



Corporate Governance Compliance Rating Report



Pınar Su Sanayi ve Ticaret A.Ş.

21 November 2016

Validity Period : 21.11.2016-21.11.2017

LIMITATIONS

This Corporate Governance Rating Report, issued by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. for Pınar Su Sanayi ve Ticaret A.Ş. is compiled;

in accordance with the criteria stated in CMB's Corporate Governance Communiqué, no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014; as well as the CMB's board decision taken at the Board meeting on 01.02.2013, no 4 / 105.

The criteria, established for the companies whose shares are traded at BIST, are organized separately as First Group, Second Group and Third Group companies and investment partnerships, taking into consideration the group distinctions stated by CMB's Corporate Governance Principles in Item 2 - Article 5 of communiqué no II-17.1, published in the Official Gazette on 03.01.2014.

The Corporate Governance Compliance Rating Report issued by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. is based on 74 copies of documents, data and files transmitted by the concerned firm electronically, including data open to general public and examinations made by our rating experts on site.

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Although rating is an assessment based on numerous data, it is consequently the institutional opinion of Kobirate International Credit Rating and Corporate Governance Services Inc. formed accordingly to the methodology disclosed.

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PINAR SU SANAYİ VE TİCARET A.Ş.

CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE

9.38

Kobirate A.Ş. Contact:

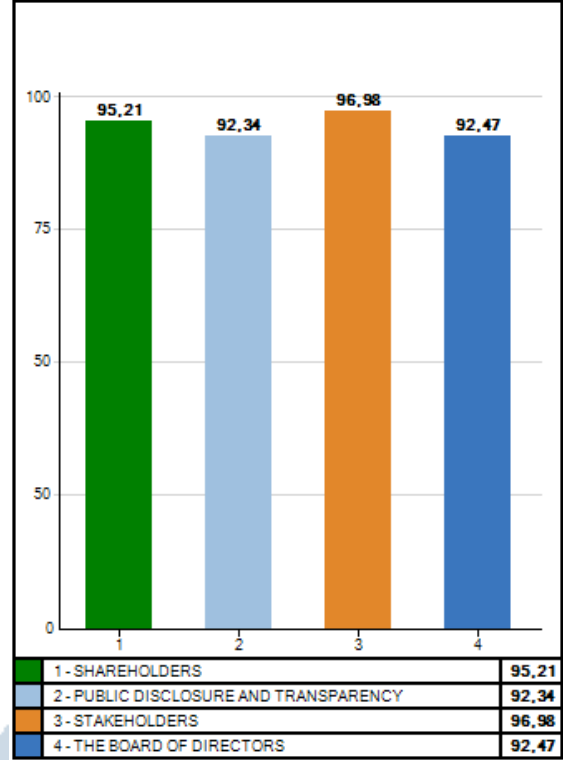
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RATING SUMMARY

The process of rating of compliance of PINAR SU Sanayi ve Ticaret A.Ş with the Corporate Governance Principles has been concluded through onsite examinations of the documents at the head office, interviews held with executives and persons involved, information disclosed to public and of other detailed reviews and observations. Process of rating has been conducted in accordance with Corporate Governance Compliance Rating Methodology developed by Kobirate Uluslararası Kredi Derecelendirme ve Yönetim Hizmetleri A.Ş.. Process of rating and methodology has been based on CMB's Corporate Governance Principles Communiqué no II-17,1 published by Official Gazette no 28871, dated January 3, 2014.

According to CMB Bulletin dated and numbered 2016/1, Pınar Su is on BİST 3rd Group Companies list.



The Company has been evaluated through examination of 399 criteria as described by Kobirate A.Ş.'s methodology of "Corporate Governance Compliance Rating for BIST Third Group Companies". The rating process has been conducted under the main headings of Shareholders, Public Disclosure and Transparency, the Stakeholders and the Board of Directors and Corporate Governance Compliance Grade of Pınar Su Sanayi ve Ticaret A.Ş has been determined as **9.38**. This result signifies that Pınar Su has largely achieved compliance with the CMB's Corporate Governance Principles. Possible risks for the Company have been determined to a great extent and are under control. Rights of shareholders are treated fairly. Public disclosure and transparency are at a good level. Rights of stakeholders are watched. Structure and working conditions of board of directors are rather compliant with corporate

governance principles. Although they pose no big risks, some improvements within the frame of corporate governance principles are expected.

Willing and determined approach of both the board of directors and the top management to internalize corporate governance principles and to produce solutions for areas that require compliance and improvement is seen as the most important factor in reaching this grade. This grade indicates that the Company deserves to be on BIST Corporate Governance Index.

In view of rating process under main headings in brief;

The Company has received a grade of **95.21** in the Shareholders section and it is seen that it has achieved a rather good level compliance with CMB Corporate Governance Principles. The existence of Investor Relations Department through which a healthy relationship with shareholders is managed, duly convention of general assembly and invitations for it, preparation and disclosure to public of a dividend policy and having no privileges in voting right are positive policies. In accordance with CMB Communiqué no II.17-1, the Manager of Investor Relations Department is appointed as Corporate Governance Committee member.

Pinar Su has achieved grade of **92.34** at the section of Public Disclosure and Transparency. The Company has prepared its disclosure policy and disclosed it to the public. Corporate website is prepared in such a way to ensure access to several current data, which are specified in the principles and might be needed by the investors. The fact that this information is published in English in alignment with the Turkish version has been deemed as a positive development.

It has been seen that the Annual Report is sufficient in terms of content and information is comprehensible and supported with graphics. As result of research in this field, it has been determined that Pinar Su has

achieved considerable compliance with the principles in the section of public disclosure and transparency.

In the section of Stakeholders the Company has achieved the grade of **96.98**.

In this section the Company has achieved significant compliance with CMB's Corporate Governance Principles. Human resources policy has been established; regulations have been made and disclosed to the employees in the fields of recruitment, job descriptions, performance evaluation, promotion, awarding, leave and social benefits. Training policies have been formed; annual training programs have been prepared and disclosed to the employees.

It is observed that work processes and standards are set forth and that the customers are informed of such processes.

Procedures for outsourcing in terms of products and services have been laid down in written documents.

Ethical Business Rules are set forth and introduced to employees to act pursuant to such rules. There are detailed explanations about corporate social responsibility and sustainability activities in the annual report.

As for the Board of Directors Section, the Company's grade is **92.47**, representing a rather good level compliance with the CMB's Corporate Governance Principles.

It is confirmed that the Board has set company's strategic goals, audits performance of company management, pays further attention to the company affairs to be in compliance with the legislation, the Articles of Association and internal regulations.

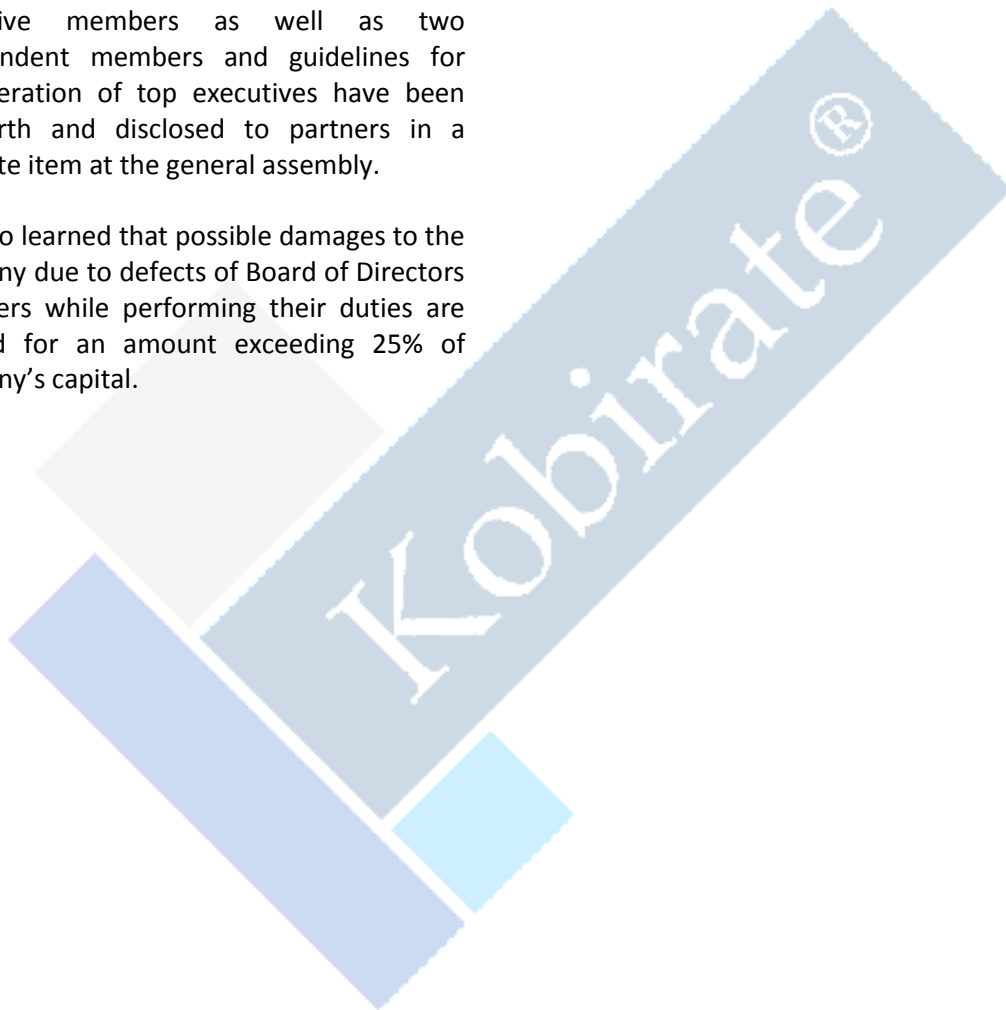
The posts of Chairman of the Board and General Manager are held by separate individuals, there is no sole person in the Company with unlimited powers.

The Board convenes regularly and procedures for meetings are incorporated in both the Articles of Association and internal directives.

It has been observed that the Audit, Corporate Governance and Early Detection of Risk Committees, referred to in the Principles, have been established and their working principles were put in written documents. Committees operate actively and efficiently.

On the other hand, there are other important indications of compliance with the Principles such as the fact that Board consists of non-executive members as well as two independent members and guidelines for remuneration of top executives have been set forth and disclosed to partners in a separate item at the general assembly.

It is also learned that possible damages to the company due to defects of Board of Directors Members while performing their duties are insured for an amount exceeding 25% of company's capital.



2. RATING METHODOLOGY

The Corporate Governance Compliance Rating is a system which audits whether or not the firm's management structures and management styles, the arrangements for shareholders and stakeholders and the process of informing in transparency and accuracy are performed in accordance with the modern corporate governance principles and which assigns a grade corresponding to the existing situation.

Organization for Economic Co-operation and Development (OECD) established a working group in 1998 in order to assess member countries' opinions on corporate governance and to prepare some non – binding principles.

The fact that principles are open to change in time was also accepted at this work. Although at first these principles were focused on the companies whose shares were quoted in stock exchange, it was emphasized by OECD that it would be also useful to implement these principles in public enterprises and companies whose shares were not quoted in stock exchange.

In 1999, OECD Corporate Governance Principles were approved at the OECD Meeting of Ministers and published. Since then, these principles have been regarded as international references for the decision – makers, investors, shareholders, companies and stakeholders throughout the world.

Since their approval, these principles kept the concept of corporate governance on the agenda and became guidelines for the laws and regulations in OECD members, as well as other countries.

There are four basic principles of corporate governance in OECD Corporate Governance Principles. These are: fairness, transparency, accountability and responsibility.

Turkey has been closely monitoring these developments. A working group, established within TUSIAD in 2001, prepared the guide, titled, "Corporate governance: The best implementation code". Then CMB issued "Capital Market Board Corporate Governance Principles" in 2003 and updated it in 2005, 2010, 2012, 2013 and 2014, according to international developments in this field.

Obligation to comply with CMB's Corporate Governance Principles, based on the principle of "implement or disclose", and to declare it became part of companies' lives in 2004. Putting the Declaration of Compliance to Corporate Governance in the annual reports became obligatory the following year.

The principles are grouped under four main headings, namely: the Shareholders, Public Disclosure and Transparency, Stakeholders and the Board of Directors.

The Corporate Governance Compliance Rating Methodology has been prepared by Kobirate A.Ş. for companies whose shares are traded on BIST, banks, investment partnerships and non – quoted companies.

The methodology takes into consideration the criteria stated in CMB's Corporate Governance Communiqué, no II-17.1, published in the Official Gazette edition 28871 on 03.01.2014; as well as CMB's board decisions taken at Board meeting dated 01.02.2013, no 4 / 105.

In this analysis, the full compliance of work flow and analysis technique with Kobirate A.Ş.'s Ethical Rules is considered.

399 criteria are used in the rating process for BIST Third Group companies in order to measure the compliance of firms with corporate governance principles.

These criteria are translated into Corporate Governance Rating Question Sets through Kobirate A.Ş.'s unique software.

The weighting scheme for the four main sections in the new Corporate Governance Compliance Rating, determined by CMB's memorandum dated 12.04.2013 and numbered 36231672-410.99 (KBRT)-267/3854, is applied completely by Kobirate A.Ş. The weightings are as below:

Shareholders 25 %

Public Disclosure and Transparency 25 %

Stakeholders 15 %

Board of Directors 35 %

CMB decision dated 01.02.2013 and numbered 4/105 states that in case the minimum requirements of corporate governance principles are met, 85 % of full points can be given at most for that principle and it is required to add new questions / methods into the methodology in order to ensure that good corporate governance principles, which go beyond meeting the minimum requirements are included in the rating grade. Our company has been informed about this requirement by CMB notification dated 19.07.2013 and numbered 36231672-410.99 (KBRT) 452.

In the 2014/2 revised corporate governance compliance rating methodology, created by our company, the grade that can be given to a

related criterion in that subsection for meeting minimum requirements of corporate governance principles, stated by CMB Communiqué of Corporate Governance published on 03.01.2014, numbered II-17.1, is restricted to 85 % of the full points. Remaining 15 % is reached by measuring company's efficiency in applying CMB's Corporate Governance Principles, degree to which the company is internalized these practices and the value that these internalized practices create for the company. The existence of those practices that are not included in CMB's Corporate Governance Principles, but determined as good corporate practices by Kobirate A.Ş. Corporate Governance Compliance Rating Methodology are also considered as part of the remaining 15 % and affect the company's grade.

The grade to be assigned by the Corporate Governance Rating Committee to the firm ranges between 0-10. In this scale of grade, "10" points mean excellent, full compliance with CMB's Corporate Governance Principles while grade "0" means that there is no compliance with CMB's Corporate Governance Principles, in any sense, in the existing weak structure.

In this report the following legends have the following meanings:

✓ Due / Correct Application of CMB's Corporate Governance Principles

✗ Improper / Erroneous Application of CMB's Corporate Governance principles

✓/✗ Practices required to be improved in compliance with CMB's Corporate Governance Principles.

3. COMPANY PROFILE



Company Name	: Pınar Su Sanayi ve Ticaret Anonim Şirketi
Company Address	: Akdeniz Mah. Şehit Fethi Bey Cad. No: 120/101 Konak/ İZMİR
Company Phone	: (0232) 436 5250
Company Facsimile	: (0232) 436 5204
Company Website	: www.pinarsu.com.tr
Date of Incorporation	: 24/03/1982
Registered Number	: 45704-K-2016
Paid in Capital	: 44,762,708.45 TL
Line of Business	: Bottling up and selling natural spring water and natural mineral water
Company's Sector	: Manufacturing Industry

Company's Representative in Charge of Rating:

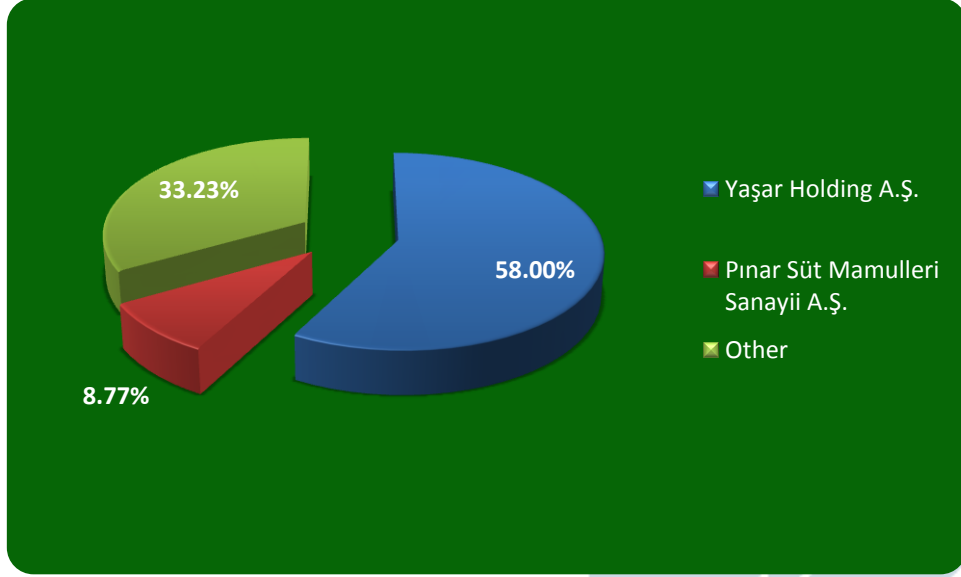
Onur ÖZTÜRK

Investor Relations Department Manager

yatirimciiliskileri@pinarsu.com.tr

0232 436 52 50

Company's Shareholding Structure (as of report date)



Source: www.kap.org.tr

Shareholder Name	Share (TL)	%
Yaşar Holding A.Ş.	25,961,413.57	58.00
Pınar Süt Mamulleri Sanayii A.Ş.	3,927,525.25	8.77
Other	14,873,769.63	33.23
Total (*)	44,762,708.45	100.00

(*) Company's issued capital of TRY 12,789,345.27 has been raised by TRY 31,973,363.175 (250 %) to TRY 44,762,708.445. Capital raise was registered on 15.07.2016.

Shareholding Structure of the Main Shareholder Yaşar Holding A.Ş.

Shareholder Name	Share (TL)	%
Hedef Ziraat Tic. ve San.A.Ş.(*)	151,524,597.09	67.06
Yaşar Birleşik Paz. Dağ. Tur. Tic A.Ş.	13,326,851.23	5.90
Other	61,091,712.68	27.04
Total Capital	225,943,161.00	100.00

(*) Ultimate main shareholder of Hedef Ziraat is Yaşar Family.
Source: www.yasar.com.tr

Real and Corporate Persons Who Indirectly Own the Capital as of Latest Situation

Shareholder Name	Share (TL)	%
Hedef Ziraat Tic. ve San.A.Ş	4,972,333.48	38.88

Source: www.kap.org.tr

Major Subsidiaries of the Company and Their Shares in Capital

Company Name	Company's Line of Business	Paid in/Issued Capital	Company's Share in Capital (TL)	Company's Share in Capital %
DESA Enerji Elektrik Ür. A.Ş.	ENERGY	33,200,000	2,015,714	6.07
VİKİNG Kâğıt ve Selüloz A.Ş.	PAPER	45,000,000	761,538.57	1.69
YAŞAR Dış Ticaret. A.Ş.	EXPORT - IMPORT	35,000,000	616,623.05	1.76

Source: www.kap.org.tr

Board of Directors

Name/ Surname	Title	Executive/ Non-Executive
Emine Feyhan YAŞAR	Chairperson of Board	NON-EXECUTIVE
İdil YiğİTBAŞI	Deputy Chairperson of Board	NON-EXECUTIVE
Mustafa Selim YAŞAR	Member of Board	NON-EXECUTIVE
Yılmaz GÖKOĞLU	Member of Board	NON-EXECUTIVE
Cengiz EROL	Member of Board	NON-EXECUTIVE
Ali Yiğİt TAVAS	Independent Member of Board	NON-EXECUTIVE
Kemal SEMERCİLER	Independent Member of Board	NON-EXECUTIVE

Top Management

Name/ Surname	Title
Hüseyin KARAMEHMETOĞLU	General Manager
Onur ÖZTÜRK	Financial Affairs and Finance Director - Investor Relations Manager

Committees Formed Within Board of Directors

AUDIT COMMITTEE	
Ali Yiğİt TAVAS	Independent Member of Board
Kemal SEMERCİLER	Independent Member of Board
CORPORATE GOVERNANCE COMMITTEE	
Ali Yiğİt TAVAS	Independent Member of Board
Yılmaz GÖKOĞLU	Member of Board
Cengiz EROL	Member of Board
Onur ÖZTÜRK	Investor Relations Manager
EARLY DETECTION OF RISK COMMITTEE	
Kemal SEMERCİLER	Independent Member of Board
Yılmaz GÖKOĞLU	Member of Board
Cengiz EROL	Member of Board

Balance-Sheet Comparison of Company's Certain Selected Items as of 3rd Q of Last 2 Yearends

	2015/09	2016/09	Değişim %
Current Assets	69,771,724	73,530,978	5.39
Fixed Assets	88,423,864	143,678,251	62.49
Total Assets	158,195,588	217,209,229	37.30
Short Term Liabilities	66,734,101	79,166,375	18.63
Long Term Liabilities	34,625,336	65,941,815	90.44
Equity	56,836,151	72,101,039	26.85

Source: Pınar Su Sanayi ve Tic. A.Ş. January 10 – September 30 Interim Accounting Period Summary Financial Statements

Profit – Loss Table Comparison of Company's Certain Selected Items as of 3rd Q of Last 2 Yearends

	2015/09	2016/09	Değişim %
Sales Income	118,214,874	131,139,677	10.93
Sales Cost (-)	(59,918,335)	(75,482,750)	-25.97
Operational Profit or Loss	(499,673)	(10,621,937)	-2,025.8
Profit/Loss Before Tax	(2,380,282)	(18,026,527)	-657.3
Period Profit/Loss	(2,030,439)	(13,346,568)	-557.3

Source: Pınar Su Sanayi ve Tic. A.Ş. January 10 – September 30 Interim Accounting Period Summary Financial Statements

The Bottom and Peak Closing Values of Company's Shares at BIST Closings between 01.11.2015 and 01.11.2016 traded on the BIST for last year

<i>Bottom (TL)</i>	<i>Peak(TL)</i>
1.38.- (21.07.2016)	1.80.- (12.01.2016)

Source: Pınar Su Sanayi ve Ticaret A.Ş.

Markets where the Capital Market Instrument is Quoted and Indexes that the Company Participates

BIST ALL-100 / BIST MAIN / BIST FOOD, BEVERAGE / BIST INDUSTRIAL / BIST ALL / BIST İzmir / BIST CORPORATE GOVERNANCE

Source: www.kap.gov.tr

Brief History of the Company

The foundations of the Company have been laid down within Yaşar Group, one of the most respected business groups of our country. Since then it has been leading the sector with its production at high standards. The chronology of the Company since 1984 is below:

1984 Turkey's first packaged drinking water was introduced to the consumer with the brand of Pınar Şaşal.

1985 PVC packaging was used for the first time. First exports to Germany took place.

1989 90 % of Turkey's total water exports was done by Pınar Su.

1995 Annual amount of bottled water reached 100,000 tons.

1996 Second plant was opened in Aydın Nazilli and Pınar Madran was introduced to customers.

1997 For the first time, Pınar Madran was presented in PET bottle and it was awarded with Golden Plaque by Turkish Institute of Standards.

1999 It received ISO 9002 Quality Management System Certificate.

2001 It received TSE ISO 14001 Environment Management System Certificate.

2002 Pınar Madran Su in polycarbonate bottle was presented to the market.

2003 Sakarya and Isparta water resources were purchased and Marmara Su was established. Pınar Yaşam Pınarım and Pınar Denge products were presented to the taste of consumers. • TS ISO 9001:2000 Certificate was received.

2005 TS 13001 HACCP Food Security System Certificate was received. • Pınar Madran facility was founded in Aydın-Bozdoğan on a 64,000 m² field with 14,000 m² covered area. Thanks to additional investments, covered area of the facility reached 17,000 m².

2007 Pınar Madran became the first Turkish beverage that received NSF International Quality Certificate.

2009 TS ISO EN 9001:2008 Quality Management System Certificate was received.

2010 444 99 00 Pınar Su Order Line was put into service and covered all Turkey. • TS ISO EN 22000 Food Safety Management System Certificate was received.

2011 Short-neck project reduced basis weight of bottles. • Design of glass bottle was renewed. • TRY 1 product in new package was launched to market. • The source in Isparta was changed from Toros to Akçaağaç. • TS 18001 Work Health and Safety Management System Certificate was received.

2012 TS ISO 10002 Customer Satisfaction Management System Certificate was received. • 0.33L and 0.75L glass bottle designs with seasonal concepts were introduced to consumer. • Special to sale point, 3.25L PET bottle was launched to the market. • New online polycarbonate bottle water order was established for the first time in Turkey • the five-liter glass carboy was launched to the market. • Smurfs licensed half-liter Handy-Cap PET was produced for kids.

2013 Pınar Su order apps compatible with Android and IOS were launched. • five-liter carboy home style water and glass bottles with seasonal concepts were given best awards in individual categories by Brand Spark International. • Series of glass bottles with seasonal concept won the golden award at

the Package Moon Star Competition. • PET container production capacity in Hendek and Isparta increased by almost 100 %. • The company entered mineral water market with its plain, fruity and vitamin products.

2014 0.33L and 0.75L glass bottles were introduced to the market with their new designs. • Through demijohn dealers, consumers were provided with the opportunity to order PET bottle and mineral water products alongside demijohns. • British Retail Consortium (BRC) Food Safety Certificate was received. • Share of plastic material was reduced in pet production and nature friendly icon was put on it to show that waste, energy consumption and carbon foot print were all reduced. • Getting 82 points over 100 according to 2014 2 Q results of Turkey Customer Satisfaction Index, Pınar Su became number one company in the sector of packaged water.

2015 0.33L and 0.75L glass bottles were introduced to the market with their new premium design. • Range of products with fruit aromas was extended in mineral water market and Pınar Denge Mineral Water with water melon – strawberry aroma was introduced. • Pınar Su became official water supplier of Turkish Basketball Federation and A National Basketball Team.

Information About Company's Activities

Pınar Su operates within Yaşar Group which has a total of 20 companies, 24 factories and facilities, 2 foundations and about 7,500 employees.

Pınar Su is the only 100 % Turkish company operating in Turkey's packaged water sector at national level.

With its experience of 32 years, the Company bottles water at its modern facilities in Aydın-Bozdoğan, Isparta-Eğirdir and Sakarya-Hendek, without damaging water's natural structure and changing its mineral balance. The facilities are far away from settlements; water resources' flow rate and chemical features do not change throughout the year due to rains or droughts.

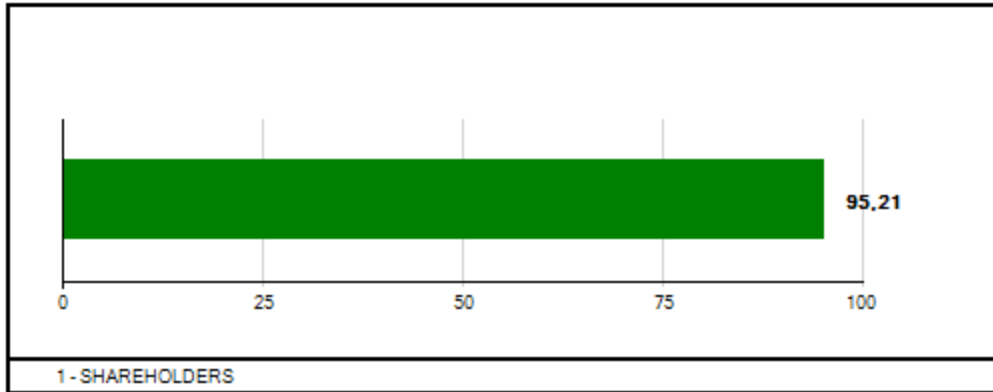
Pınar Su completed 2015 as the fourth largest company of Turkey in packaged water sector. In comparison to 2014 it grew 2.3 % in terms of tons and 9.3 % in terms of turnover. At the end of 2015 its net sales turnover became TRY 145 million, equity TRY 53.7 million and total assets TRY 149.6 million.

The Company has decided to make investment for new packaged water filling facilities in Bursa, İnegöl over one its own fixed assets and disclosed it to public with a special case statement on 25.03.2015. It made the decision within the scope of strategies to increase its resource diversity, market share and productivity. In a special case statement dated 03.03.2016, it was disclosed that first phase of investment on Uludağ resource completed and production of Dispenser size water started. In the second phase of the investment, establishment of PET lines were completed and their production was started. This was disclosed with special case statement on 16.11.2016.

Pınar Su earns 10 % of its sales from exports. It sends products to consumers in 24 countries over a large piece of geography.

Pınar Su continued its operations in the first 6 months of 2016 with an average of 489 employees.

4. RATING SECTIONS A. SHAREHOLDERS



Overview

- ✓ Investor Relations Department has been established to continue relations with shareholders.
- ✓ General Assemblies are held in accordance with laws, regulations and the Articles of Association.
- ✓ Donations and Aid policies of the company have been prepared, presented for the approval of the General Assembly and disclosed to the public.
- ✓ Shareholders have been informed about the amount of donations and aid given within the period at the General Assembly meeting.
- ✓ There are no privileges in voting rights.
- ✓ There are no regulations that make the use of voting right difficult.
- ✓ Dividend policy has been prepared, presented for the approval of the General Assembly and disclosed to public.
- ✓ There is a provision in the Articles of Association about dividend advance.
- ✓ There are no restrictions in the transfer of shares.
- ✓/* It would be appropriate to clearly specify in the statements that general assembly meetings are open to public.
- ✓/* There is no provision in the Articles of Association stating that general

assembly meetings are open to public.

- ✓/* It would be appropriate to extend minority rights to those who have less than 1 / 20 of the capital.

In this section, as stated CMB's Corporate Governance Principles, the company was evaluated on 115 different criteria, including **Facilitating Exercise of Shareholders Rights**, shareholders' Right to **Obtain and Examine Information**, shareholders' right to **Attend the General Assembly**, shareholders' **Voting Right**, shareholders' **Minority Rights**, shareholders' **Dividend Rights** and shareholders' right to **Transfer Shares** to whomever they want, whenever they want. The company's grade for this section is **95.21**.

a. Facilitating the Exercise of Shareholders Rights

Investor Relations Department reports directly to the general manager. Financial Affairs and Finance Director Onur ÖZTÜRK was assigned as the Manager of Investor Relations Department on 23.07.2015 and this development was disclosed to public with a material event disclosure on the same date. Didem ÖZEĞRİLMEZ works at the department. Onur ÖZTÜRK, who has a Corporate Governance License, was appointed as Member of Corporate Governance Committee on the same date and compliance

with CMB Corporate Governance Communiqué no II.17-1 has been achieved.

It has been found that the employees working at Investor Relations Department have adequate qualifications in terms of knowledge and experience required for the task, that they play an effective role in protection and facilitation of shareholders' rights, starting with the right to obtain and review information in particular.

Job description of Investor Relations Department has been done and it is seen that this internal arrangement includes duties that are stated in Article 11 / 5 of CMB Corporate Governance Communiqué no II.17-1.

It has been determined that Investor Relations Department presents periodical reports to the Board of Directors about its activities and performance of shares.

Any data that might affect the exercise of shareholders' rights are currently at disposal of shareholders on the corporate Internet website.

In this subsection, it has been determined that the Company has achieved good compliance with the principles.

b. Right to Obtain Information and to Examine

The information required for the proper exercise of shareholders' rights are presented to the shareholders and to this end the company's web site (<http://www.pinarsu.com.tr/>) is used efficiently.

The "Disclosure Policy", approved by the Board of Directors and presented for the approval of General Assembly, is on the corporate website. Shareholders' right to obtain information is comprehensively explained in this policy.

All information concerning the company has been given on time, truthfully and

completely. There have been no warnings or penalties on this issue given by Regulatory authorities. It has also been learned that there were no conflicts brought to court in the same period due to unanswered information and examination requests of shareholders or not answering their requests without a reason.

It has been seen that inquiries of shareholders have been responded in the shortest time and sufficient care has been given for them to obtain and examine information. It has been learned that in 2015 the Company answered more than 50 questions through phone or e-mail, one on one meetings were held with about 30 local and foreign investors.

There is no regulation and practice to cancel or restrict shareholders' right to obtain and examine information by the Articles of Association and/or by a decision of any corporate department.

There are no regulations and practices that make it difficult for shareholders to exercise their right to request appointment of special auditor from the general assembly.

It has been determined that the Company has achieved very good level compliance with the principles in this subsection.

c. General Assembly

Through its practices at the process of general assembly meeting, Pınar Su has achieved good level compliance with many principles in this subsection.

The General Assembly meeting to discuss operations of 2015 took place on 30.03.2016. The meeting was announced properly on Turkish Trade Registry Gazette dated 08.03.2016, No 9027, as well as Public Disclosure Platform and EGKS. The invitations included day and time of the meeting, it's clear address and agenda. The department that makes the invitation has also been clearly stated.

It has been found that financial tables, annual reports, audit reports and Board's dividend proposal, all of which should be ready for the review of shareholders according to Article 437 of Turkish Commercial Act no 6102 and other announcements that company should make in accordance with regulations and Corporate Governance Principles have been sent to shareholders three weeks before the General Assembly.

General assembly meetings are held in such a fashion to increase the attendance of shareholders, avoid inequalities among them and keep their costs at minimum.

The document explaining the items of general assembly agenda was put on the corporate internet website simultaneously with the announcement of general assembly. It has been observed that in this document the shareholders have been notified about total number of shares reflecting company's shareholding structure and voting rights as of the announcement date, as well as number of shares representing privileged shareholders and voting rights. The document has also included information on changes that might affect management and activities of the Company and its subsidiaries, requests by shareholders to add items on the agenda and whether there would be any changes in the Articles of Association or not.

When the agenda was being prepared, special care was given to express the items clearly in order not to cause different interpretations and to avoid using expressions like "other" or "various".

Upon examination of general assembly minutes and attendance lists it has been understood that some of board members, officers responsible for preparing financial tables and persons related to specific issues on the agenda were available at the meeting. Representative of the audit company that undertakes Company's independent audit process also attended to the meeting.

It has been found that the items on the agenda were separately voted and the results were shared with shareholders before the closure of the meeting. It is our impression that the chairman of the meeting has taken great care to have the issues of the agenda expressed objectively, comprehensively, clearly and simply and shareholders have been able to express their opinions and ask questions under equal circumstances.

According to explanations on General Assembly minutes and interviews with officials in the Company, It is understood that the chairman of the meeting has seen to it that all the questions of shareholders to be answered at the meeting, except those that were accepted as trade secret. All the questions and answers are disclosed to public on the corporate website.

Subjects of giving permission to Board Members for transactions covered by Articles 395 and 396 of Turkish Commercial Act and activities done within the scope these articles were also on the general assembly agenda.

General assembly was informed about guarantees, pledges, and mortgages given in favor of third persons, in accordance with the articles of CMB's Corporate Governance Communiqué numbered II-17.1.

Donations Policy, prepared by the Board of Directors within the period, was presented for the approval general assembly and limit for donation was determined. Attendants were also informed about the amount of donations made. However it would be appropriate to disclose beneficiaries of these donations as well.

During interviews the officials told us that there is no obstacle stopping stakeholders and media from attending to general assembly meetings without the right to speak. Disclosing on the invitation that general assembly meeting is open to public and adding a provision to the Articles of Association on this subject would strengthen compliance with corporate governance principles.

It is our opinion that in this subsection the Company has achieved good level compliance with the principles.

d. Voting Right

Neither the Articles of Association nor the internal procedures contain any difficulties to exercise the voting right and opportunity to exercise the voting right in the easiest and most convenient manner is given to each shareholder.

It is possible for the shareholders' to exercise their voting right in person or by proxies, whether a shareholder or not at the general assemblies, the members are submitted with the specimen proxies to be used for this purpose at firm's headquarters and on corporate internet website.

In the general assembly documents information is given about the distribution of company shares, voting rights that come with shares and privileges in voting right. The document clearly states that one share gives one voting right and there are no privileges for any group of shareholders.

The Company doesn't have a mutual subsidiary which brings a relationship of sovereignty.

Pinar Su's compliance with the principles in this subsection is at a high level.

e. Minority Rights

There has been no violation of exercising basic minority shareholders' rights like attendance to the general assembly meeting, representation by proxy and imposition of no upper limit for voting rights. In this manner it has been observed that care is given to the exercise of minority rights.

However, extending minority rights with Articles of Association and covering those shareholders who have less than 1 / 20 of the

capital would strengthen compliance with Corporate Governance Principles.

f. Dividend Rights

Dividend Policy contains minimum information enabling the investors to foresee the procedure and guidelines for distribution of profit to be generated by the company in future periods. It has been emphasized that this policy was prepared taking into consideration the delicate balance between the expectations of shareholders and the needs of the company.

In this document, information like dividend distribution ratio, payment method and time have also been disclosed to public.

There are no privileges in dividend distribution. Moreover, Company's Articles of Association clearly states that at the time of distribution existing shares will get dividends equally without the principle of per diem deduction.

There is a provision in the Articles of Association on payment of dividend advance. According to this provision, Board of Directors can take a decision to distribute dividend advance, on the condition of being authorized by the General Assembly and acting in compliance with CMB regulations and limiting it with the financial period.

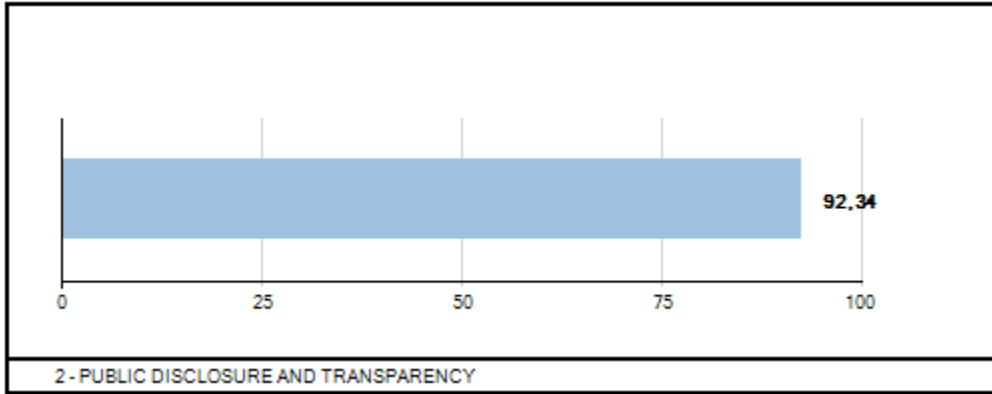
At the ordinary general assembly meeting held on 30.03.2016, it was decided not to give any dividend due to the fact that 2015 activities resulted in loss.

It is our opinion that in this subsection the Company's policies are in compliance with the principles.

g. Transfer of Shares

There are no articles in the Articles of Association that restrict transfer of shares. We have seen no practices that make it difficult to freely transfer shares.

B. PUBLIC DISCLOSURE AND TRANSPARENCY



Overview

- ✓ Disclosure policy has been prepared and disclosed to public through electronic media.
- ✓ Corporate website is used effectively as a current tool for public disclosures within the context as stated by the principles.
- ✓ The information and documents, required by principles to be on the corporate website, are published based on last five years.
- ✓ Information in the website has also been prepared in English.
- ✓ The annual report is comprehensive and its content reflects the principles to a great extent.
- ✗ Ultimate majority real person shareholders of the company are not disclosed to public on corporate website.
- ✗ Audit Committee's declaration of responsibility is not in the Annual Report.
- ✗ Annual Report does not contain Board of Directors' assessment on the efficiency of committees.
- ✓/✗ Not all the benefits provided for board members and top executives are disclosed on individual basis.

As for this section, the Company has been assessed by **88** different criteria under the headings of **Corporate Website** and **Annual Report** as laid down in the Corporate Governance Principles of the Capital Market Board, for which the Company has deserved the grade of **92.34**.

Pinar Su carries out public disclosures within the scope of its Disclosure Policies developed by the board and disclosed to public. The policy has been updated in accordance with CMB's Communiqué on Material Events Disclosure No II.15-1 and disclosed on Public Disclosure Platform on 20.10.2015, after it was approved by the Board of Directors.

The public disclosure policy contains what to be disclosed to public in addition to those required by the legislation, how, in what frequency and by which channels such data will be disclosed to public and the method to be used in response to questions directed to the company.

The officials in the Company who have the authority to responsibility for disclosures are Hüseyin KARAMEHMETOĞLU (General Manager), Onur ÖZTÜRK (Financial Affairs and Finance Director) and Ufuk ATİK (Budget ve Accounting Manager).

Company's independent audit for 2015 was conducted by Yöntem Yeminli Mali Müşavirlik ve Bağımsız Denetim A.Ş (a member of Nexia International). There are no cases where the independent audit avoided expressing

opinion, expressed opinion with conditions or avoided signature in the reports. It has been learned from company officials that no event took place with the independent audit company or with its auditors that could damage this company's independence and there was no legal conflict with it.

With the suggestion of Audit Committee and Board of Directors and approval of the General Assembly, it has been decided that 2016 audit would be conducted by Başaran Nas Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş (a member firm of PricewaterhouseCoopers).

a. Corporate Website

The corporate website (<http://www.pinar.com.tr>) is updated regularly and the website is being used as an active and effective platform for disclosure to public. Information in corporate website is consistent with the statements made as part of regulations and there is no missing or conflicting information.

On the company's website, alongside with information bound to be disclosed by regulations, there is commercial registry info, information on latest shareholding and management structure, committees of board of directors and their working principles, information on whether there are privileged shares or not in the capital, dates and numbers of commercial registry newspapers where changes were published along with the final text of company's Articles of Association, registration statement and circular, special case declarations, important board decisions, financial reports, annual reports, agendas of general assembly meetings, the lists of attendees, the proceedings of the assemblies, the specimen Proxy, dividend policy, disclosure policy, remuneration policy, compensation policy, donation policy, business ethics rules and information requests, questions and notifications and answers given under frequently-asked questions title.

The information provided to shareholders and potential investors cover last five years.

This information on the website is also published in English for usage by international investors.

Disclosing real person ultimate shareholders with more than 5 % of shares within shareholding structure - after eliminating indirect subsidiary relationships - would strengthen compliance with principles.

b. Annual Report

It is seen that board of directors has prepared the annual report in such a way that comprehensive, complete and correct information on company activities is provided. Annual reports of the last five years are accessible for shareholders and the public on electronic media.

It is possible to reach many topics in the annual report, including;

Period of report, title of the Company, trade registry number and communication information,

CV's and tenures of board members and top executives,

Information about the sector that company operates and its position within the sector,

Changes made in the Articles of Association during the period and reasons for them,

Corporate Governance Principles Compliance Report,

Independent audit reports.

In addition to topics quoted in regulations and other parts of corporate governance principles, annual reports also include information on;

Board members' and managers' ongoing jobs outside the company,

Signed declarations of independent board members on their independence,

Members of subcommittees within the board of directors and meeting frequencies of these committees,

Important law suits against the company and their possible conclusions,

Social rights and professional training of employees, as well as other company activities

that have social and environmental impacts and corporate social responsibility activities,

Whether or not there are any conflicts of interest between the company and service suppliers in the areas like investment consultancy and rating,

The need for permission by the general assembly for majority shareholders, board members, managers with administrative responsibilities their spouses and first and second degree relatives to have transactions that might cause conflict of interest with the company or its subsidiaries or to engage in competitive commercial activities.

However there are areas in need of improvement in this subsection. These are;

Non disclosure of real person ultimate shareholders to public on the website,

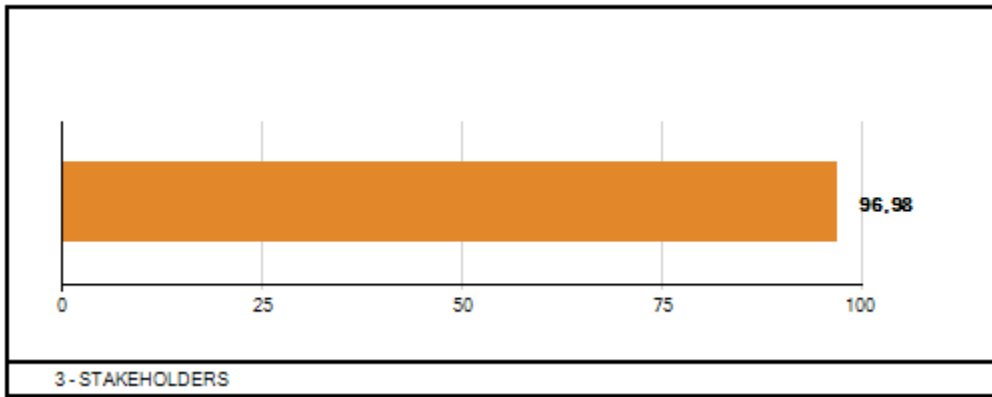
Having no declaration of responsibility by the Audit Committee in the Annual Report,

Having no assessment of Board of Directors on the efficiency of committees in the Annual Report,

Non disclosure of all benefits provided for Board Members and top executives on individual basis (making distinction between board and top executive is not sufficient),

Having no information on whether determined targets were achieved in the previous period or not and reasons for not achieving them if it is the case.

C. STAKEHOLDERS



Overview

- ✓ Business Ethics Rules have been prepared and disclosed in electronic environment.
- ✓ There are no regulations that make it difficult for stakeholders to exercise their rights.
- ✓ Human resources policy and many internal regulations concerning customers and stakeholders have been prepared.
- ✓ Employees are provided with a safe and pleasant working environment.
- ✓ There are no complaints made by employees about discrimination and difficulties in getting their rights.
- ✓ Compensation policy for employees has been prepared and disclosed to public.
- ✓ Corporate social responsibility and sustainability policies have been prepared and disclosed to public.
- ✓ Care is given to confidentiality of information about customers and suppliers on trade secret basis.
- ✗ There are no provisions in the Articles of Association or internal regulations supporting participation to management of employees and stakeholders.

In this section, the Company has been assessed by 57 different criteria under the

headings of Corporate Policies on Stakeholders, Supporting Stakeholders' Participation in Company Management, Human Resources Policy of the Corporation, Relations with Customers and Suppliers, Ethical Rules and Social Responsibility as laid down in the Corporate Governance Principles of the Capital Market Board, for which the Company has deserved the grade of 96.98.

a. Corporation's Policy on Stakeholders

The Corporate Governance Principles describe the Stakeholders as an individual, organization or interest group as employees, creditors, customers, suppliers, trade unions, various non-governmental organizations having an interest in attainment of company's objectives or in its operations. It is concluded that Pınar Su protects the stakeholders' rights, which are specified in regulations and mutual contracts. It has been concluded that the company respects the stakeholders' right specified in regulations and mutual contracts. The impression is that in case of lack of any regulation, the company respects stakeholders' rights within goodwill rules and company's reputation. It has been observed that many internal regulations were prepared to this end.

Compensation Policy for employees has been prepared and disclosed to public via corporate website.

Stakeholders are adequately informed on company policies and procedures to protect their rights and company's corporate website (www.pinar.com.tr) is being actively used for this purpose. Necessary mechanisms have been formed for the stakeholders to inform Corporate Governance and Audit Committees or Yaşar Group Ethics Committee about operations contrary to company's regulations and ethically improper behaviors.

In this subsection, Pinar Su has achieved significant compliance with the principles.

b. Supporting the Participation of the Stakeholders in the Corporation's Management

Participation of stakeholders to management is achieved by the ability of related departments to assess their proposals and suggestions in every subject that concerns Company's activity, which are conveyed through various communication channels.

Customer can personally make their requests or complaints about Company's activities to any department and they can also use internet to convey them. In order to achieve customer satisfaction, Pinar Communication Center assesses feedback, which is received through dealers, customer satisfaction surveys and other channels, and makes improvements. Company's dealers can convey their opinions and suggestions to top management through dealer meetings.

It has been learned that Employee Opinion Polls are conducted to get employees' opinions on various subjects and that actions are taken in accordance with poll results to increase employee satisfaction and loyalty.

These models that support employees' participation to Company management are operational. However, it would be appropriate to improve and, if necessary, to put them in the Articles of Association and internal regulations.

c. Human Resources Policy of the Corporation

Procedures on recruitment, working conditions, rewarding, disciplinary practices, power and responsibilities of employees, remuneration, health rights, leave rights, career planning, promotions, task alterations and dismissal, death, resignation, retirement and training has been developed and practice of acting in accordance with these procedures has been developed. Both during development of the policies and in practice we got the impression that equal opportunity is given to individuals under equal conditions.

Performance and reward criteria have been established and disclosed to employees, in determination of benefits provided to employees mentioned criteria is followed.

It has been determined that the Company runs training programs to increase knowledge, talents and experience of its employees and that it has prepared training policies.

In the first half 2015, an average of 489 people were employed by Pinar Su. Company planned 4,000 hours of training for its employees and gave 4,396 hours of training. 4,600 hours of training was planned for 2016.

It has been seen that the Basic Human Resources Policy that Pinar Su has already disclosed to public, aims to create employees who are in line with contemporary norms, focused on performance, successful, loyal and highly motivated.

It is thought that Company's organizational structure is in line with work conditions.

Through examinations at the Company and interviews with employees, it has been learned that the employees are provided with a safe working environment and conditions and there exists no discrimination among employees in terms of race, religion, language and gender.

Employee stock-options schemes are not developed.

Freedom to establish an association is not restricted, on the condition that permission is given. Employees are not unionized.

It is our opinion that Pınar Su has achieved a rather good level compliance with corporate governance principles.

d. Relations with Customers and Suppliers

Information and documents received from customers and suppliers during the activities are kept confidential within the scope of trade secret security.

Practices for suppliers and outsourced services have been prepared and their standards determined.

As the Company conducts its production activities, it appraises its suppliers within the frame of ISO 9000 Quality System Document. It grades suppliers on monthly basis in terms of price, quality and delivery and takes action to improve performances of those who don't perform well. It has been declared that by doing this Pınar Su aims to cooperate with those suppliers who are in line with its corporate values and carry out their responsibilities for nature.

Systematic Customer Relations Management activities launched at the end of 2011 target to make the system more efficient, achieve faster responses to customer needs and increase consumers' loyalty. It has been declared that the Company works with the motto of "Our consumers and customers first". Thanks to its principle of working customer – focused, the Company assesses consumers' requests and suggestions with great care.

Customers' requests and complaints reached to Pınar Communication Center (444 76 27) are answered by live operators and customers are informed about those subjects

that they raised. It has been learned that call answering success rate of Pınar Communication Center is 92 %. On the other hand, customer satisfaction ratio was 91 % according to a consumer satisfaction survey conducted in 2015.

It is determined that Pınar Su has achieved very good level compliance with the principles in this subsection.

e. Ethical Rules and Social Responsibility

As a Yaşar Group Company, employees of Pınar Su have to act in accordance with Yaşar Group Business Ethics Rules, like employees of other group companies. Business Ethics Rules have been prepared in detail under 8 main headings and disclosed on the corporate website. It is our impression that activities are conducted within the frame of these rules.

It sees its continuous support for education, sports and culture as an important and indispensable means of the principle of sharing with society. Through the social responsibility projects it conducts, Pınar contributes to the increase of society's welfare and quality of life for individuals. The Company continues to work for education, sports and arts as the social aspect of sustainability and it launches projects aimed at every segment of the society. Pınar creates value for society through direct and indirect employment it creates, its product and service procurement and taxes it pays, as well as its products. Pınar sees its continuous support for culture and art, as an important and indispensable means of the principle of giving back to society. A founding member of CEVKO Foundation, Pınar Su transferred its responsibility of recycling packaging waste to CEVKO, which is authorized by the Ministry of Environment and Urbanization in this field. In accordance with its Packaging Waste Management Plan, which has been prepared in line with contracts made with licensed companies approved by the Ministry, Pınar Su organizes training sessions for consumers and

municipalities through CEVKO about separate collection of waste at its source and recycling.

Established in 1987 and having reached more than 3 million kids all over Turkey, Pınar Theatre for Children makes children love theatre and aims to support their cultural and individual development with each play. It also serves as a school, which has presented many famous actors to the Turkish theatre scene.

Pınar has been organizing Pınar Painting Competition for 32 years in order to increase awareness of elementary school students for painting and to train painters of future.

Pınar continues its contributions for sports through its support for Pınar Karşıyaka Basketball Team. The team competes in the Turkish First League of Basketball since 1998 as Pınar Karşıyaka. It aims to strengthen children's love for sports through basketball. Every year almost 1,000 children are engaged in sports at Çiğli Selçuk Yaşar Facilities under the sponsorship of Pınar.

Pınar Institute was established in 2012 in order to support healthy development of society, to conduct studies and to support research and training and to publish research results within the scope of social responsibility.

Pınar Su also supports many events as sponsor.

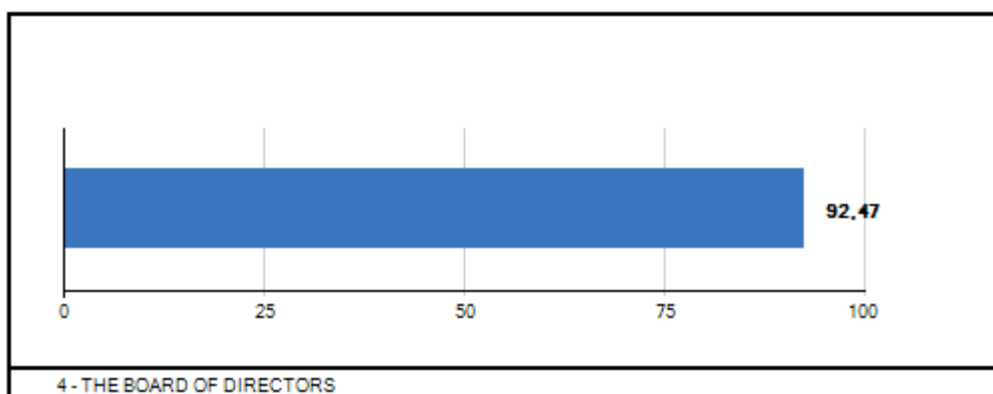
It has been determined that the Company has policies, internal arrangements, targets, endeavors and campaigns about environment, nature, energy saving, recycling and education. 2014 Sustainability Report of Yaşar Group has been prepared and disclosed to public on the corporate website.

Pınar Su has many national and international quality / health standards documents. It also has memberships in many national and international organizations working in these areas.

Pınar Su makes carbon foot print calculations in regard to energy saving and alternative energy consumption;

- Pınar Su is responsible for 2 / 10,000 of Turkey's total carbon foot print. It is the 3rd company within Yaşar Group with a share of 3%.
- Annual total CO₂ emission of Pınar Su is 0,019 tons for 1 ton of products.
- 75 % of the emitted CO₂ comes from electricity consumption.

D. BOARD OF DIRECTORS



Overview

- ✓ Company's strategic targets, human and financial sources it requires have been determined by the Board of Directors.
 - ✓ The posts of Chairman and CEO are carried out by separate individuals and there isn't any person in the company with solely unlimited authority.
 - ✓ The number of Board Members is adequate to work productively and constructively.
 - ✓ All of the members of Board are non – executive.
 - ✓ Two board members are independent.
 - ✓ There are two women board members.
 - ✓ Every member has one vote in the Board of Directors.
 - ✓ There isn't any loan/credit involvement between board members and Company.
 - ✓ Corporate Governance, Audit and Early Detection of Risk Committees have been established and their working principles have been determined.
 - ✓ Principles of remuneration for board members have been determined and disclosed to public.
- ✓/* It would be appropriate for the Board of Directors to develop a method for performance evaluation of both the Board and members on individual basis.
 - ✓/* There is Financial Liability insurance, but its amount doesn't exceed 25% Company capital.
 - ✓/* Remuneration and other benefits provided for executive directors are not described in the annual report on individual basis.

In this section, the Company has been assessed by **139** different criteria under the headings of **Function of the Board of Directors, Principles of Activity of the Board of Directors, Structure of the Board of Directors, Procedure of Board of Directors Meetings, Committees Formed within the Structure of the Board of Directors and Financial Rights Provided for Members of the Board of Directors and Executives** as laid down by the Capital Market Board's Corporate Governance Principles, for which the Company has gained the grade of **92.47**.

a. Function of the Board of Directors

By the strategic decisions it takes, Board of Directors manages and represents the company, keeping the risk, growth and return in balance while paying attention primarily to company's long term interests under a reasonable and prudent risk management approach. In this sense, Board of Directors has described the corporate strategic objectives, and determined required human and financial resources.

Board of Directors monitors company activities to be in compliance with regulations, Articles of Association, internal procedures and policies and it supervises management performance.

Board of Directors is authorized to make decisions, to determine the strategy and represent the company at the highest level.

In this subsection Pinar Su has achieved a high level compliance with the principles.

b. Principles of Activity of the Board of Directors

It is our impression that Pinar Su Board of Directors conducts its activities in an open, accountable, fair and responsible fashion.

The distribution of responsibilities among board members, as well as their duties and powers are disclosed to public in the annual report.

Board of Directors has developed internal control systems including risk management and IT systems to minimize effects of risk and processes on stakeholders, starting with shareholders. It has been learned that the Board of Directors was in the process of reviewing the effectiveness of risk management and internal control systems.

No person in the Company has the authority to decide solely and in an unrestricted fashion. Posts of Chairman of the Board and

General Manager are hold by different individuals.

It is thought that Board of Directors plays a leading role in the maintenance of effective communication and in easing and resolving disputes that might arise between the company and the shareholders. To this end, the Board is in close cooperation with the Corporate Governance Committee and Investor Relations Department.

Manager Liability Insurance against defects of Board Members duties has been made. However, its amount does not exceed 25% of Company capital.

In this subsection, the Company has achieved a good level of compliance with the principles.

c. Structure of the Board of Directors

Company's Board of Directors is formed with 7 (seven) members; including 1 (one) Chairman and 6 (six) members. The requirement of having at least 5 members to form the Board has been met and the number of Board Members found sufficient to serve effectively and constructively and to form and efficiently organize activities of committees.

All members of Board of Directors are non – executive members. 2 (two) members are independent members who satisfy the independence criteria laid down by the Corporate Governance Principles. Corporate Governance Committee (in its capacity as Nomination Committee) has assessed the nominations for independent candidates, including members of the management and shareholders, focusing on the fact that whether the candidate had the criteria for being independent and sent its assessment in a report for approval of Board of Directors. Independent Directors have presented their written representations that they are independent under the legislation, the Articles of Association and the criteria laid down by the Principles to the Board and

these representations are disclosed to public in the annual report.

There are 2 (two) women members of Board of Directors. This organization is in compliance with CMB criterion, which states that ratio of women members in the board should “not be less than 25 %”.

In this subsection, the Company has achieved very good level compliance with the principles.

d. Procedure of Board of Directors Meetings

According to the Articles of Association, Board of Directors convenes whenever Company affairs and transactions require meeting. However, having at least one meeting in month is obligatory. Articles of Association include provisions on necessary majorities for holding meetings and taking decisions.

Upon examination of Board of Directors decision book, it has been understood that Board of Directors comes together frequently enough to carry out its duties efficiently. The Board held 65 meetings in 2015 and 45 in 2016, as of 14.11.2016.

Chairman of the Board determines meeting agendas by talking to Board Members and CEO / General Manager. Board Members receive equal flow of information and documents related to agenda items are sent to members before meetings, giving them enough time to examine. Each member has one voting right at the Board of Directors. There are no veto powers for any member.

The jobs that Board Members hold outside the Company are presented to the shareholders (by distinguishing jobs within the group and outside the group) at the general assembly meeting where election is discussed.

There are no restrictions on board members for taking a job or jobs outside the company.

However it is seen that members take care to allocate the necessary time for company affairs.

Secretariat functions of the Board are conducted by Yılmaz GÖKOĞLU, Yaşar Group Boards Secretary–General.

In this subsection, Pınar Su has achieved a rather good level of compliance with the Corporate Governance Principles.

e. Committees Formed within the Structure of the Board of Directors

In order for the Board of Directors to fulfil its duties and responsibilities soundly, Audit Committee, Corporate Governance Committee and Early Detection of Risk Committees have been established. Separate Nomination and Remuneration Committees haven't been established because of the Board's structure. These duties are carried out by Corporate Governance Committee. Working principles of Corporate Governance Committees has been determined accordingly. Separate working principles have been prepared for Nomination and Remuneration Committees, independently from those of Corporate Governance Committee.

The committees' duties, working principles and their members have been determined and approved by the Board of Directors as documents in writing; then they have been disclosed to public via electronic means and Public Disclosure Platform.

The company has stuck with the principle, which requires that all members of the Audit Committee and minimum the Chairmen of other committees are appointed from independent members and the General Manager has not been assigned to any committee.

All sources and support are provided by the Board to ensure that the committees perform their duties.

Committees invite appropriate executives to their meetings to benefit from their opinions. All discussions in committees are recorded in writing.

Committees convene with the frequency deemed necessary for the efficiency of their activities. They report information on their activities and results of their meetings to the board of directors.

The Audit Committee; monitors performance and effectiveness of company's accounting system, public disclosure of financial information, independent audit and internal control system. The selection of independent audit company and supervision of its work at every stage is implemented by the audit committee. The committee reviews company's processes and activities on subjects like accounting system, financial reporting, public disclosure, internal control and audit system, independent external audit, compliance with law, regulation and ethical principles. If it deems necessary, the committee makes suggestions to the board.

It has been explained by the officials that internal control mechanisms to be complied with and implemented by staff at all levels had been established in order to ensure that company activities are carried out in accordance with current regulations and within the framework determined by the Board of Directors and to ensure the integrity and reliability of accounting and reporting systems. Internal Audit Department has conducted one comprehensive general audit covering all processes within last one year. It has also conducted two limited audits.

Audit Committee held 4 (four) meetings in 2015 and 6 (six) meetings in 2016 as of 14.11.2016. Important findings of Internal Audit Unit's supervisions of departments and results of periodical supervisions have been discussed at these meetings and findings have been reported to the Board of Directors. Activities of Committees have been disclosed to public in detail in the annual report.

The Committee comprises 2 (two) independent members. One of them meets the principle of "At least one of the Audit Committee members should have 5 years of experience in audit / accounting and finance.

Corporate Governance Committee; establishes whether the corporate governance principles are implemented in the Company, as well as the grounds for non-implementation, if applicable; conflicts of interest, if any, arising from failure to fully comply with these principles, and discloses these to public through Corporate Governance Compliance Report.

Corporate Governance Committee comprises 4 (four) members. 3 (three) of them are non – executive members. In accordance with CMB Corporate Governance Communiqué number II.17-1, Investor Relations Department Manager Onur ÖZTÜRK has been appointed as member of Corporate Governance Committee by the decision of Board of Directors, dated 23.07.2015.

Corporate Governance Committee held 4 (four) meetings in 2015 and 4 (four) meetings in 2016 as of 14.11.2016. It has reported meeting results to the board of directors.

Working closely with the Corporate Governance Committee, Investor Relations Department reports periodically to the board about its activities.

Early Detection of Risk Committee; is charged for early detection of risks that may endanger the existence, development and continuity of the company; it takes necessary measures against determined risks and manages the risk. It reviews the risk management system for at least once a year. Working principles of the committee have been prepared and disclosed to public in electronic environment.

The Committee consists of three (3) members. Its chairperson is an independent member. Other two (2) members are non – executive members of board.

Early Detection of Risk Committee held 4 (four) meetings in 2015 and 5 (five) meetings in 2016 as of 14.11.2016.

Secretariat functions of Corporate Governance, Audit and Early Detection of Risk Committees are carried out by Investor Relations Specialist Gökhan Kavur.

It is our opinion that in this subsection the company has achieved a good level of compliance with the corporate governance principles.

f. Financial Rights Provided for Members of the Board of Directors and Executives

Guidelines of remuneration of board members and top executives have been written, approved by the general assembly and disclosed to public in the electronic environment.

It has been seen that actions have been taken in compliance with the principle, which states that stock-options or payment plans based on corporate performance should not be used for remuneration of independent directors. The emoluments of independent directors are sufficient to protect their independency.

It has been learned that the Company has not lent or extended loan to any member of board or top executive or made available any credit under personal loan through any third person or provided securities such as surety in favour of them.

Disclosure of remuneration and all other benefits provided to directors and top executives meets the latter part in the statement, "on individual basis or board of directors and top executive basis" in the chapter 5.6 of sample Corporate Governance Compliance Report, prepared by CMB, by making the distinction between board of directors and top executive. However, the

policy doesn't meet the first part of that statement, i.e., "on individual basis".

The issues below are determined as areas in need of improvement in this subsection:

Despite the fact that the board is responsible for the achievement of publicly declared operational and financial performance targets of the company, there is no explanation in the annual report about whether the targets were achieved or not and the reasons are not laid down in case they have not been achieved;

Board of directors doesn't evaluate its performance or self criticize itself on personal basis or as a whole;

There is no practice of awarding or dismissing board members on the basis of their performance.

5. KOBİRATE ULUSLARARASI KREDİ DERECELENDİRME VE KURUMSAL YÖNETİM HİZMETLERİ
A. Ş. CORPORATE GOVERNANCE RATING GRADES AND DESCRIPTIONS

GRADE	DEFINITIONS
9–10	The Company achieved a substantial compliance with to the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are established and are operational. Any risks to which the Company might be exposed are recognised and controlled effectively. The rights of the shareholders are impartially taken care of. The level of public disclosure and transparency are high. Interests of the stakeholders are fairly considered. The structure and the working conditions of the Board of Directors are in full compliance with the Corporate Governance Principles. The Company is eligible for inclusion in the BIST corporate governance index.
7–8,9	The Company complied considerably with the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are in place, and operational, although some improvements are required. Potential risks, which the Company may be exposed are identified and can be managed. Benefits of the shareholders are fairly taken care of. Public Disclosure and transparency are at high levels. Interests of the stakeholders are equitably considered. Composition and operational conditions of the Board comply with the Corporate Governance Principles. Some improvements are needed in compliance with the Corporate Governance Principles even though they do not constitute serious risks. The company is eligible for inclusion in the BIST Corporate Governance Index.
6–6,9	The Company has moderately complied with the Corporate Governance Principles issued by the Capital Market Board. Internal Control systems at moderate level have been established and operated, however, improvement is required. Potential risks that the Company may be exposed are identified and can be managed. The interests of the shareholders are taken care of although improvement is needed. Although public disclosure and transparency are taken care of, there is need for improvement. Benefits of the stakeholders are taken care of but improvement is needed. Some improvement is required in the structure and working conditions of the Board. Under these conditions, the Company is not eligible for inclusion in the BIST Corporate Governance Index.

GRADE	DEFINITIONS
<p style="text-align: center;">4-5,9</p>	<p>The Company has minimum compliance with the Corporate Governance Principles issued by the Capital Market Board. Internal control systems are in place at a minimum level, but are not full and efficient. Potential risks that the company is exposed to are not properly identified and are not under control. Substantial improvements are required to comply with the Corporate Governance Principles in terms of the benefits of both shareholders and stakeholders, public disclosure, transparency, the structure and working conditions of the Board. Under the current conditions, the Company is not eligible to be listed in the BIST Corporate Governance Index.</p>
<p style="text-align: center;">< 4</p>	<p>The Company has failed to comply with the Corporate Governance Principles issued by the Capital Market Board. It also failed to establish its internal control systems. Potential risks that the company might be exposed are not identified and cannot be managed. The company is not responsive to the Corporate Governance Principles at all levels. There are major weaknesses in the interest of the shareholders and the stakeholders, public disclosure, transparency. Structure and working conditions of the Board appear to be at a level that might cause the investor to incur material losses.</p>