

# Corporate Governance Principles Compliance Report

## Corporate Governance Principles Compliance Report

### 1. Statement of compliance with corporate governance principles

During the reporting period ending 31 December 2010, Pınar Süt Mamülleri Sanayii A.Ş. ("the company") complied with and implemented the corporate governance principles published by the by Capital Markets Board ("CMB") except for the matters indicated immediately below:

- a) Cumulative voting method
- b) Independent directors
- c) Representation of minority shareholding interests on the Board of Directors

The details of and justifications for such partial or total non-compliance are indicated in the appropriate sections of this report.

Assessments and studies are being conducted as necessary in areas in which the company is not in full compliance with CMB corporate governance principles. As matters currently stand, the company is of the opinion that such non-compliance does not lead to any material conflicts of interest.

### Part I: Shareholders

#### 2. Investor Relations Department

The duties (1) of managing the exercise of shareholders' rights and maintaining communication between shareholders and the Board of Directors and (2) of conducting procedures pertaining thereto in compliance with CMB corporate governance principles are fulfilled by the Office of the Capital Markets Coordinator.

Information about the Shareholder Relations Unit is provided below.

Capital Markets Coordinator: Senem Demirkan

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Capital Markets Coordinator Senem Demirkan is in possession of all certifications issued by CMB and is also responsible for coordinating matters involved (1) in the fulfillment of company obligations arising from capital markets laws and regulations and (2) in corporate governance practices.

The duties of the Investor Relations Department are listed below.

- a) Ensure that records pertaining to shareholders are maintained in a reliable, secure, and up-to-date manner.
- b) Respond to shareholders' written requests for all information about the company except that which has not been publicly disclosed or is confidential and/or in the nature of a trade secret.
- c) Ensure that General Assembly meetings are conducted in accordance with the requirements of current laws and regulations and of the company's articles of incorporation and other bylaws.
- d) Communicate with other units of the company and ensure that documents which shareholders may find useful at General Assembly meetings are prepared
- e) Ensure that records are kept of the results of voting at General Assembly meetings.
- f) Supervise all issues related to public disclosures as required by law and the company's public disclosure policy.
- g) Ensure that investor relations activities are properly conducted.

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Having obtained the views of other units when necessary and in coordination with such units, the Investor Relations Department is responsible for providing shareholders and potential investors with information about the company's activities, financial standing, and strategies, with the stipulations that it may not divulge any information which is confidential and/or in the nature of a trade secret and that it must not do so in any way that might lead to information asymmetry and for managing communication moving on both directions between shareholders and company managers.

Within the framework of these duties, the unit responded to more than 200 questions received from shareholders by telephone or email. The company's website and investor presentations were regularly updated to keep investors informed about current developments. Maximum attention was given to complying with the requirements of laws and regulations in the fulfillment of investors' requests.

### 3. Shareholders' exercise of their right to obtain information

The fundamental principle in shareholders exercising their right to obtain information is that there should be no discrimination among shareholders. All information and documents that shareholders may need to exercise their shareholders' rights in a sound manner are made equally available to all shareholders on the company's corporate website. During 2010 every possible effort was made, under the supervision of the Investor Relations Department, to respond to requests for information received from shareholders within the framework of the requirements of capital market laws and regulations and without delay.

Such requests for information are generally about such issues as General Assembly meeting dates, publicly disclosed financial statements, and dividend payments. All requests for information, except in the case of information that was in the nature of a trade secret and information that it was deemed to be in the company's interest to keep confidential, were responded to without making any distinctions among shareholders and in line with any statements that may previously have been made within the framework of capital market laws and regulations. Developments that might affect the exercise of shareholder rights dictated by the Turkish Commercial Code and by CMB regulations were publicly disclosed through material disclosures, "Investor Relations" section of the company's website, newspaper advertisements, and mailings. A request to have a special auditor appointed is not an individual right provided for under the company's articles of incorporation. No request for the appointment of a special auditor was received during 2010.

### 4. Information about General Assembly meetings

The 2009 annual General Assembly meeting took place during 2010 on 14 May 2010. An extraordinary General Assembly meeting was also held on 28 January 2010. At the latter meeting, shareholders approved the company's merger with the firm of Birmaş Tüketim Malları Ticaret A.Ş. and also voted to amend article 3 ("Object and scope"), article 6 ("Registered capital"), article 27 (Apportioning profits"), and the "Provisional article" of the company articles of incorporation. Meeting quora at both ordinary and extraordinary General Assembly meetings are subject to the provisions of the Turkish Commercial Code. At the 2009 annual General Assembly meeting, 67.66% of the company's capital was represented and voted. At the extraordinary General Assembly meeting, 67.54% of the company's capital was represented. During these meetings, no attending shareholders or their proxies advanced any motions and all questions that were raised were responded to by the Presiding Committee during the meeting.

Announcements pertaining to company General Assembly meeting invitations were published at least two weeks (not including the announcement and meeting dates) in advance in Türkiye Ticaret Sicili Gazetesi in accordance with article 23 ("Announcements") of the articles of incorporation and within the framework of the provisions of the Turkish Commercial Code and Capital Markets Board's regulations. The announcements were also published on the corporate website and in local newspapers. Shareholders whose addresses were on record with the company were sent letters in which they were informed about the meeting date, location, and agenda. Profit distribution proposals that the Board of Directors intends to submit to General Assembly meetings as well as the identity of independent auditors selected by the Board of Directors are publicly disclosed in material disclosures.

The company's annual report is made available to shareholders at the company's headquarters and on its corporate website before a meeting date. During General Assembly meetings, issues on the agenda are explained impartially and in detail so as to be clear and intelligible. Shareholders are given equal opportunities to express their thoughts and to ask questions and a healthy climate of debate is created.

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The company's articles of incorporation contain no provisions requiring that decisions concerning such matters as demergers or acquiring, selling, or leasing significant assets be taken at a General Assembly meeting. Such decisions are made by the Board of Directors in the board's ordinary conduct of the company's business and taking into account CMB regulations and the requirements of commercial and tax law. Such decisions are publicly disclosed as material disclosures.

In addition to the effective use of the communication channels referred to above in order to facilitate shareholders' participation in General Assembly meetings, a variety of conveniences are provided to make it possible for shareholders to reach the places where General Assembly meetings are held. General Assembly meeting minutes are always kept available for shareholders' inspection at the company's headquarters. In addition, the minutes of General Assembly meetings held during the most recent four years are accessible from the "Investor Relations" section of the company's corporate website located at [www.pinar.com.tr](http://www.pinar.com.tr).

## 5. Voting rights and minority rights

There are no special voting rights. The company's articles of incorporation contain no provisions pertaining to the exercise of voting rights that would prevent an individual who is not a shareholder from voting as the representative of one who is. Without prejudice to the special provisions of the relevant legislation and articles of incorporation, voting is conducted through open ballot and by raising hands during the General Assembly meeting. Upon request by shareholders, the voting procedure will be determined by the General Assembly meeting. There are no other companies in which the company has a cross ownership. There are no independent directors. (Refer to article 18 concerning board of directors membership.)

Minority rights are not represented on the Board of Directors. Minority rights and their exercise within the company are subject to the governance of article 11 of the Capital Markets Law, as is the case with all publicly-held companies.

The company's articles of incorporation currently contain no provisions allowing the use of the cumulative voting method.

## 6. Dividend payment policy and timing

The company's general policy with respect to dividends is to distribute its net profit having taken into account the company's financial position, investments that are to be made and other funding requirements, the sector's current circumstances, the economic environment, and the requirements of capital market and tax laws and regulations. However the actual amounts of profit to be distributed are determined every year taking all of the issues cited above into consideration. The company has formulated a Dividend Policy in line with the CMB's resolution of 27 January 2006 and it has publicly disclosed this policy by announcing it at a General Assembly meeting. Our dividend payment policy is also publicly disclosed via our corporate website. Distribution of the company's 2009 profits was completed within the legally prescribed period of time.

According to the company's articles of incorporation, advances on dividends may be paid provided that they are authorized by the Board of Directors and a general assembly of shareholders and on condition that they comply with article 15 of the Capital Markets Law and pertinent CMB regulations.

The authority to pay advances on dividends is exercised by the Board of Directors in light of current laws and regulations and of economic circumstances. The methods and processes whereby profits are distributed are governed by Capital Markets Board regulations and by the relevant provisions of the company's articles of incorporation. In line with the dividend policy determined for each business year, a Board of Directors resolution is passed and then publicly disclosed by means of a material disclosure.

Decisions that the Board of Directors makes concerning profit distributions are presented to the general assembly of shareholders for approval. The amounts of dividends so approved are paid out to shareholders within the period of time determined at the General Assembly meeting subject to the provisions of CMB communique IV:27.

Although it is not a special right with respect to participation in the company's profits by shares representing the company's issued capital, article 27 ("Apportioning profits") says that after the first dividend has been set aside as stipulated by the Capital Markets Board, up to 5% of the remainder may be set aside as a provision which is to be allocated to members of the Board of Directors and similarly that up to 10% of it may be allocated to holders of the founders' shares which are governed by article 8 of the company's articles of incorporation.

## 7. Transfer of shares

The company's articles of incorporation contain no provisions restricting the transfer of shares.

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## Part II: Public disclosures and transparency

### 8. Company disclosure policy

In all matters pertaining to its public disclosures the company complies with the requirements of the Capital Markets Law and of İstanbul Stock Exchange regulations.

The "Disclosure Policy" prepared for the purpose of keeping the public informed and presented to the information of the General Assembly meeting following the approval of the Board of Directors is publicly disclosed on the company's corporate website located at [www.pinar.com.tr](http://www.pinar.com.tr). The Board of Directors has both the authority and the responsibility for formulating, supervising, reviewing, and developing the company's disclosure policy. The Corporate Governance Committee and the Investor Relations Department provide information and make recommendations to the Board of Directors concerning the company's disclosure policy.

The chairperson of the Board of Directors and the general manager as well as other officers whom the board or the general manager deem to be appropriate may make public statements to the written and visual media and to data distributors. Questions which those involved in capital markets ask the company are responded to in writing or verbally by the Investor Relations Department.

Principles governing the disclosure of forward looking information are defined in the company's disclosure policy.

### 9. Material disclosures

Twenty-one material disclosures were made during 2009. No requests for additional material disclosures were received either from CMB or from ISE concerning these material disclosures. The company was not involved in any violations of public disclosure requirements. The company's material disclosures are prepared by the Investor Relations Department and are publicly disclosed after having been signed by those who are authorized to do so in the company's disclosure policy. Pursuant to CMB regulations, all of our special circumstance announcements have been published exclusively in electronic format via our Public Disclosure Platform since 2010. The company's shares are not listed on any foreign exchange and for that reason the company is not encumbered by any other additional public disclosure obligations.

### 10. The company's corporate website and its content

The company's corporate website is located at the address of [www.pinar.com.tr](http://www.pinar.com.tr). It is structured in the format and content as required in the section titled "Principles and Means of Public Disclosure" article 1.11.5 of the Corporate Governance Principles. The company's website is available in both Turkish and English and it is actively used. The company continuously improves and upgrades the services provided by its website.

### 11. Disclosure of ultimate controlling shareholder(s)

The company's shareholder structure as of 31 December 2010 is shown below.

Shareholder	Share Amount (TL)	Share (%)
Yaşar Holding A.Ş.	7,417,546.06	58.00
Pınar Süt A.Ş.	1,122,150.07	8.77
Others	4,249,649.14	33.23
Total	12,789,345.27	100.00

The shares in the company which belong to Yaşar Holding A.Ş. and to Pınar Süt Mamülleri San. A.Ş. and which correspond to 66.77% of the company's capital are controlled by Yaşar Group companies, which are owned by members of the Yaşar family.

### 12. People in access to insider information

The individuals who were in a position to have access to insider information as of the date of this report are indicated below. Such individuals are publicly disclosed in every annual report and on the company's corporate website.

- All company board members and statutory auditors
- Hüseyin Karamehmetoğlu (General Manager)
- Gökhan Serdar (Director of Financial Affairs and Finance)

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- Nevzat Gazioğlu (Accounting Manager)
- İsmail Önder Ünal (Chief Independent Auditor (Responsible Partner))
- Independent auditing firm personnel

## Part III: Stakeholders

### 13. Disclosure to stakeholders

Stakeholders are kept informed about all matters concerning the company other than those which are in the nature of a trade secret through material disclosures within the framework of CMB regulations, commercial law, competition law, tax law, and contract law.

### 14. Stakeholder participation in management

Stakeholder participation in management is achieved by ensuring that suggestions and recommendations (details of which are provided in article 16 below) which will lead to progress in any issue that is of concern to the company's activities and which are voiced at General Assembly meetings or received through various other communication channels are taken into consideration by appropriate company units.

### 15. Human resources policy

The fundamental mission of the company's human resources policy is to ensure the management of human resources who are innovative, who are committed to the principle of total quality, and who contribute towards the company's competitive advantage by easily adapting to change and development.

The company's basic human resources policies are set forth clearly in the company's Personnel Regulations, which are issued to all employees against their individual signature. In addition to basic policies, these regulations also contain information about working hours, hiring principles and processes, termination, and discipline.

#### Basic human resources policies

- Staffing at the company is determined according to the criteria of business economics. All employees agree that honorable employment is only possible through productive work.
- The company conducts intramural and extramural training programs within the framework of plans that are devised for each level in order to ensure the progression of its employees.
- The company is mindful of equality of opportunity in all promotions and appointments throughout its organization. As a matter of principle, appointments are made from among the company's own personnel.
- By means of a career planning system in which progression plans are implemented, employees who have potential are provided with the broadest possible opportunities for advancement.
- Employees' performance is evaluated on the basis of their fulfillment of targets and their competencies.
- Job descriptions and performance standards are documented for positions at every level from the highest to the lowest and these serve as the basis for employee evaluations.
- Employee opinion surveys are conducted regularly every year, at which time employees are asked for their views about such issues as working conditions, management, social activities, compensation, training, performance evaluation, career planning, participatory management, and company satisfaction. Improvements are made in line with the feedback that is received in this way.
- A safe workplace and safe working conditions are a matter to which the company gives great importance. Under the company's occupational health and safety regulations, all legally mandated measures are taken to prevent occupational risks, ensure health and safety, and eliminate risk and accident factors. An ongoing effort to make improvements is carried out through regularly conducted safety meetings.
- Our style of management is "to maintain our existence as a company which behaves in compliance with laws and with the rules of ethics and which adheres to a total quality philosophy and to a participatory form of management."

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j) An essential principle at the company is that all employees will be treated equally and without making any distinctions among them with respect to language, race, color, sex, political beliefs, philosophy, religion, sect, or similar reasons. Due measures have been taken to protect these basic employee rights.

There are no employee representatives at the company. However plans were made during 2010 to conduct an election to determine one. All employees are kept informed about company procedures, organizational changes, changes in rights and benefits, and other practices and decisions that may affect them means of regulations and announcements prepared within the framework of the company's prescribed announcement regulations as well as via the company intranet and bulletin boards.

Neither the company's management nor its human resources department has ever received any complaint from employees about discrimination.

### 16. Information about relations with customers and suppliers

Job descriptions have been written up for all of the company's employees to ensure that the services provided by the company achieve customer satisfaction. Instructions concerning these have been prepared and presented for the information of company personnel. Customers may submit any requests or complaints that they may have about hotel services to any level of the company's management and also send them to the company via the internet. In order to ensure customer satisfaction, feedback that is received via the Pınar Online telephone hotline, through our dealers, through consumer satisfaction surveys, and in other ways is assessed by the company's marketing, total quality, and production departments and used as input to make continuous improvements in all areas. Similarly the company's dealers, who are its immediate customers, are polled every year and if any problems are turned up they are assessed by the marketing, total quality, and production departments so that improvements may be made.

The company's suppliers are evaluated within the framework of ISO 9000 Quality Management System certification criteria and they are assigned points on the basis of their monthly price, quality, and delivery performances. Visits are also made to such firms during which information is exchanged and efforts are made to achieve quality and cost improvements.

All procurements at the company are effected only after having been subjected to the company's required procurement procedures. When selecting suppliers from which the company will purchase products and services, attention is given to the criteria of appropriate cost, appropriate quality, sufficient capacity, and after-sales service.

### 17. Social responsibility

The company has been awarded ISO 14000 Environmental Management System certification. Ongoing efforts are made to keep the environmental impact of the company's operations remain within prescribed standards and that wastes are disposed of without causing environmental harm. Noise, fume, and other emission-related parameters are measured at regular intervals. PET, glass, cardboard, and other packaging waste is recycled as per environment ministry regulatory requirements. No environmental impact reports have been issued for the company as it does not qualify as a "non-sanitary enterprise".

## Part IV: Board of Directors

### 18. Structure and formation of the Board of Directors; independent directors

Under articles 9 and 10 of the company's articles of incorporation, the company's business and affairs are administered by a board of directors consisting of three to seven members who are elected by shareholders at a General Assembly meeting within the framework of the requirements of the Turkish Commercial Code. The board must be reelected at least once every three years. A member whose term of office expires may be reelected. A General Assembly meeting has the power to replace the board any time it is deemed to be necessary. The Board of Directors represents the company and exercises such authorities and fulfills such responsibilities as have been given to it by shareholders assembled in a General Assembly meeting.

The Board of Directors:

İdil Yiğitbaşı	Chairperson
Yılmaz Gökoğlu	Deputy Chairperson
Mehmet Aktaş	Director
Hakkı Hikmet Altan	Director

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Ahmet Atay	Director
Suat Özyiğit	Director
Ali Sözen	Director

- Ahmet Atay, who served as the company's general manager in 2010, resigned his position as of 15 December 2010, at which time Hüseyin Karamehmetoğlu was appointed to replace him.
- There are no independent members of the Board of Directors.
- The ability of company directors to engage in the activities set forth in articles 334 and 335 of the Turkish Commercial Code are subject to the approval of the general assembly of shareholders. With the exception of those activities, there are no other limitations imposed on what board members may do.

## 19. Qualifications of company directors

In the selection of company directors, attention is given to structuring the board in such a way as to maximize its influence and effectiveness. Although no general principles are set forth in the company's articles of incorporation, attention is given to electing directors who satisfy the criteria spelled out in articles 3.1.1, 3.1.2, and 3.1.3 in section IV of Corporate Governance Principles published by the Capital Markets Board. A Corporate Governance Committee that was formed at a meeting of the company's board held on 13 March 2006 is responsible for providing board members with guidance and compliance review in line with changes and developments that take place.

## 20. Mission, vision, and strategic goals of the company

The company's mission is "to be a company which concentrates on customer and consumer satisfaction with its consumer-focused production philosophy and on human resources with its approach to participatory management, which keeps abreast of advanced technology around the world, and which is a pioneer of its sector by virtue of its innovativeness." The activities and results pertaining to the basic strategies that make it possible to achieve this mission are regularly monitored and assessed by the Board of Directors.

## 21. Risk management and internal control mechanisms

The Board of Directors essentially supervises activities related to risk management through the committee that is responsible for audit. In its fulfillment of these functions, this committee makes use of the findings of the financial affairs and accounting department and of the organizations that are responsible for independent auditing and for certified accountancy.

## 22. Authorities and responsibilities of company directors and executives

Although the company's articles of incorporation contain no specific clause pertaining to the authorities and responsibilities of company directors and executives, the company's directors and executives perform their duties in a manner that is equitable, transparent, accountable, and responsible in accordance with the Turkish Commercial Code.

## 23. Operating principles of the Board of Directors

The operating principles of the Board of Directors are spelled out as follows in article 9 of the company's articles of incorporation:

"The Board of Directors shall convene as the company's business and transactions may necessitate. However it must meet at least once a month."

Details about the Board of Directors' operating principles and its activities during the 2010 reporting period are given below.

Board of Directors meeting agendas are determined by the chairperson after having discussed the matter with other board members and with the general manager.

During the reporting period, the Board of Directors convened thirty-two times. The board may be called to meeting by its chairperson or by any of its members in writing. Meeting agendas must be sent out to members by registered mail at least two weeks before the meeting date. All members are usually present at meetings. There were no unresolved disputes over issues during the 2010 reporting period. Board members were actually present at board meetings during which matters governed

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by the rules of Corporate Governance Principles section IV.2.17.4 were discussed. Questions raised during meetings are not entered into the record. No board members have preferential voting or veto rights.

### 24. Prohibition on doing business or competing with the company

At the company's annual General Assembly meeting for 2009 held during 2010, members of the Board of Directors were granted authority with respect to the issues governed by articles 334 and 335 of the Turkish Commercial Code; however during the reporting period, none of the executive board members were involved in any business transaction falling within the company's object and scope either directly or indirectly on his own behalf or on behalf of someone else.

### 25. Rules of ethics

The company conducts its activities within the framework of values which are adhered to by Yaşar Group companies and whose approach to the production of goods and services involves compliance with laws and the rules of ethics, concerns itself with national problems without becoming involved in politics, and values the environment and nature. These values are known to all company employees. In addition, work is also being carried out to formulate the company's own rules of ethics within the framework of its corporate governance approach.

### 26. Number, structure, and independence of committees established by the Board of Directors

Two committees, consisting of a committee responsible for audit and a committee responsible for corporate governance, have been formed within the company. The Audit Committee convened four times during 2010 in meetings at which it was informed by company managers about the company's activities and internal control systems and also about the findings of the independent auditors during the most recent quarter. The Audit Committee is responsible for the company's bookkeeping system, for the public disclosure of financial information, and for supervising the operation and effectiveness of independent auditing and of the internal control system; for selecting the independent auditors, initiating the independent auditing process, and supervising the independent auditors' activities; for reporting to the Board of Directors about the authenticity and veracity of publicly disclosed yearly and intermediary financial statements. The members of the Audit Committee are Mehmet Aktaş and Hakkı Hikmet Altan. As there are no independent directors on the company's board, the Audit Committee comprises of non-executive directors. No company director is a member of more than one committee.

The company's Corporate Governance Committee was created under a Board of Directors resolution dated 13 March 2006. The Corporate Governance Committee is headed by Yılmaz Gökoğlu and its other member is Suat Özyiğit.

The Corporate Governance Committee is responsible for identifying whether or not corporate governance principles are being complied with at the company as well as for identifying any problems arising from less than full compliance with those principles; for making recommendations to the Board of Directors on taking measures to achieve improvements; for coordinating activities pertaining to relations with shareholders; for undertaking activities related to creating a transparent system to deal with the matters of identifying, evaluating, training, and rewarding candidates suitable for board membership and to identifying policies and strategies applicable to that system; for developing recommendations concerning the number of company directors and executives.

### 27. Financial benefits provided to the Board of Directors

As is stipulated in article 14 of the company's articles of incorporation, members of the company's board receive remuneration whose amount is determined by a general assembly of shareholders. The remuneration so determined for 2010 was TL 1,000 a month. The rights that are provided to members of the Board of Directors are determined at General Assembly meetings of the company and they are publicly disclosed through the minutes of such meetings. The company has no separate performance-based remuneration policy for its directors. The company does not make lendings or extend credit to any of its directors or executives directly or indirectly.