |
| **Cost of sales** | **(360.856.274)** | **(288.573.653)** |
| **Gross profit** | **90.764.373** | **69.606.501** |

## NOTE 37 - OPERATING EXPENSES

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| **i. Selling and distribution expenses:** | | |
| Advertisement | 13.970.718 | 22.377.046 |
| Transportation | 3.564.470 | 3.442.686 |
| Depreciation and amortisation | 2.676.375 | 2.716.579 |
| Outsourced services | 2.481.364 | 2.733.121 |
| Staff costs | 2.327.702 | 2.137.526 |
| Other | 1.985.479 | 1.957.464 |
| | **27.006.108** | **35.364.422** |
| **ii. General administrative expenses:** | | |
| Staff costs | 4.236.991 | 3.561.256 |
| Consultancy expenses | 4.027.453 | 2.797.572 |
| Depreciation and amortisation | 1.368.701 | 1.369.493 |
| Management bonus accruals (Note 23-a) | 1.350.000 | - |
| Outsourced services | 1.068.704 | 650.060 |
| Employment termination benefits (Note 23) | 759.917 | 675.607 |
| Representation | 446.546 | 228.158 |
| Taxes and duties (Corporate tax excluded) | 397.296 | 443.976 |
| Communication | 373.061 | 299.574 |
| Energy and utilities | 273.738 | 168.523 |
| Travel expenses | 176.290 | 149.274 |
| Stationary | 148.929 | 204.685 |
| Registration fees | 136.064 | 136.358 |
| Insurance premiums | 128.964 | 208.668 |
| Other | 1.186.500 | 1.192.781 |
| | **16.079.154** | **12.085.985** |
| **iii. Research and development expenses:** | **3.931.210** | **3.446.603** |
| **Total operating expenses** | **47.016.472** | **50.897.010** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 38 - OTHER INCOME AND EXPENSES

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| **i. Other income:** | | |
| Interest income | 7.525.176 | 7.697.058 |
| Share of results of associates (Note 16-b) | 6.828.176 | 4.216.260 |
| Foreign exchange gain | 2.824.164 | 5.411.537 |
| Dividend income (Note 9.ii.j) | 2.367.398 | 1.362.938 |
| Bail income from related parties (Note 9.ii.f) | 1.412.710 | 4.000.302 |
| Gain on scrap sales and other materials | 584.427 | 599.242 |
| Reversal of impairment on property, plant and equipment (Not 19) | 376.294 | - |
| Gain on sales of property, plant and equipment | 121.632 | 82.344 |
| Reversal of bad debt provision (Note 7 and 9) | - | 260.387 |
| Other | 1.361.924 | 1.049.360 |
| | **23.401.901** | **24.679.428** |
| **ii. Other expenses:** | | |
| Share of loss of associate (Note 16-b) | (5.697.395) | - |
| Donations (Note 9.ii-k) | (1.000.000) | - |
| Impairment on available-for-sale investments (Note 16) | (39.400) | (2.139.858) |
| Scrap loss on property, plant and equipment | - | (2.068.113) |
| Impairment on intangible assets (Note 20) | - | (1.000.000) |
| Litigation cost (Note 23) | - | (358.032) |
| Other | (485.799) | (307.163) |
| | **(7.222.594)** | **(5.873.166)** |

## NOTE 39 - FINANCE EXPENSES

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| Interest expenses | (2.454.902) | (3.710.658) |
| Interest expense from swap transaction | (2.200.245) | (622.340) |
| Foreign exchange loss from swap transactions | (847.800) | (585.000) |
| Foreign exchange loss | (670.227) | (6.471.447) |
| Bail expenses | (63.752) | (425.639) |
| Other | (562.101) | (415.164) |
| | **(6.799.027)** | **(12.230.248)** |

## NOTE 40 - GAIN/ (LOSS) ON NET MONETARY POSITION

None (2006: None).

# CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH

## PINAR SÜT MAMÜLLERİ SANAYİİ A.Ş.
## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007
(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

### NOTE 41 - TAXES ON INCOME

| | 1 January - 31 December 2007 | 1 January - 31 December 2006 |
|---|---|---|
| Taxes payable | 11.195.079 | 6.293.849 |
| Less: Prepaid taxes | (8.785.476) | (3.121.780) |
| Deductible VAT receivable | - | (2.730.926) |
| **Provision for taxes (Note 23)** | **2.409.603** | **441.143** |
| Current corporation tax expense | 11.195.079 | 6.293.849 |
| **Deferred tax expense/ (income) (Note 14)** | **990.799** | **(7.982.229)** |
| | 12.185.878 | (1.688.380) |
| Share of taxation of associates (Note 16) | 1.282.146 | (1.612.037) |
| **Total tax expense/ (income)** | **13.468.024** | **(3.300.417)** |

Corporation tax is payable at rate of 20% (2006: 20%) on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances (e.g. research and development allowance). No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19,8% on the investment incentive allowance utilized within the scope of the Income Tax Law temporary article 61).

Dividends paid to non-resident corporations having a place of business in Turkey or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15% (2006: 15%). Addition of profit to capital is not considered as a profit distribution.

Corporations are required to pay advance corporation tax quarterly at the rate of %20. (2006: 20%) on their corporate income. Advance tax is payable by the 17th (2006: 17th)of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains an amount for the advance tax amount paid, it may be refunded or offset against other liabilities to the government.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate.

Tax returns are open for 5 years from the beginning of the year that follows the date of filing during when the tax authorities have the right to audit tax returns and the related accounting records on which they are based, and may issue re-assessments based on their findings. Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to 5 years. However, Tax losses cannot be carried back to offset profits from previous periods.

**NOTE 41 - TAXES ON INCOME (Continued)**

In Corporate Tax Law, there has been settled a number of exemptions for companies, of which the Company may benefit are explained as follows:

Dividend income from shares in the capital of another corporation subject to resident taxpaying (except dividends from investment funds participation certificates and investment trusts shares) is exempt from corporate tax.

The participation income of corporations participating in 10% or more of the capital of a limited liability or joint stock company which does not have its legal or business centre in Turkey (except for corporations whose principal activity is financial leasing or investment of marketable securities) for at least a year until the date of the income is generated and transferred to Turkey until the date of the filing of the corporate income tax return of the fiscal year in which the income is generated is exempt from corporation tax subject to those subsidiaries are subject to corporate income tax, or alike, in their country of legal or business centre at the rate of at least 15% (at corporate income tax rate applicable in Turkey for those companies whose principal activity is financial assurance or insurance).

According to Turkish Corporate Income Tax Law numbered 5520, effective from 21 June 2006, a 75% portion of the gains derived from the sale of preferential rights, usufruct shares and founding shares from investment equity and real property, which has remained in assets for more than two full years are exempt from corporate tax. To be entitled to the exemption, the relevant gain is required to be held in a fund account in the liabilities and it must not be withdrawn from the entity for a period of five years. The sales consideration has to be collected up until the end of the second calendar year following the year the sale was realised.

Profits from sale of preferential right certificates and share premiums generated from sale of shares at a price exceeding face values of those shares during incorporations or capital increases of joint stock companies are exempt from corporate tax.

Accordingly, the aforementioned gains/ (losses) which have been included in trade profit/ (loss) have been taken into consideration in calculation of Company’s corporate tax.

Apart from the exemptions mentioned in the preceding paragraphs, the deductions granted in 14th and recurring 14th articles of Corporate Tax Law and 40th article of the Income Tax Law have been taken into consideration in calculation of the Company’s corporate tax.

**Transfer Pricing**

Turkish Corporate Income Tax Law numbered 5520 Article 13 concerning transfer pricing regulations has become effective on 1 January 2007. With Article 13 of the mentioned law, considerable amendments have been made to transfer pricing regulations by taking EU and OECD transfer pricing guidelines as a basis. Under the Transfer Pricing rules, the arm's length principle and OECD transfer pricing guidelines have been incorporated in Article 13 of Turkish Corporate Income Tax Law and documentation requirements are obligated for taxpayers in order to support the methods to be applied in the determination of the arm's length price.

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 41 - TAXES ON INCOME (Continued)

**Transfer Pricing (Continued)**

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes effective from 1 January 2007. The corporate tax base of the taxpayer will be adjusted and relevant corporate tax will be calculated together with the penalties and late payment interest. The expression "purchase or sale of goods or services" is used in a broad sense and includes all economic, commercial or financial transactions and employment relations between related parties.

The profit distributed in a disguised manner through transfer pricing will be reclassified as dividends distributed and necessary adjustments to taxes will be assessed at the party receiving the deemed dividends. In order to make adjustments in this respect, the taxes assessed in the name of the company distributing dividends in a disguised manner must be finalized and paid.

Taxes on income presented on income statement for the periods ended 31 December 2007 and 2006 are summarised as follows:

| | 2007 | 2006 |
|---|---|---|
| **Profit before tax** | **53.128.181** | **25.285.505** |
| Tax calculated at tax rates applicable to the profit | (10.625.636) | (5.057.101) |
| Effect of the investment property, previously classified as owner occupied property (Note 2.4) | (1.321.047) | - |
| Effect of share of results of assocaites | (1.055.990) | 2.455.289 |
| Effect of depreciation transfer (Note 19) | (483.604) | (495.527) |
| Deferred income tax on available-for-sale investments | (462.705) | 799.294 |
| Expenses not deductible for tax purposes | (246.547) | (98.583) |
| Tax effect of impairment on available-for-sale investments | (7.880) | (427.972) |
| Income not subject to tax | 865.896 | 390.260 |
| Effect of changes in effective tax rates and regulations | - | 5.808.623 |
| Other | (130.511) | (73.866) |
| **Total tax (expense)/ income** | **(13.468.024)** | **3.300.417** |

(Amounts expressed in New Turkish lira (YTL) unless otherwise indicated.)

## NOTE 42 - EARNINGS PER SHARE

In order to ensure the distribution of profit; it is required to allocate reserve over the statutory records, in accordance with the arrangements of Turkish Commercial Code. Net distributable profit calculated through financial statements adjusted in accordance with Communiqué should be distributed if it would be covered by statutory distributable profit; otherwise total amount calculated through statutory financial statements will be subject to distribution of profit.

Earning/ (loss) per share is calculated by dividing profit for the year by the weighted average number of ordinary shares in issue during the year.

| | | **1 Janaury - 31 December 2007** | **1 January - 31 December 2006** |
|---|---|---|---|
| Net profit for the period (YTL) | A | 39.660.157 | 28.585.922 |
| Weighted number of shares with a YTL 1 face value | B | 44.951.051 | 44.951.051 |
| **Earnings per share (YTL)** | **A/B** | **0,8823** | **0,6359** |

There are no differences between basic and diluted earnings per share..

## NOTE 43 - STATEMENT OF CASH FLOWS

Statements of cash flows are presented with financial statements (Please refer to page 6).

## NOTE 44 - OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR BE EXPLAINED FOR THE CLEAR UNDERSTANDING OF THE FINANCIAL STATEMENTS

None (2006: None).

## NOTE 45 - EXPLANATION ADDED FOR CONVENIENCE TRANSLATION INTO ENGLISH

As of 31 December 2007, the accounting principles described in Note 2 (defined as 'CMB Accounting Standards') to the financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting and presentation of the basic financial statements and the notes to them. Accordingly, the financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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