



Corporate Governance Compliance Rating Report



Pınar Su Sanayi ve Ticaret A.Ş.

21 November 2017

Validity Period : 21.11.2017-21.11.2018

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 Directive, no II-17.1, printed on Official Gazette dated January 3rd 2014, numbered 28871; as well as CMB's board decisions taken at Board meeting dated 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 70 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.

Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. has formulated its Ethical Rules according to the Banking Act, the CMB and BRSA Directives on the Operations of Rating Companies, generally accepted ethical rules of the IOSCO and OECD including generally accepted ethical customs, which is shared with the public through its Internet website (www.kobirate.com.tr).

Although rating is an assessment based on numerous data, it is consequently the institutional opinion of Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. formed accordingly to the methodology disclosed.

The rating grade does not constitute a recommendation to purchase, to hold or to dispose of any kind of borrowing instrument. KOBIRATE A.Ş. may not be held liable for any losses incurred or investments made to the company referring to this report.

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PINAR SU SANAYİ VE TİCARET A.Ş.

**CMB CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE GRADE**

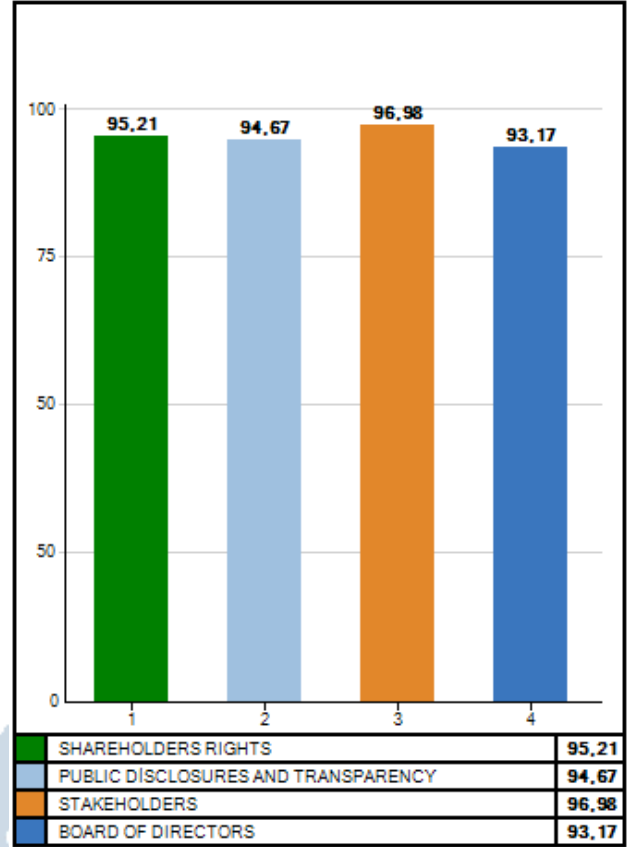
9.46

**Kobirate Uluslararası Kredi Derecelendirme
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1. SECOND PERIOD REVISED RATING RESULT AND REASONS FOR THE GRADE

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.S. 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 Decision dated 06.01.2017, No 1 / 23, Pınar Su is on BİST 3rd Group Companies list. The Company has been evaluated through examination of 399 criteria as described by Kobirate A.S.'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 **9.46**.

This result signifies that the Company has largely achieved compliance with the CMB's

Corporate Governance Principles. Internal control systems have been formed and working. Possible risks for the Company have been determined and are under control. Public Disclosure and Transparency activities are at a high level. Rights of shareholders and stakeholders are treated fairly. Structure and working conditions of board of directors are generally in compliance 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 board of directors and 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 highly deserves to be on BIST Corporate Governance Index.

- At the section of Shareholders, it has been seen that Pınar Su has achieved the grade of **95.21**.

It has been determined that during the rating period the Company has given necessary care to enable shareholders use their basic rights.

Investor Relations Department reports directly to the general manager. Financial Affairs and Finance Director Onur ÖZTÜRK was appointed as Investor Relations Director on 23.07.2015 and the appointment was disclosed to public through a material event disclosure on the same date. Didem ÖZEĞRİLMEZ is the employee of the department. Onur ÖZTÜRK has Corporate Governance License and he was also appointed as a member of Corporate Governance Committee on the same date. It has been determined that compliance with CMB Corporate Governance Communiqué II.17-1 is achieved.

The Company has so far managed to answer questions from shareholders and potential investors without delay. However the fact that it started to record questions and answers has been seen as an important step by us. Also, informing the shareholders that there are no privileges in distribution of dividend must be accepted as valuable information for them to use shareholder rights.

There is no cancellation or restriction of shareholders' right to obtain and examine information by the Articles of Association or by any Company department. Disclosures for shareholders and public are done in compliance with the "Disclosure Policy". This policy is published on Company's corporate website.

The Ordinary General Assembly meeting to discuss activities of 2016 took place on 30.03.2017. Invitation was done properly on Turkish Trade Registry Gazette dated 07.03.2017, No 9278, Public Disclosure Platform, EGKS and corporate website 3 (three) weeks before the meeting.

General Assembly information kit contained detailed information on distribution of company shares, voting rights that this distribution brings and privileges in voting rights. It also contained information that is required to be disclosed to shareholders and public.

General Assembly meeting was also attended by Chairperson of the Board of Directors Emine Feyhan YAŞAR, Board Members Mustafa Selim YAŞAR, Kemal SEMERCİLER, Yılmaz GÖKOĞLU, Cengiz EROL, General Manager Hüseyin KARAMEHMETOĞLU and Financial Affairs and Finance Director / Investor Relations Director Onur ÖZTÜRK. Mehmet KARAKURT, representative of the independent auditor has also attended the meeting. Results of the Ordinary General Assembly meeting was registered by Izmir Trade Registry Office on March 31, 2017.

According to the Articles of Association one share gives right for one vote. There are no privileges in voting rights.

According to legal records of the Company, there was net period loss of TRY 21,421,595 as of 31.12.2016. Explanations on this subject can be found on page 11 of this report.

▪ The Company has achieved the grade of **94.67** in the section of Public Disclosure and Transparency.

It has been seen that the Company continued its activities on disclosures to shareholders and public, as well as on transparency with the same efficiency and sensitivity during the rating period. Following developments are seen as the reasons for grade increase in this subsection:

- In 2016, technical infrastructure of the corporate website was renewed and its interface was developed in terms of investor relations and English version of the website was also published in same detail as Turkish version.
- Annual report contained Board's assessment of committees.
- Annual report contained information on whether or not there are privileged shares in the capital.

It is seem as the reason of grade increases in this subsection.

The officials in the Company who have the authority and responsibility for disclosures are HÜSEYİN KARAMEHMETOĞLU (General Manager), ONUR ÖZTÜRK (Financial Affairs and Finance Director / Investor Relations Department Director) and UFUK ATİK (Budget ve Accounting Manager). These officials are charged with the responsibility of dealing and monitoring all subjects related to public disclosures.

Independent audit of the Company for 2016 has been conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali

Müşavirlik A.Ş. There have been no situations in the report where the auditor avoided expressing opinions, expressed on conditional basis or avoided signature. Company officials have declared that there have been no developments between the Company and the independent audit company or its employees that might damage independence of the auditor and there were no legal conflicts with the audit company. The proposal of the Board to have independent audit conducted for 2017 by the same company has been approved by the General Assembly and decision has been taken.

It has been seen that Company's corporate website and annual reports are used in compliance with the criteria stated by principles and efficiently as means of public disclosure.

▪ The Company has achieved the grade of **96.98** in the section of stakeholders.

It is our impression that the company does its best to respect stakeholders' rights, specified in regulations and mutual contracts and prepared many internal regulations to this end.

Compensation policy for employees has been prepared and disclosed to public through the corporate website.

Procedures on recruitment, remuneration, health, leave rights, promotions, appointments, disciplinary practices, dismissal, death, resignation, retirement have been prepared. It is our impression that the Company sticks with these procedures in practice. Both during development of the policies and in practice we got the impression that the principle of providing equal opportunities for individuals under equal conditions was respected. There are no employees within the scope of a union based labor agreement.

In 2017, Company's out of scope staff guidelines were revised and sale bonus procedure was changed.

The Company disclosed its corporate social responsibility and sustainability projects to public through its annual reports.

- Pinar Su has achieved the grade of **93.17** in the section of Board of Directors.

It has been found important that the Board leads Company's policies in corporate governance and works to monitor required improvements in a visionary spirit. The fact that the Board watches committee activities and the annual report includes Board's assessments on committees' activities is the reason for the increase of grade in this section.

It has been found that the Board determines Company's strategic targets. Posts of Chairman of the Board and General Manager are held by different individuals. Their powers have been described. Audit, Corporate Governance and Early Detection of Risk Committees, which are referred by the principles, have been established and their working principles have been prepared as written documents. Company's Board of Directors comprises 7 (seven) members and none of them are executive. 2 (two) Board members are independents within the scope of CMB criteria. There are 2 (two) women members of Board of Directors. This is in compliance with CMB's suggested ratio of women members.

Board of Directors held 50 (fifty) meetings in 2016. It convened 28 (twenty eight) times as of September 2017. In the same period Audit Committee held 4 (four), Corporate Governance Committee held 4 (four) and Early Detection of Risk Committee held 5 (five) meetings. Meeting results have been reported to the Board of Directors.

Guidelines of Remuneration for Board Members and Top Executives have been prepared and disclosed through corporate website.

2. COMPANY PROFILE AND CHANGES WITHIN LAST YEAR

A. Company Profile:



Company Name	: Pinar 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	: Production Industry

Company's Representative in Charge of Rating:

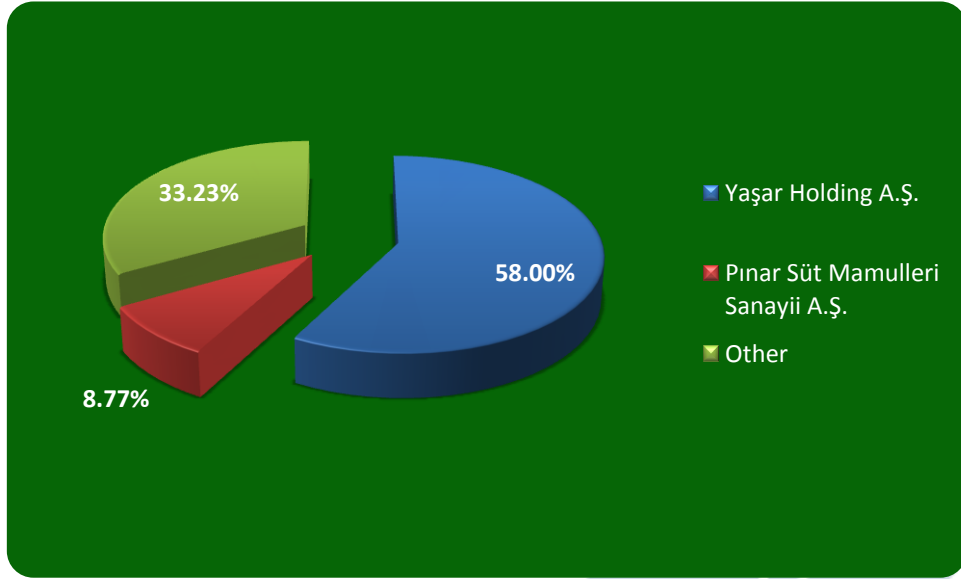
Onur ÖZTÜRK

Investor Relations Department Director

investorrelations@pinarsu.com.tr

0232 436 52 50

Company's Shareholder 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

Shareholder 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. AŞ	ENERGY	33,200,000	2,015,714	6.07
VİKİNG Kağıt ve Selüloz AŞ	PAPER	42,000,000	710,769.34	1.69
YAŞAR Dış Ticaret. AŞ	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 YİĞİTBAŞI	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 Yiğit 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 Director

Committees Formed Within Board of Directors

AUDIT COMMITTEE	
Ali Yiğit TAVAS	Independent Member of Board
Kemal SEMERCİLER	Independent Member of Board
CORPORATE GOVERNANCE COMMITTEE	
Ali Yiğit TAVAS	Independent Member of Board
Yılmaz GÖKOĞLU	Member of Board
Cengiz EROL	Member of Board
Onur ÖZTÜRK	Investor Relations Director
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 first 9 months of last two years

	2016/09	2017/09	Change %
Current Assets	73,530,978	86,024,500	16.99
Fixed Assets	143,678,251	159,125,318	10.75
Total Assets	217,209,229	245,149,818	12.86
Short Term Liabilities	79,166,375	127,489,639	61
Long Term Liabilities	65,941,815	63,237,546	-4.10
Equity	72,101,039	54,422,633	-24.51

Source: Pınar Su Sanayi ve Tic. A.Ş. 1 January- 30 September Interim Accounting Period Summary Financial Statements

Profit / Loss Table comparison of Company's certain selected items as of first 9 months of last two years

	2016/09	2017/09	Change %
Sales Income	131,139,677	163,923,899	24.99
Sales Cost (-)	(75,071,666)	(94,391,890)	-25.73
Operational Profit or Loss	(9,197,755)	3,008,670	132.7
Profit/Loss Before Tax	(14,034,125)	(9,661,896)	-31.15
Period Profit/Loss	(10,152,646)	(8,888,942)	-12.44

Source: Pınar Su Sanayi ve Tic. A.Ş. 1 January- 30 September Interim Accounting Period Summary Financial Statements

The Bottom and Peak Closing Values of Company's Shares at BIST Closings between 13.11.2016-13.11.2017

<i>Bottom (TL)</i>	<i>Peak(TL)</i>
1.42.- (01/02.12.2016)	2.44.- (12.01.2017)

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

B. Changes within last year:

i. Changes in Capital and Articles of Association:

Following changes took place in Company's capital structure and following changes were made in the Articles of Association during the period of rating:

- Article 4 of Articles of Association, titled, "Company's Head Office and Branches" has been revised in order to make Company's head office address compatible with MERSIS (Central Trade Registry System), where Central Address System and trade registry transactions are conducted. Proposal for change was discussed at the Ordinary General Assembly Meeting on 30.03.2017 as Item 7 of the meeting agenda and approved.

- 5 year validity of Company's upper limit for registered capital expires at the end of 2017. In order to extend it to cover the period between 2017 and 2012, Article 6 of Articles of Association, titled "Registered Capital", was discussed at the Ordinary General Assembly Meeting on 30.03.2017 as Item 8, approved and revised.

The distribution of Company capital, which is TRY 44,762,708.45 and real person ultimate shareholders are presented on page 9 of this report.

ii. Changes in Management and Organization

There have been no changes in the structure of management and organization during the period of rating.

iii. Dividend Distribution:

According to the legal records of the Company there has been a net period loss of TRY 21,421,595 as of 31.12.2016. Since there was no distributable dividend on Company's dividend distribution statement, prepared in compliance with CMB regulations, it was decided at the Board meeting on 03.03.2017 to transfer period loss to the account of previous years' losses and to present the decision to the approval of General Assembly on 30.03.2017. The decision was discussed as Item 14 of the agenda at the General Assembly meeting on 30.03.2017 and approved

iv. Policies:

There have been no changes in Company policies during the period of rating.

v. Changes in Subsidiaries and Affiliated Companies:

There have been no changes in subsidiaries and affiliated companies during the period of rating.

3. 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 Directive, no II-17.1, dated January 3rd 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.

In the process of rating, **399** different criteria are considered to measure the compliance of BIST third group firms with the corporate governance principles.

Such criteria are translated into the Kobirate A.Ş.'s unique Corporate Governance Rating Questionnaire.

According to CMB's memorandum dated 12.04.2013 and numbered 36231672-410.99

(KBRT)-267/3854, the following rates are applied in the new Corporate Governance Compliance Rating:

unsatisfactory compliance with CMB's Corporate Governance Principles in the existing structure.

Shareholders 25 %

Public Disclosure and Transparency 25 %

Stakeholders 15 %

Board of Directors 35 %

CMB has sent its notification dated 19.07.2013 and numbered 36231672-410.99 (KBRT) 452, on CMB decision dated 01.02.2013 and numbered 4/105 to our company, which required adding new questions into the methodology in order to ensure that good corporate governance principles, which go beyond meeting the minimum requirements of CMB issued good corporate governance principles – bringing 85 % of full points at most – will be included in the rating grade.

The 2014/2 revised corporate governance compliance rating methodology, created by our company, is restricted if the minimum conditions of corporate governance principles – declared in CMB notification of Corporate Governance dated 03.01.2014 – are met and all criteria is evaluated within same category. In this case all criteria are restricted to 85 % of the full points that the related criterion would get in that subsection. As the company applies and internalizes the criteria stated in corporate governance principles and our company finds out other good corporate governance criteria complied and practiced by the company; our rating system completes the section ratings to 100.

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

4. 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 recognized 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
4–5,9	<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 the 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>
< 4	<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>